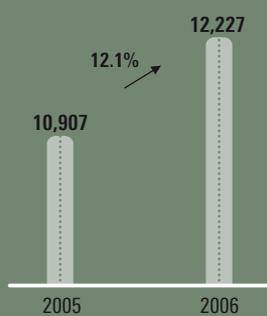




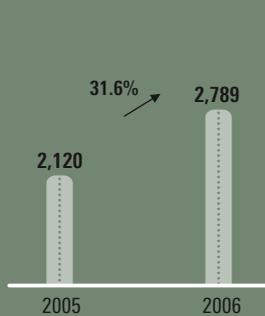
Annual Report 2006

key highlights

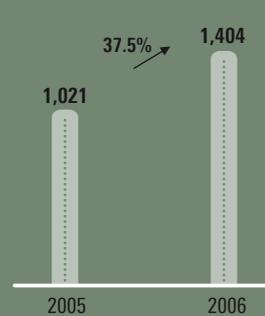
Gross Operating Revenue
(R\$ million)



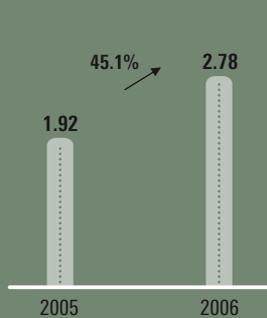
EBITDA
(R\$ million)



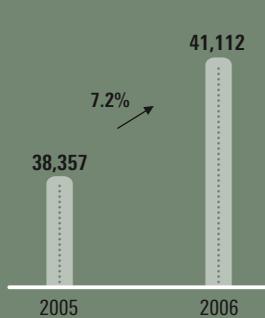
Net Income
(R\$ million)



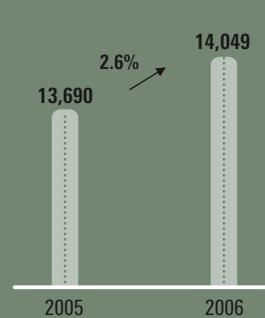
Dividend per Share
(R\$)



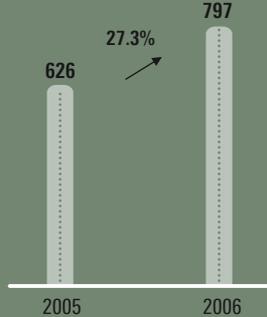
Growth in Energy Sales
(GWh)



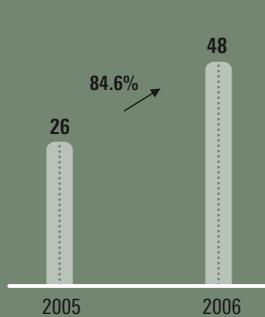
Total Assets
(R\$ million)



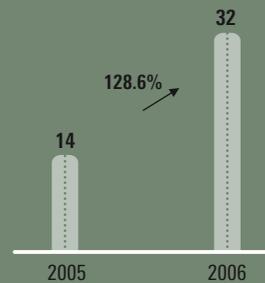
Capital Investments
(R\$ million)



Environmental Investments
(R\$ million)



Total Contributions to Society – Ibase
(R\$ million)

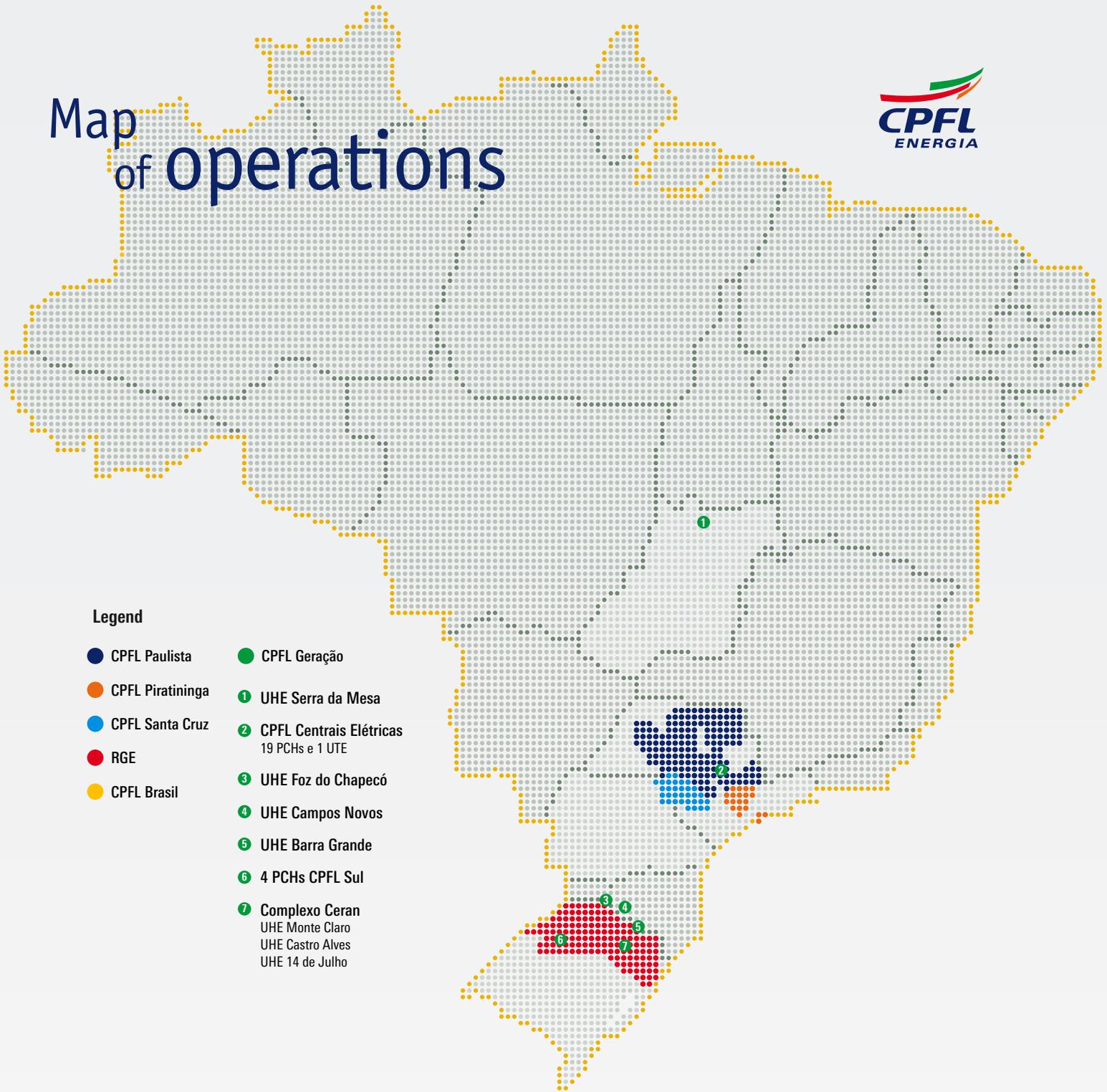


Summary of economic, financial, environmental and social indicators

CPFL Energia	2006	2005	06/05 (%)	2004	05/04 (%)
Economic Indicators					
Gross Operating Revenue (R\$ million)	12,227	10,907	12.1	9,549	14.2
Net Operating Revenue (R\$ million)	8,914	7,739	15.2	6,736	14.9
Gross Operating Income (R\$ million)	3,079	2,423	27.1	1,770	36.9
EBITDA (R\$ million)	2,789	2,120	31.6	1,681	26.1
Operating Income – EBIT (R\$ million)	2,411	1,760	37.0	1,268	38.8
Financial Income (Expense) (R\$ million)	(289)	(520)	44.4	(684)	24.0
Net Income (R\$ million)	1,404	1,021	37.5	279	265.9
Dividends Distributed (R\$ million)	1,334	918	45.3	265	246.4
Financial Indicators					
Total Assets (R\$ million)	14,049	13,690	2.6	12,618	8.5
Shareholders' Equity (R\$ million)	4,866	4,796	1.5	4,096	17.1
Investments (R\$ million)	797	626	27.3	606	3.3
Net Adjusted Debt (R\$ million)	4,416	3,705	19.4	3,777	-1.9
Net Financial Debt/ (Shareholders Equity + Minority Interests) (%)	112	103	9.3	121	-14.9
Shares					
Number of Shares (thousands)	479,757	479,757	0.0	451,629	6.2
Net Earnings (Loss) per share (R\$)	2.93	1.97	48.4	0.62	217.7
Average common share price – ON (R\$)*	29.2	20.3	43.6	17	19.4
Dividends Distributed per share (R\$)	2.78	1.92	45.1	0.61	214.8
Market					
Electricity Sales Volume (GWh)	41,112	38,357	7.2	34,647	10.7%
Number of Customers (thousands)	5,914	5,608	5.5	5,467	2.6
Unregulated market customers (n°)	90	86	4.7	50	72.0
Installed Capacity (MW)	1,072	915	17.2	854	7.1
Assured Capacity (MWaverage)	570.6	523.3	8.6	472.1	11.3
Payroll					
Employees	5,836	5,838	0.0	5,580	4.6
Numbers Hired During the Period	425	595	-28.6	479	24.2
Environmental Indicators – Ibase					
Environmental Investments (R\$ million)	48	26	84.6	37	-29.7
Social Indicators – Ibase					
Internal Social Investments (R\$ million)	207	173	19.7	182	-4.9
Total Contributions to Society (R\$ million)	32	14	128.6	6	133.3
Value Added for the Period					
	7,066	6,047	16.9	4,933	22.6
Payroll and Payroll taxes (R\$ million)	353	387	-8.8	443	-12.6
Taxes, Duties & Contributions (R\$ million)	4,625	3,903	18.5	3,152	23.8
Interest and Rent (R\$ million)	684	736	-7.1	1,059	-30.5
Dividends and Interest on Equity (R\$ million)	1,334	918	45.3	265	246.4
Retained Earnings (R\$ million)	70	103	-32.0%	14	635.7

* Average daily quoted closing price

Map of operations



Legend

- CPFL Paulista
- CPFL Piratininga
- CPFL Santa Cruz
- RGE
- CPFL Brasil
- CPFL Geração
- 1 UHE Serra da Mesa
- 2 CPFL Centrais Elétricas
19 PCHs e 1 UTE
- 3 UHE Foz do Chapecó
- 4 UHE Campos Novos
- 5 UHE Barra Grande
- 6 4 PCHs CPFL Sul
- 7 Complexo Ceran
UHE Monte Claro
UHE Castro Alves
UHE 14 de Julho

Distribution



Operations in the states of São Paulo,
Rio Grande do Sul and Paraná

• Municipalities Served	550
• Area of activity (km ²)	199,718
• Population served (million)	17.9
• Customers (million)	5.9
• Market share (%)	12.7
• Power Sales (GWh)	31,778

Commercialization



Active throughout Brazil

• Unregulated market customers (n°)	90
• Market share (%)	27
• Electricity Sales Volume (GWh)	9,334

Generation



Plants in the states of São Paulo, Goiás,
Rio Grande do Sul and Santa Catarina

• Installed Capacity (MW)	1,072
• Assured Capacity (MW _{average})	570.6
• Hydroelectric Plants in Operation	26
• Hydroelectric Plants – UHEs	3
• Small Hydroelectric Plants – PCHs	23
• Hydroelectric Plants in Construction	4
• Direct jobs created at plants in construction	9,350



about this report

Designed to detail the CPFL Energia Group's business activities, results and prospects, this Annual Report aims to present information in a clear, precise and complete manner, compatible and compliant with the company's corporate governance standards.

In order to meet these objectives, for the fifth year running the company has used the latest Global Reporting Initiative (GRI) guidelines, now in their latest G3 version launched at the end of 2006. With its coverage of all levels of the business, the GRI model has greatly enriched CPFL Energia's value creation agenda, which was already broad, through the disclosure of economic, environmental and social information and indicators in line with the expectations of all our stakeholders in Brazil and abroad. For this edition a materiality test has been carried out in line with the framework recommended by the Brazilian GRI working group in 2006, to identify which of the Company's economic, environmental and social indicators are of greatest relevance for assessment by stakeholders.

The Report also considers recommendations by Abrasca – the Brazilian Association of Listed Companies and the Social Report model suggested by the Brazilian Institute of Social and Economic Analysis – Ibase.

This year's publication additionally incorporates suggestions made by readers of our Report published in 2006 and in previous years through the ques-

tionnaire included in the publication for the past three years. These suggestions concern broader coverage of our subsidiaries' operating performance and the inclusion of information on environmental performance in the same chapter as operating results.

Our concern for these details reflects CPFL Energia's commitment to the transparency, integrity and quality of the information it provides to its stakeholders.

In this Report, CPFL Energia also aims to increase stakeholder awareness of the operating strategies, principles and beliefs which guide all our employees, as well as the challenges faced in ensuring sustainable and continued growth for the Group since its constitution in 1992.

Furthermore, through this publication CPFL Energia hopes to express in a wider sense its view and stance on the challenges and opportunities faced by the world today. Alongside the more rational analysis, numerous resources have been uncovered – both human and natural – whose activities and relationships also contribute to the Company's results. Our values are also uncovered, constituting an intangible, yet significant, element to our activities and interactions with communities and the environment.

In an attempt to broach this world of intangible elements, we have called upon the assistance of writer Ignácio de Loyola Brandão, chronicler of human ambition, despair, fear and perseveran-

ce, whose works express much about people, about modern times, and about the immutable quality of this world, formed of natural elements which both sustain and give meaning to life.

His chronicles, entitled "When a Report can be Life", can be read in extract form in this publication or in full on the CD included at the back of the Report. These chronicles optimistic vision seeks to draw readers' attention to the immense opportunities that citizens possess to change their everyday realities: realities which must be faced innovatively, constructively and boldly to allow the formation of new relationships between people, life and the planet.

This attitude that CPFL Energia would like to promote is based on the dominant belief underpinning its vision of growth: profit alone is not enough. Profit must be economically viable, socially inclusive and environmentally responsible. Only in this way can the CPFL Energia group contribute to the continuity of its activities and the well-being of the people it seeks to serve.

Once the efforts of the Annual Report's large editorial team were concluded, with text, tables and all indicators ready and checked internally, a new process began. Members of the Board of Directors, Chairman, Executive Officers, Directors and Analysts undertook a detailed examination of the Report. All are active participants and engaged with the responsibility of bringing the latest edition of the Annual Report to the public.

declaration by the board of executive officers

This report has been produced in accordance with version G3 of the Global Reporting Initiative – GRI, guidelines. An examination of the indicators reported against these guidelines will verify that this publication represents a balanced and correct presentation of the CPFL Energia Group's economic, environmental and social performance and achieves version G3 Application **Level A**, as demonstrated by the information to the side.

Wilson Ferreira Jr.

Chief Executive Officer

José Antonio de Almeida Filippo

Chief Financial and Investor Relations Officer

Reni Antonio da Silva

Chief Strategy and Regulations Officer

Hélio Viana Pereira

Chief Operations Officer

Miguel Normando Abdalla Saad

Chief Energy Generation Officer

Paulo Cezar Coelho Tavares

Chief Energy Management Officer



Self-Declaration: A

Profile: All listed criteria have been reported.

Management Approach Disclosures:

Management Approach has been disclosed for each Indicator Category.

G3 Performance Indicators & Sector Supplement Performance Indicators:

Each G3 core indicator has been answered with due regard to the Materiality Principle by either:
a) reporting on the indicator or
b) explaining the reason for its omission.

Note: A Sector Supplement for the electricity sector is not currently in existence.



Man

What am I trying to say? It's simple. Sometimes, it takes someone to rebuild it all, like Noah. Sometimes, it takes someone to restore life, like Fleming or Jenner. What I mean is, and put this in your empty defeatist head, that you just have to believe, because there will always be someone, and even if this someone is the last one, his task will be to bring it all back to life.



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The earth

I look down at the earth and I see a flower growing from it. A tree feeds through its roots which suck up from the earth and bring life. In order to eat I must plant something. Water. Volcanoes come from within the earth. I've gathered my questions and concluded that all life comes from the earth. Lightning falls from the sky and enters the earth. Where does it go? Is there somewhere that lightning is stored? And what about those waterfalls in caves? Where does all that water go? What is the world like in there?

1. Messages

The acquisition of companies possessing synergy with the Group contributes to our objective of business expansion and ranks CPFL Energia among the major electric sector consolidators in Brazil.

message from the board of directors

CPFL Energia reported significant advances in 2006, particularly for net income, which reached the record level of R\$ 1.404 billion, a significant increase of 37.5% over 2005.

This result reflects our strategy to increase the CPFL Energia Group's share of the Brazilian market through expansion in the electric energy distribution, commercialization and generation segments, rigorous management of financial resources and in other ways which create sustainable business growth and guarantee value creation.

CPFL Energia has also maintained dividend distribution above the minimum mandatory level. Over the year, the Company's Board of Directors proposed a dividend payout of 95% of adjusted net income, totaling R\$ 1.334 billion and equivalent to R\$ 2.7803 per share, 45.10% above the R\$ 1.9161 distributed in the previous financial year.

The year was also marked by the fulfillment of our commitment to increasing the free float, which reached 27.08%, higher than the 25% minimum required under Bovespa Novo Mercado rules.

In April 2006 our corporate bylaws were amended in accordance with



the requirements of the new listing regulations of Bovespa's Novo Mercado and since then, the Board of Directors has included one Independent Director.

In 2006 significant effort was also made to improve corporate governance practices, aligning them with the new business context and to face the challenge of growth for the Group, and ensuring an active role in Brazilian electricity sector consolidation. The main aims were: to create a positive dynamic between Shareholders and Management and provide the company with clear direction, to assure a swift decision-making process and to create the conditions necessary for efficient management of the business by the Company's Executive Officers.

As a result, the Board of Directors has been strengthened and designated the central forum for strategic discussion and debate. The work of the Board is supported by three permanent Advisory Committees and four non-permanent commissions which are constituted with specific objectives whenever necessary.

Activities aimed at the constant improvement and certification of internal controls and processes also continued, such as the publication of the revised version of the Code of Ethics and Corporate Conduct in December 2006. These initiatives confirm our commitment to ensuring CPFL Energia guidelines are aligned with the requirements of the Sarbanes-Oxley Act and the best Brazilian and international management practices.

CPFL Energia's advances in all areas of activity and its ability to fulfill its strategic plans have led to recognition by the capital markets. The company's stock performed impressively on Bovespa's New Market and the

New York Stock Exchange, both appreciating and increasing in trading volume, with significant growth in share liquidity. On Bovespa, shares appreciated by 16%, while appreciation on the New York Stock Exchange was higher still at 27.3%. The growth in liquidity led to the immediate inclusion of the Company's shares, as of January 2007, on the IBX-50, an index of the 50 most traded shares on the São Paulo Exchange, and the strong likelihood of inclusion when the composition of the Ibovespa, the São Paulo Exchange's key index, is next reviewed.

In line with our corporate growth strategy, in 2006 R\$ 595 million was invested in purchasing and increasing equity stakes in other companies.

In May 2006, we acquired a 32.69% stake in the electricity distribution company Rio Grande Energia-RGE, for R\$ 383 million, which assures 99.99% control of the company. In August, we purchased a further 11% interest in the Foz do Chapecó hydro plant for R\$ 8.8 million, with our interest increasing from 40% to 51%. This commits us to an additional investment of R\$ 230 million for the construction of the plant. In October, we acquired a 99.99% interest in the distribution company Companhia Luz e Força Santa Cruz, for R\$ 203 million. These three acquisitions added to the additional investment resulting from the increase in the stake in UHE Foz do Chapecó are equivalent to a total investment of R\$ 825 million.

CPFL Energia also invested R\$ 797 million in the expansion and maintenance of its current assets in the electricity distribution, generation and commercialization segments. In the distribution segment, R\$ 527 million was allocated – primarily for the expansion of the electricity network to meet market growth. Investment in the generation segment totaled R\$ 266 million which was used for concluding work at the Barra Grande and Campos Novos

hydro plants, construction of Castro Alves, 14 de Julho and Foz do Chapecó hydro plants and for upgrading our small hydroelectric plants. Another R\$ 4 million was invested in the electric energy commercialization segment.

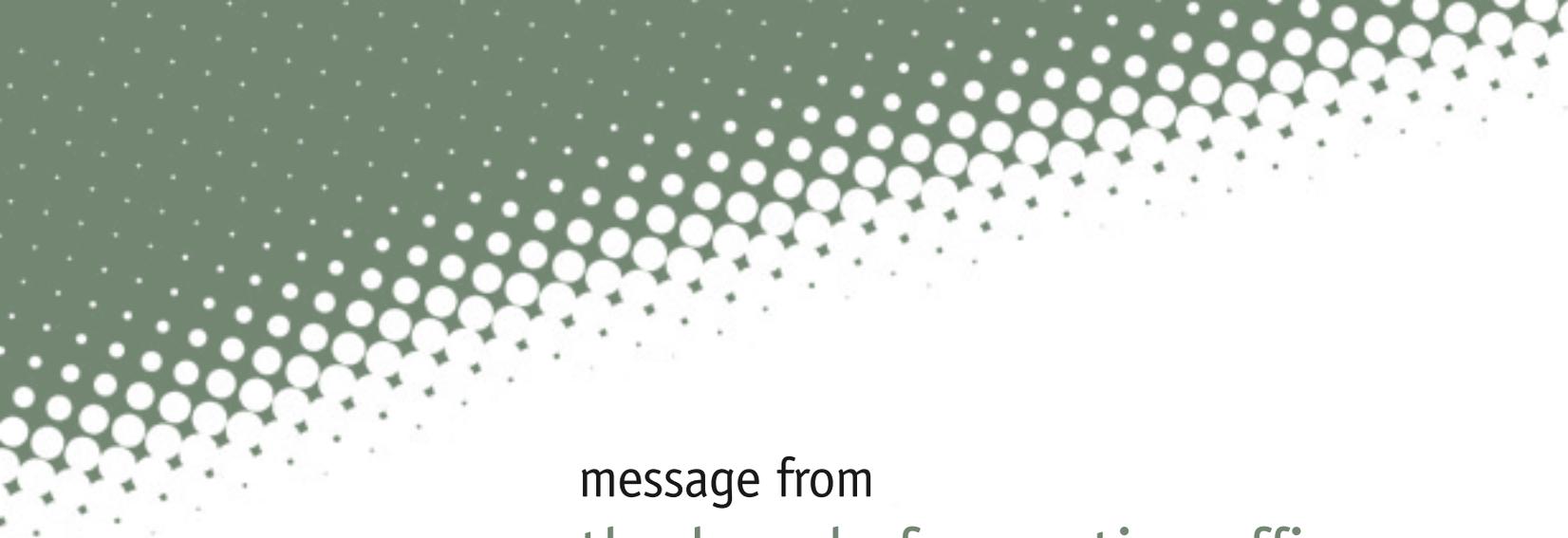
Numerous institutions have recognized CPFL Energia for its efforts in the constant quest for excellence in corporate management in all areas of activity, supported by a modern view of its responsibilities to its stakeholders in the economic, environmental and social fields – of fundamental importance in ensuring that the company's growth strategy is sustainable. This has impacted positively on the Company's strategic market positioning. Among the various forms of recognition, CPFL Energia shares have been included for the second time in the Bovespa Corporate Sustainability Index – ISE, and the Company's differentiated corporate governance practices have led to its appearance, also for the second time, in the publication Case Studies in Corporate Governance in Latin America, compiled by the International Finance Corporation – IFC, the Organization for Economic Cooperation and Development – OCDE and the Companies Circle.

In this context, CPFL Energia's success and achievements, to which this Report is testament, are a stimulus to continuing along this path of growth within the Brazilian energy market and creating value for shareholders, clients, suppliers and the communities in which it operates, thereby making an effective contribution to the development of Brazil and the well being of its people.

Carlos Ermírio de Moraes

Chairman of the Board of Directors

Financial control and high performance management led to historic results in 2006.



message from the board of executive officers

CPFL Energia's results for 2006 are fundamentally a reflection of the common purpose shared by the Board of Directors, the Board of Executive Officers, managers and the Group companies' employees.

Record figures for gross revenue, net revenue, Ebitda and net income were registered for the year, in addition to an impressive performance from the indicators used to measure the excellence of our corporate practices, an essential component of sustainable business growth.

Net income reached R\$ 1.4 billion, an increase of 37.5% over 2005's achievement of R\$ 1.0 billion. This result is due to significant growth across all economic indicators. Consolidated gross revenue exceeded the R\$ 12.2 billion level, 12.1% above the R\$ 10.9 billion registered in 2005. Net revenue was up by 15.2%, reaching R\$ 8.9 billion, compared with R\$ 7.7 billion for the previous year. Operating cash generation measured by EBITDA grew at an even faster rate – 31.6%, increasing from R\$ 2.1 billion to R\$ 2.8 billion.

The positive balance for the year is in large part due to the 7.2% increase in sales in the energy distribution and commercialization segments, which rose from 38,357 GWh in 2005 to 41,112 GWh in 2006. This performance is directly linked to the increase in the customer base over the year - a total of 205 thousand new connections, and to an increase in energy consumption in the markets of the Company's operations, and strengthened by the acquisition of the remaining 32.69% tranche of equity not already owned by CPFL Energia in Rio Grande Energia-RGE.

In the energy distribution segment, gross operating revenue for the distribution companies CPFL Paulista, CPFL Piratininga and Rio Grande Energia grew by 14.6%, rising from R\$ 10.1 billion in 2005 to R\$ 11.6 billion in 2006.

A further highlight was the 31.1% rise in sales to free and bilateral consumers, from 7,120 GWh to 9,334 GWh, thanks to CPFL Brasil's – the Group's trading arm – competitiveness in the unregulated energy market. Gross operating revenue in this segment increased from R\$ 1.4 billion in 2005 to R\$ 1.8 billion in 2006, an increase of 29%.

CPFL Energy also continued to expand its power generating capacity, which grew from 915 MW at the end of 2005 to 1,072 MW by the end of 2006. This increase in generating capacity resulted in gross operating revenue from this segment reaching the R\$ 506 million mark at the end of 2006, up from R\$ 436 million in 2005 and equal to growth of 16.1%.

CPFL Energia will further strengthen its position in the power generation segment in the coming years. In February 2007, the Group's generating capacity will increase significantly and reach 1,501 MW with the start-up of commercial operations at the Campos Novos hydro plant. The beginning of commercial operations at the Castro Alves hydro plant is also scheduled for 2007. Start-up of operations at the 14 de Julho plant is due in 2008. Commissioning of the Foz do Chapecó hydro plant, construction of which began in 2006, is scheduled for 2010, by which time CPFL Geração's generating capacity should have reached 2,087 MW.

In 2006, the Group once again demonstrated responsible financial management and maintained its strategy of improving the debt profile and reducing related

costs. A highlight of the period was an increase in the participation of debt indexed to the Inter-Bank Deposit Rate – CDI (from 27% to 41%) and to the Long-Term Interest Rate – TJLP (from 28% to 31%). This allowed a reduction in the nominal cost of debt, from 13.9% to 13.4% over the year.

As a result, total debt remained at a level compatible with the business segments in which the Group operates, rising from R\$ 4.9 to R\$ 5.2 billion. The Adjusted Net Debt/Ebitda ratio fell from 1.74 to 1.57 times.

Significant progress was made in the area of Corporate Governance over the year, such as Advisory Committees to the Board of Directors ensuring an ongoing monitoring and assessment of the development of the Company's strategies and its performance as well as responsiveness in decision-making. CPFL Energia also continued its activities in the verification, adjustment and automation of internal processes and controls in its business areas. The revised version of the CPFL Energia Code of Ethics and Corporate Conduct was launched in December 2006, thus strengthening the commitment of the Group's companies to corporate responsibility and operations founded on solid ethical principles.

On the operational front, the Group's distribution companies continued to increase efficiency through initiatives to reduce commercial losses and payment delinquency, increase income recovery and improve the quality of services offered. As a result, the CPFL Group distribution companies retained their prominent position among the major companies in this segment in Brazil and were also recognized through numerous accolades. CPFL Piratininga won the IASC Award for the country's Southeast region, presented by the National Electric Energy Agency based on an assessment of the results of customer satisfaction surveys. CPFL Paulista was named the

best distribution company in Brazil by the Brazilian Association of Electric Energy Distributors – Abradee. After only six months under CPFL Energia's stewardship, Rio Grande Energia – RGE, has already registered significant performance improvements, which provides proof of the experience and capability amassed by the Group in structuring and sharing management practices to increase operating efficiency and the quality of service.

For the coming years, CPFL Energia plans to retain the corporate strategies responsible for the Company's success in recent years and maintain a focus on corporate growth through maximization of business opportunities to increase the Group's share of the Brazilian energy market.

CPFL also expects Brazilian economic growth to accelerate in 2007 in an environment committed to preserving macroeconomic and regulatory stability.

With so many challenges successfully met and our belief in the ability to continue sustainable growth, the Executive Board wishes to thank shareholders, Board Directors, suppliers and almost six million customers for the trust they place in CPFL Energia and for their part in the Company's excellent performance in recent years.

Wilson Ferreira Jr.
Chief Executive Officer





CPFL
ENERGIA



The air

The air is scented and colored. It's whimsical, always changing. I look and I see how the air suddenly finds a space to stop and waits for more air to arrive. Diverse airs gather, they join together and fill up the space until it could explode. And then they swiftly fly off somewhere as wind. I wonder how one of those American tornados forms, or a hurricane. I can tell when the air is polluted, filthy and stinking because it is enraged, almost indignant. I can tell when it is clear and peaceful. You know what my dream is? To hold onto the good air. If you could fill bottles, barrels, ships, trains, containers and hold onto the air. To hand out to everyone... Who knows, one day.



2. Corporate developments, corporate governance and ethics management

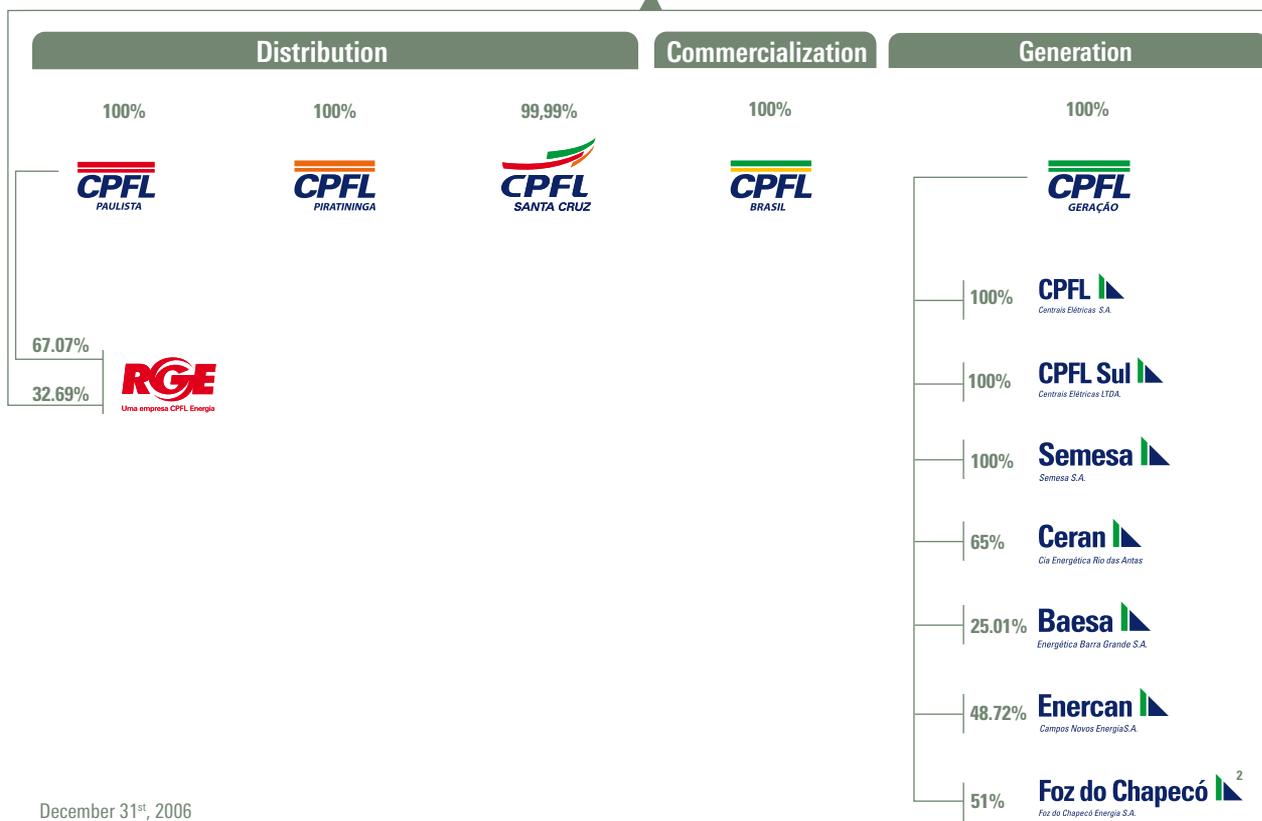
The new model of Corporate Governance adopted by the Group's companies increases levels of efficiency, encourages communication between executives and shareholders and stimulates value creation.

corporate profile

CPFL Energia is a holding company which operates in the electricity sector, with stakes in companies in the electric energy distribution, generation and commercialization businesses. Its distribution and generation subsidiaries are governed by standards established for the sector and act within the terms of concession contracts signed with the federal government through the intermediary of the National Electric Energy Agency – Aneel, the regulatory body for the Brazilian electricity sector.

While CPFL Energia's assets are concentrated in the distribution area, it maintains a significant interest in the electricity energy generation segment and is top-ranked in the unregulated electricity commercialization market. In the Brazilian electricity distribution segment, the Group's four distributors, CPFL Paulista, CPFL Piratininga, Rio Grande Energia-RGE and Companhia Luz e Força Santa Cruz (CPFL Santa Cruz) account for 12.7% of the Brazilian market in this segment.

Corporate Structure



1. Market Position: Free Float 27.08% + 0.01% of Others

2. Takes into account the combined stake in Foz do Chapecó S.A. (85%) and Consórcio Energético Foz do Chapecó (60%)

Corporate restructuring simplifies processes, ensures greater transparency and improves resource management.

The four distributors serve 550 municipalities, 285 in the interior and coastal regions of São Paulo state, 262 cities in the interior of Rio Grande do Sul state and three in Paraná state, across a total area of 199,718 km² with 17.9 million inhabitants – regions that contain a significant proportion of the country's economic activity and income. To maintain standards of excellence in serving these customers, CPFL Energia has an installed capacity of 11,326 MVA, 8,751 km (baseline month: December 2006) of transmission lines and a distribution network of 185,219 km (baseline month: December 2006), in addition to rigorous engineering quality control, client support services, and management and operational support systems which guarantee superior levels of efficiency, reliability and customer satisfaction comparable with the world's best energy distribution companies.

The electricity commercialization segment is served by CPFL Brasil, which trades energy as well as providing value added services, such as energy management, the construction of substations and power networks, and other services. In 2006, it maintained its market leadership in the unregulated energy trading market, with total electricity sales of 9,334 GWh, equivalent to a Brazilian market share of 27% in this segment.

In the electricity generation business, an area of key importance to the Group's strategy of expansion and diversification of its business portfolio, the subsidiary CPFL Geração holds stakes in three hydro plants (UHE Serra da Mesa, UHE Barra Grande and UHE Monte Claro), all of which are operational, and has 100% ownership of 23 small hydroelectric plants – PCHs. As of December 2006, these assets had a totaled installed capacity of 1,072 MW, increasing to 1,501 MW in February 2007 with the start-up of operations at UHE Campos Novos. By 2010, with the commissioning of UHEs Castro Alves (2007), 14 de Julho (2008) and Foz do Chapecó, currently under construction, the CPFL Energia Group's total installed capacity will reach 2,087 MW with assured energy of 1,039.1 average MW.

major corporate events of 2006

Conclusion to Unwinding of Cross Shareholdings

To improve its corporate structure and meet the objectives set out in its strategic plan, CPFL Energia approved the implementation of the first stage of its corporate restructuring, involving the transfer of CPFL Paulista's stakes in other companies to CPFL Energia. This measure meets legislative requirements and simplifies the Group's corporate structure.

Acquisition of 32.69% stake in RGE

In May, CPFL Energia acquired Ipê Energia Ltda., owned by PSEG Brasil Ltda. and PSEG Trader S.A., for R\$ 383 million. As a result CPFL Energia now holds 99.76% of the equity in Rio Grande Energia S.A. distribution company – RGE. Through this operation, the Group also now holds 99.95% of the capital of Sul Geradora Participações S.A..

Acquisition of an Additional Stake in Foz do Chapecó

In August 2006, CPFL Energia acquired from CEEE an additional 11% share in the Consórcio Energético Foz do Chapecó (CEFC), which holds 100% of the equity in the Foz do Chapecó Hydroelectric Development Scheme.

As a result of this investment, totaling R\$ 8.8 million, CPFL Energia's share in Foz do Chapecó has increased from 40% to 51%. This acquisition implies an additional investment of R\$ 230 million in the construction of the hydroelectric plant.

Acquisition of a controlling stake in Cia. de Luz e Força Santa Cruz

In October, CPFL Energia acquired a 99.99% interest in Companhia Luz e Força Santa Cruz, for R\$ 203 million. This distributor operates in 24 municipalities in São Paulo state and three cities in Paraná state. This purchase has raised the Group's na-

tionwide market share in the distribution segment to 12.7%.

Divestment of stake in Comgás

In September, CPFL Energia sold 369,121,217 common nominative shares in Companhia de Gás de São Paulo – Comgás, for a net value of R\$ 89.9 million. These shares, representing 3.08% of Comgás's shareholders' equity, were registered with a book value of R\$ 27.2 million. This transaction generated gross income of R\$ 62.7 million (the difference between the net value of the sale and the book value) and a net income of R\$ 41.4 million – recognized in the third quarter's earnings.

controlling shareholders

CPFL's capital stock comprises common (ON) shares only. At the beginning of the year, CPFL's shareholding control was held by VBC Energia S.A. (representing the Votorantim, Camargo Corrêa and Bradespar groups), 521 Participações S.A. (representing the Previ pension fund) and Bonaire Participações S.A. (representing the Cesp Foundation, Petros, Sistel and Sabesprev pension funds).

In December, the corporate restructuring of VBC Energia S.A. resulted in Bradespar's exit from the company. As a result, Bradespar now owns 8.97% of CPFL Energia's share capital, this investor no longer being a party to the Company's Shareholders' Agreement.



Complete information on all corporate events is available at www.cpf.com.br/ir

differentiated corporate governance practices



CPFL Energia is recognized as one of the companies in Latin America with some of the best Corporate Governance practices. Since its incorporation, it has adopted policies, management practices and rigorous control systems which ensure alignment with the key fundamental principles for the effective implementation of good governance practices, as defined in the Best Corporate Governance Practices Code of the IBGC – Brazilian Corporate Governance Institute: transparency, fairness, accountability and corporate responsibility.

The key objectives of these practices are to ensure effective monitoring by shareholders of decisions made by the company's management bodies, value creation, business development in a low-risk environment for all stakeholders, and the consolidation of business over time.

Consequently, in 2004 CPFL Energia became the first Brazilian electricity sector company to be listed simultaneously on Bovespa's Novo Mercado and on the New York Stock Exchange, through Level III ADRs, segments made up of listed companies with high standards of transparency, best corporate governance practices and a recognized commitment to corporate responsibility and sustainability.

Since then, year after year, CPFL Energia has been a component of some of Bovespa's key indices, such as the Corporate Governance Index – IGC, the Differentiated Tag Along Index – ITAG and, since 2005, the Corporate Sustainability Index – ISE, which in its latest composition is formed of 34 companies recognized for their policies, practices and risk management and business sustainability systems. Among CPFL Energia's differentials, the following are particularly noteworthy:

- Stock composed of one share type: only common shares (ON) with guarantee of 100% tag along rights, which affords all shareholders the same conditions offered to the controllers in the event of the sale of a controlling interest;
- Free float of 27.08%;
- Benchmark in dividend distribution with a minimum 50% payout on a semi-annual basis;
- Board of Directors formed of seven members, including one Independent Director;
- Governance Forums: three permanent Board advisory committees and four non-permanent commissions formed for specific purposes and a defined end product;
- CPFL Energia's Disclosure and Shares Trading Policy;
- Financial statements published in accordance with Brazilian (BRGA-AP) and US (USGAAP) accounting standards;

- Delegation by the Board of Directors of the Audit Committee's functions to the Fiscal Council pursuant to the provisions of the Sarbanes-Oxley Act;
- Corporate Bylaws of subsidiaries aligned with the guidelines of CPFL Energia Corporate Bylaws;
- Sustainability Reports prepared in line with guidelines of the Global Reporting Initiative – GRI;
- Self-appraisal program for members of the Board of Directors and Fiscal Council;
- Management (CEO and CFO) and Independent Auditors' certification of internal risk controls in accordance with Section 404 of the Sarbanes-Oxley Act;
- Code of Ethics and Corporate Conduct adapted to the requirements of the Sarbanes-Oxley Act and the recommendations of the Securities and Exchange Commission-SEC.

management structure

General Shareholders' Meeting

The General Shareholders' Meeting is the Company's supreme governing body and meets ordinarily before April 30th of each fiscal year and extraordinarily when deemed necessary.

The Meeting enjoys exclusive powers to discuss and approve the management's accounts, the financial statements, determine the allocation of net income for the fiscal year and

the distribution of dividends, elect the members of the Board of Directors and Fiscal Council, decide on annual compensation for the Board Directors and the Fiscal Council, and amendments to Corporate Bylaws.

Board of Directors

The Board is responsible for determining the general direction of business and for approving company policy. It elects and determines the activities of the Board of Executive Officers in line with the Corporate Bylaws. The Board comprises seven members elected for a one-year term and eligible for re-election. The controlling shareholders elect six members and their alternates: three by VBC Energia, two by 521 Participações, and one by Bonaire Participações. The seventh member is an Independent Board Director, elected in accordance with Bovespa's Novo Mercado listing regulations.

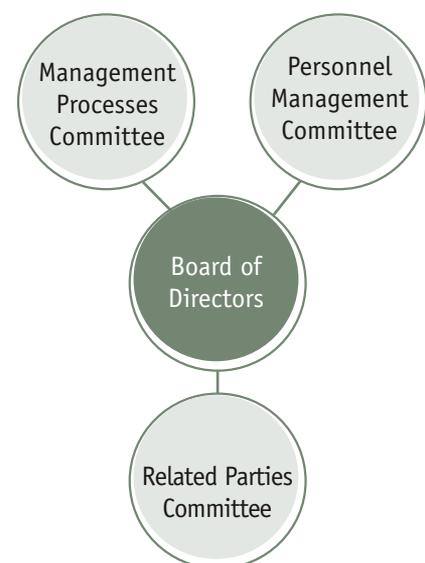
Ordinary meetings of the Board of Directors occur once every three months but can take place with greater frequency. The Board currently meets monthly. As well as monitoring CPFL Energia's financial and operating results, the Board of Directors also oversees the implementation of environment-related initiatives.

• Permanent Board Advisory Committees

The Advisory Committees for Management Processes, Personnel Manage-



The resumés of members of the Boards and the Fiscal Council are available at www.cpf.com.br/ir



ment and Related Parties (Strategic Public) work within the scope defined by the Board of Directors and provide advice on strategic and other material issues.

- A single simplified Internal Charter, approved by the Board of Directors, guides the work of all the Committees.
- Each Committee includes a Coordinator who is also a Board Director, to ensure efficient interaction between the Committee and the Board.

Functions of the Committees

Management Processes Committee
– To advise the Board on issues related to the reliability of management information, business management processes, evaluation of the main areas of business risk and guidance of the Internal Audit's activities for CPFL and its subsidiaries.

Personnel Management Committee
– To provide the Board with advice on issues such as the definition of targets for evaluation of the Board of Executive Officers' performance, compensation criteria, planning and roll out of succession plans for the Board of Executive Officers, monitoring of human resources policies and practices, and coordination of the CEO selection process, among others.

Related Parties Committee – To advise the Board on the selection of suppliers and service providers, the purchase of goods and services and

on contracts for power purchase and/or sale involving related parties, ensuring that these adhere to market conditions.

• **Non-Permanent Commissions**

The Board of Directors may also establish commissions to monitor important issues that fall outside the scope of the permanent committees.

In 2006, the Board of Directors set up four such commissions:

Governance Commission – To assist with implementation of the New Corporate Governance Model.

Strategy Commission – Dedicated to the development of CPFL's long-term strategic agenda.

Financial Commission – To ensure success in transferring issues of a financial nature to the new governance model, determine the limits and parameters of financial control and define financial policies.

Budget Commission – Examination of multi-year and annual budgets.

Board of Executive Officers

The Board of Executive Officers is responsible for directing all businesses and the day-to-day management of Company operations in accordance with the guidelines established by the Board of Directors. It is made up of six members with a two-year term of office and eligible for re-election:

- Chief Executive Officer
- Chief Financial and Investor Relations Officer

board of directors

as at December 31 2006

Chairman

Carlos Ermírio de Moraes

Deputy Chairman

Cecília Mendes Garcez Siqueira

Board Members

Francisco Caprino Neto

Milton Luciano dos Santos

Susana Hanna Stiphan Jabra

Roberto Faldini

board of executive officers

as at December 31 2006

Chief Executive Officer

Wilson Ferreira Jr.

Chief Financial and Investor Relations Officer

José Antonio de Almeida Filippo

Chief Strategy and Regulation Officer

Reni Antonio da Silva

Chief Operations Officer

Hélio Viana Pereira

Chief Energy Generation Officer

Miguel Normando Abdalla Saad

Chief Energy Management Officer

Paulo Cezar Coelho Tavares

fiscal council

as at December 31 2006

Paulo Midena

Fernando Dias Gomes

José Ricardo Fagonde Forni

Luiz Augusto Ckless Silva

Ivan Mendes do Carmo

- Chief Strategy and Regulation Officer
 - Chief Energy Management Officer
 - Chief Operations Officer
 - Chief Energy Generation Officer
- CPFL Energia's Chief Executive Officer nominates the Chief Officers. The Chief Executive Officer of CPFL Energia is also Chief Executive Officer and Chairman of the Board of Directors of its subsidiaries.

Fiscal Council

The Fiscal Council is a permanently installed collegiate body and functions as a committee independent of management. Since 2005, as delegated by the Board of Directors, it has also taken on the respon-

sibilities of the Audit Committee as required in the context of the Sarbanes-Oxley Act. It is composed of five effective members and an equal number of alternates with a one-year term of office, with re-election allowed.

On assuming their positions, members of the Board of Directors, the Board of Executive Officers and the Fiscal Council must sign a Term of Commitment by which they assume personal responsibility for fulfilling the rules of Bovespa's Novo Mercado Participation Contract and Listing Regulations and state their agreement with the terms and conditions of the Market Arbitration Panel's regulations.

GRI
4.4

access to senior management

CPFL maintains a series of channels for access to its Board of Directors and Board of Executive Officers. Minority shareholders may express their opinions at Shareholders' Meetings, and employees of energy distribution and generation subsidiaries CPFL Paulista, CPFL Piratininga, RGE and CPFL Geração elect their representative to the respective Board of Directors.

The Company and its shareholders, management and Fiscal Council members are obliged to settle by arbitration all and any dispute or disagreement that may arise in accordance with the legislation and the rules of the Novo Mercado's Listing Regulations.

GRI
4.5

management compensation

The General Shareholders' Meeting determines Management's (members of the Board of Directors and the Board of Executive Officers) total annual compensation. The Personnel Management Committee advises the Board of Directors and coordinates the setting of performance targets, and evaluation and compensation criteria for the Board of Executive Officers.

GRI
4.9

conflicts of interest

The Company's procedures adhere to the requirements of the Sha-

reholders' Agreement, the Corporate Bylaws and Bovespa's Novo Mercado Listing Regulations to avoid any conflict of interests. These require, among other provisions, the fair and equitable disclosure to the market in general of complete information on any and all contracts entered into with a value equal to or greater than 1% of shareholders' equity.

CPFL Energia submits the selection process of suppliers and service providers for construction work, purchasing of goods and services, and purchasing or selling electricity to the Related Parties Advisory Committee for analysis, prior to resolution by the Board of Directors. This occurs in all cases involving Related Parties where the contractual value is greater than five million Brazilian Reais (this total is restated annually according to the IGP-M – the general price index), as required by the Shareholders' Agreement and the Corporate Bylaws.

corporate performance monitoring system

The CPFL Energia Board of Directors receives a monthly Management Report enabling the Directors to monitor constantly the management of economic, financial, operational, environmental and social performance and evaluate the results of the initiatives adopted for the sustainability of by the Company and its subsidiaries.

Compliance – In 2006, CPFL Energia intensified its efforts to ensure its internal controls and procedures were in compliance with the requirements of the Sarbanes-Oxley Act, including verification, adjustment and automation of business processes and controls with an impact on the company's results.

business ethics and integrity

In December 2006, the revised version of the CPFL Energia's Code of Ethics and Corporate Conduct was published, following a lengthy review process which began in 2004.

Internal seminars, which took place in 2002 and 2003 (see table on Ethics Management System), and

the requirements of the Sarbanes-Oxley Act were used as parameters for this revision.

As from March 2007 a new series of in-house seminars on ethics will be held for promoting the internal alignment with the Principles and Guidelines of this new version of the Code.

Management Assures Ethical Compliance

The CPFL Ethics Management and Development System – SGDE sets out criteria and a flowchart for receiving and dealing with any breaches of the Code of Ethics by employees and interns, or by contractors and service providers hired for sporadic requirements.

In 2006, there was no formally recorded violation of the Code of Ethics; there was also no recorded case of discrimination.

The CPFL Group rejects all and any form of corruption, favoritism, extortion or bribery, at any level. As a signatory of the Corporate Pact for Integrity and Against Corruption, it is committed to strictly adhering to the Pact's guidelines.





1,550 employees will receive training in policies and procedures



Contracts signed with contractors and service providers must contain a commitment to the CPFL Code of Ethics and Corporate Conduct. Any breach of the Code of Ethics, whether in connivance or not with a CPFL employee, will be examined by the Ethics Committee – CDE or by the manager responsible for contracting. Serious or very

serious offences may lead to legal proceedings.

Additionally, a study has shown that certain work activities are more susceptible to risks of non-compliance with ethical procedures. In such cases, seminars have been planned in 2007 for raising the awareness and understanding of the Code's basic content.



Ethics Management and Development System

Achievements CPFL Energia	Content	Period	Participants
1st Seminar Series	Discussions on ethics for all employees, with the participation of two philosophers, educators and teachers from the Catholic University of São Paulo.	2002	1,070 employees from all levels of the corporate hierarchy
2nd Seminar Series	Aimed to give employees an opportunity to clarify doubts and make suggestions on issues such as hierarchy, diversity, harassment and relations with customers, colleagues and suppliers.	2003	1,224 employees
Ethos Institute for Corporate Social Responsibility Indicators	CPFL Energia suggested that major suppliers carry out self-assessment according to the Ethos Indicators.	2003	300 largest suppliers
Launch of Updated Code of Ethics	New version includes accumulated internal know-how and adheres to the principles of the Sarbanes-Oxley act and the Securities and Exchange Commission and the New York Stock Exchange, where CPFL Energia ADSs are listed.	2006	New version is being distributed to all employees and other stakeholders
3rd Seminar Series	This Series aims to promote further discussion on contemporary paradigms and reemphasize the ethical principles and guidelines that should direct employees' everyday activities.	2007	Target: 1,550 CPFL Energia Group employees

With these initiatives, CPFL Energia seeks to guarantee ethics, transparency and fundamental values in all its relationships, principles that are core to the business right from the initial strategic planning stage.

investor relations and dividend policy

In 2006, CPFL Energia intensified its activities for fostering transparent and close relationships with shareholders, analysts and investors. Over the year it held around 250 one-on-one investor meetings, mainly of an institutional nature. Of note too are the Company's activities aimed at retail investors, particularly chat room events with brokers for the purpose of increasing knowledge of CPFL Energia among individual investors seeking more information on the Company and the stock market. With this objective in mind, CPFL Energia also took part in the most important editions of Expo Money.

Over the year, in addition to ongoing activity with various research institutions, media vehicles and financial institutions, the Company was also present at the

most important capital markets-related events, both in Brazil and overseas:

- 14 domestic and international conferences;
- Seven non-deal roadshows;
- Four webcasts for announcing results with simultaneous translation;
- 10 Apimec meetings, including Porto Alegre and Belo Horizonte for the first time (with an average attendance of 90 people);
- Five investors chat room events with important equity brokers;
- Expo Money Event in Rio de Janeiro and São Paulo (920 visitors to our stand);
- Meeting with members of the National Institute of Investors – INI, in Rio de Janeiro;
- 1st Meeting with investors at our headquarters in Campinas (75 analysts, shareholders and investors); and
- 196 individual meetings and six group meetings.

As of 2006 year-end, 23 Brazilian and international financial institutions were covering CPFL Energia's performance (of which 16 published reports with buy recommendations).

cpfl shares as an investment

There was a significant increase in trading volume of CPFL Energia shares in 2006, both on the Bo-

vespa and the New York Stock Exchange (NYSE). The average daily trading volume in 2006 reached the R\$ 17.2 million mark – R\$ 9.1 million on Bovespa and R\$ 8.1 million on the NYSE, an increase of 145.8% over 2005. An average of 170 daily trades were being registered at the end of 2005. By the end of 2006, this average had trebled to 520 trades, clear evidence of an effective expansion in liquidity.

The liquidity of CPFL Energia's shares in 2006 was the highest of all private sector companies in the Brazilian electricity sector.

Due to its differentiated corporate governance practices, CPFL Energia's shares are components of some of the major indices on the NYSE, such as the Dow Jones Brazil Titans 20 ADR (DJBr20), as well as

the following on the São Paulo Exchange:

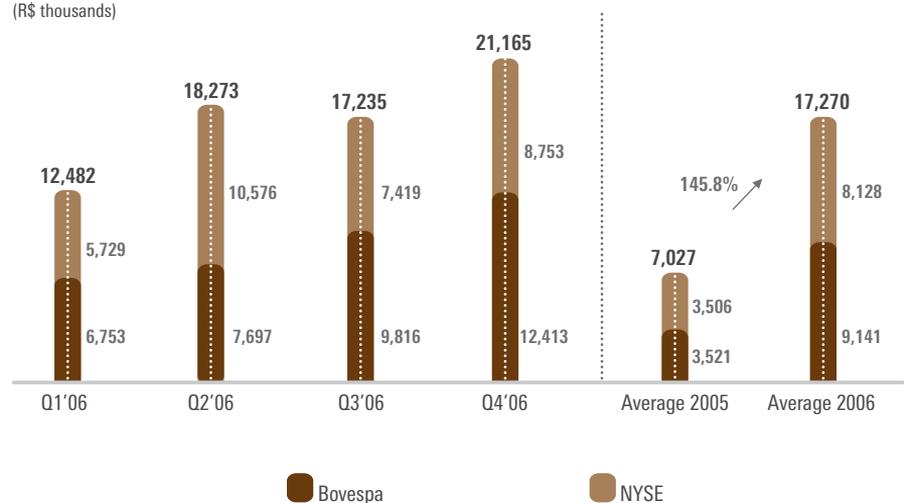
- ISE – Corporate Sustainability Index;
- IBrX – Brazil Index (IBX-100);
- IEE – Electric Energy Index;
- ITAG – Special Tag Along Stock Index;
- IGC – Index of Shares of Advanced Corporate Governance.

Our strategy for sustainable, well-managed growth also attracted the attention of individual investors, who as a group, increased their relative share of CPFL stock in 2006.

As of December 31 2006, the free float of CPFL Energia's shares stood at 27.08%. All the Company's securities are traded on Bovespa's Novo Mercado in the form of common shares (ON), and American Depositary Shares – ADSs, listed on the New York Stock Exchange

Average Daily Trading Volume

(R\$ thousands)



– NYSE. Each ADS corresponds to three common shares.

Over the course of 2006, CPFL Energia’s shares appreciated by 16.0% on Bovespa and 27.3% on NYSE, ending the year priced at R\$ 30.00 and US\$ 41.38 respectively. Since going public in 2004, the Company’s shares have appreciated by 99.3% on Bovespa and 127.7% on NYSE. The increase on Bovespa has been lower than the sector average, due to the atypical behavior of some securities, a reflection of financial restructuring, tariff increases and privatizations, all exceptional events which distorted pricing.

dividend distribution policy

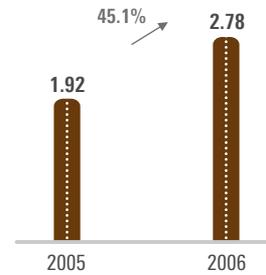
CPFL Energy adopts a generous income distribution policy. Committed to value creation and pro-

viding a return to its shareholders, the Company’s policy is to guarantee a payment of at least 50% of net adjusted income on a semi-annual basis.

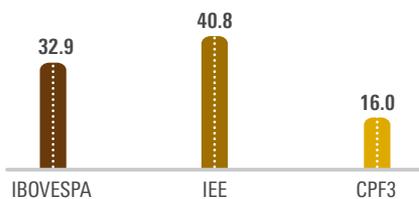
In 2006, CPFL Energia’s management proposed the distribution of R\$ 1.334 million in dividends, equal to 95% of net adjusted income and exceeding the minimum payout of 50% for the third consecutive year. Total distribution declared for 2006 (split between the first and second semesters) equated to R\$ 2.78 per share, an increase of 45.1% over 2005.

The annual dividend yield for 2006, calculated using the average share price over the period (R\$ 29.15), is 9.6%. If calculated using the final share price for the period (R\$ 30.00), the annual dividend yield would be 9.8%.

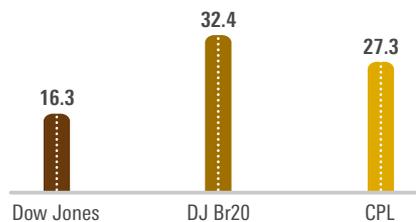
Dividend per share (R\$)



Appreciation of Bovespa¹ shares (%)



Appreciation of NYSE¹ shares (%)



¹ Adjusted for dividends

Water

I'm very close. Two scientists, Canadian and Swiss, have mixed two very interesting formulae, they're almost perfect. One figure was missing but I think I can get to it using elements from Brazil. If we manage, Brazil will be able to export water to the world. You have no idea how many people are working on this – it's beautiful, it's reassuring. I can't believe it! To think that we're trying to invent water. It's like reinventing the world. It gives me goose bumps. Reinventing water is poetry. It's reinventing life.



3. Strategy, capital expenditures, business outlook and intangible assets

Strategic planning is focused on synergistic growth, operating efficiency, financial discipline, differentiated Corporate Governance, and corporate sustainability and responsibility.

management directed to value creation

Since its formation in 2002, CPFL Energia has been successfully developing a long-term corporate strategy.

In broad terms, the objectives of this strategy are to create value for all the Company's stakeholders; to assure shareholder return and appreciation appropriate to the investment; and to reduce business risk, in order to create an environment favoring sustained and ongoing business growth.

This strategy is based on five principal pillars:

Operating Efficiency

- Search for opportunities for gains in efficiency and scale of power distribution via efficient management of assets, investments and operational logistics;
- Standardization and certification of work processes and sharing of best practices among Group companies;
- Investments in automation and modernization of systems;
- Seeking quality in services rendered and client satisfaction.

Synergistic Growth

- Increase in the CPFL Energia's share of the Brazilian energy market and balanced gains in the business portfolio;
- Establishment of a solid distribution platform in attractive markets;
- Expansion of energy generation capacity through acquisition of existing assets and participation in new projects;
- Growth in CPFL's market share in unregulated energy trading and the sale of added value services (SVA) to major clients.

Financial Discipline

- Management focused on the creation of shareholder value;
- Ongoing monitoring of financial leverage parameters.

Corporate Governance

- Differentiated corporate governance guidelines based on the princi-

ples of ethics, transparency, equal treatment of shareholders and a differentiated dividend distribution policy.

Corporate Sustainability and Responsibility

- Management style founded on the triple bottom line concepts, with permanent management of the economic, social and environmental impacts of activities;
- Development of social, cultural and environmental programs in support of the communities in which the Group's companies operate.

capital expenditure strategy

CPFL Energia has been continuously and consistently expanding its share of the Brazilian energy market through the acquisition of existing assets in synergy with its current businesses and participation in new electricity generation projects.

investments in new acquisitions

In 2006, R\$ 594.8 million were invested in new acquisitions, distributed as follows:

- R\$ 383 million in the acquisition of 32.69% of the equity of Rio Grande Energia S.A. - RGE, a distribution company serving 1,123 thousand clients in 262 municipalities in Rio

Grande do Sul state, with sales of 5,740 GWh in 2006;

- R\$ 203 million in a 99.99% stake in Companhia Luz e Força Santa Cruz, a distribution company serving 165 thousand clients in 24 municipalities in São Paulo state and 3 in Paraná state;
- R\$ 8.8 million in the acquisition of a further 11% share in the Foz do Chapecó hydro plant, currently under construction on the border between Santa Catarina and Rio Grande do Sul states. This raises the Company's share in the plant from 40% to 51%, with its share of the plant's installed capacity increasing from 342 MW to 436 MW and from 173 average MW to 220 average MW. This increased share also implies further investments of R\$ 230 million through 2010 for termination of the hydro plant.

Following the acquisition of the additional stake in UHE Foz do Chapecó, in the generation segment, our planned installed capacity for 2010 will increase from 1,993 MW to 2,087 MW. As a result of recent acquisitions, CPFL Energia's market share in the Brazilian energy dis-

tribution segment has risen from 12.4% to 12.7%.

investments in the expansion of existing operations

In 2006 the CPFL Energia Group invested R\$ 797 million in the expansion of its companies' existing operations.

A further R\$ 527 million of investments was made in the distribution segment, primarily for expanding the electricity network to support market growth, an additional 205 thousand new customers being connected during the year.

In the generation segment, R\$ 266 million was invested, mainly in the construction of UHEs Campos Novos (Santa Catarina state), Castro Alves (Rio Grande do Sul state) and 14 de Julho (Rio Grande do Sul state); in concluding construction work at UHE Barra Grande (Santa Catarina/Rio Grande do Sul); in the start of construction at UHE Foz do Chapecó (Santa Catarina/Rio Grande do Sul); and in the upgrading of small hydroelectric plants – PCHs, namely: Gavião Peixoto, Capão Preto and Chibarro, in the state of São Paulo.

Investments in the expansion of existing operations – R\$ millions

	2006	2005
Distribution	526.9	368.0
Generation	265.8	254.9
Commercialization	4.2	3.5
Total	797.2	626.5



UHE Campos Novos | 880 MW | Santa Catarina
Start-up of Operations – Feb/07

success in restructuring companies

In recent years, CPFL Energia has created a management model that has proven successful at restructuring companies integrated within the corporate group.

In July 2006, the Group began the restructuring of Rio Grande Energia – RGE, repeating its successful results which began with CPFL Pau-

lista and continued with CPFL Piratininga, companies that are now considered bellwethers among Brazil's major energy distribution companies for their standards of operating efficiency and quality of customer service. In only six months, results from RGE's operations under CPFL Energia are extremely promising. In 2006, the commercial loss rate decreased by 8.3%. The payment delinquency index fell by 12.5%. There were also significant improvements in indices measuring reliability of power

The CPFL Group is alert to business opportunities that may offer a suitable return on its current portfolio.

supply. The index for the annual Average Frequency of Service Interruptions by customer (FEC) fell by 25.4% and the Average Duration of Service Interruptions by customer (DEC), by 23.7%.

With investments planned in RGE's electricity network, infrastructure and operational logistics, the outlook suggests a gradual improvement in this distributor's performance.

At the beginning of 2007, the restructuring of Companhia Luz e Força Santa Cruz is also scheduled to begin, with the objective of aligning its operational management with the standards adopted by other CPFL Energia Group distributors.

experience in the acquisition and construction of large-scale hydro plants

As fundamental to CPFL Energia attaining a more balanced business portfolio through a greater focus on generation, CPFL Geração's installed capacity increased from 143 MW in 2000 to 1,072 MW in 2006, a growth of 650%. Over the same period, assured energy rose from 82.5 average MW to 570.6 average MW, a growth of 592%.

In February 2007 with the start-up of operations at UHE Campos Novos, the Group's installed capacity will rise to 1,501 MW and assured energy will reach 754.7 average MW, representing 72% and 73% respectively of the planned increase for the period from 2000 to 2010.

business outlook

Part of CPFL Energia's plan for the coming years is to keep the Company alert and open to new market opportunities and also to business that is synergistic with its current operations.

In 2007, the Company intends to maintain the strategy of growing its operations through organic expansion of current business and the identification of acquisition opportunities in the power distribution, generation and commercialization segments, thus ensuring a key role in the gradual process of consolidation in the Brazilian energy market.

The Company will also continue to evaluate eventual opportunities presented by Aneel's New Energy Auctions as long as the conditions established coincide with its internally ordained minimum return/risk parameters. Remaining alert to opportunities for diversification of operations, CPFL Energia is to study possible entry into other segments related to its current businesses,

such as energy transmission operations, through acquisitions or participation in the auctions of new transmission lines organized by the regulator.

management of intangible assets

Intangible assets that add value to the business may be classified according to a series of characteris-

tics. These characteristics involve the possibility of clear identification, legal existence, intellectual property rights, specification of useful life and transferability. On this basis, intangible assets relating to the CPFL brand name, to the concession areas, knowledge related to human resources, to intellectual property rights, infrastructure and the Integrated Management System have been identified (see chart).

Identification of Intangible Assets

Assets	Components	Evaluation Methods
CPFL Energia Brand Name	<ul style="list-style-type: none"> • Tradition and strength of the CPFL Energia Brand Name • Business portfolio with the participation in three segments of the electricity sector • Customer Base 	<ul style="list-style-type: none"> • Valuation performed by a specialized consultancy
Human Resources	<ul style="list-style-type: none"> • Know-how and skills related to strategic competences • High degree of Productivity and Motivation 	<ul style="list-style-type: none"> • Personal Value Valuation Scorecard – Valor Pessoal • Company Performance
Intellectual Property Rights	<ul style="list-style-type: none"> • Patents 	<ul style="list-style-type: none"> • Number or value of the patents, associated to validity
Infrastructure	<ul style="list-style-type: none"> • Technologies developed for CPFL's specific use • Customized Information Systems and with CPFL parameters 	<ul style="list-style-type: none"> • The calculation of the Aggregate Value takes into account at least the expenditure of resources for installing Technology and Information Systems
Location of the concession areas	<ul style="list-style-type: none"> • Concession rights in the country's fastest growing regions 	<ul style="list-style-type: none"> • Monitoring of regional and national GDP
Integrated Management System-SGI	<ul style="list-style-type: none"> • Certifications for Environmental, Occupational Health and Security and Social Responsibility Management. 	<ul style="list-style-type: none"> • Transparency and reliability of management indicators • SGI avoids costs of administrative and criminal proceedings, contributing to strict compliance with the legislation

CPFL Energia creates both the technical and organizational conditions for the development and protection of intangible assets.

The increase in intangible assets is supported by the identification and incorporation of new technologies - largely resulting from Research and Development projects - and by professional training systems, technical visits, availability of technical and management publications in the library as well as permanent contact with suppliers.

Intangible assets are maintained for the Company's use and ownership through the establishment of norms and procedures, registers and labor

instructions, policies, information systems and precautions surrounding the assets in the library. The Intellectual Property Rights Policy, published in the HR Portal and the Intranet, is one of the key instruments for protection of intangible assets, establishing that:

- The commercialization and/or disclosure of these projects or inventions by any employee without the appropriate authority is prohibited.
- The area or person responsible will be awarded for a new idea if it represents tangible advantages for the results and/or image of the Company.

Those responsible for the projects, the Special Projects Division – DCVE

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and the Legal Area are responsible for conducting and examining copyrights and patents.

The attraction and retention of specialists and talent, which enhance CPFL Energia's intellectual capital, are managed through human resources policies and through the management of the organizational climate. The participation of these professionals in strategic projects, such as the implementation of new technologies, also constitutes an important mechanism for talent retention.

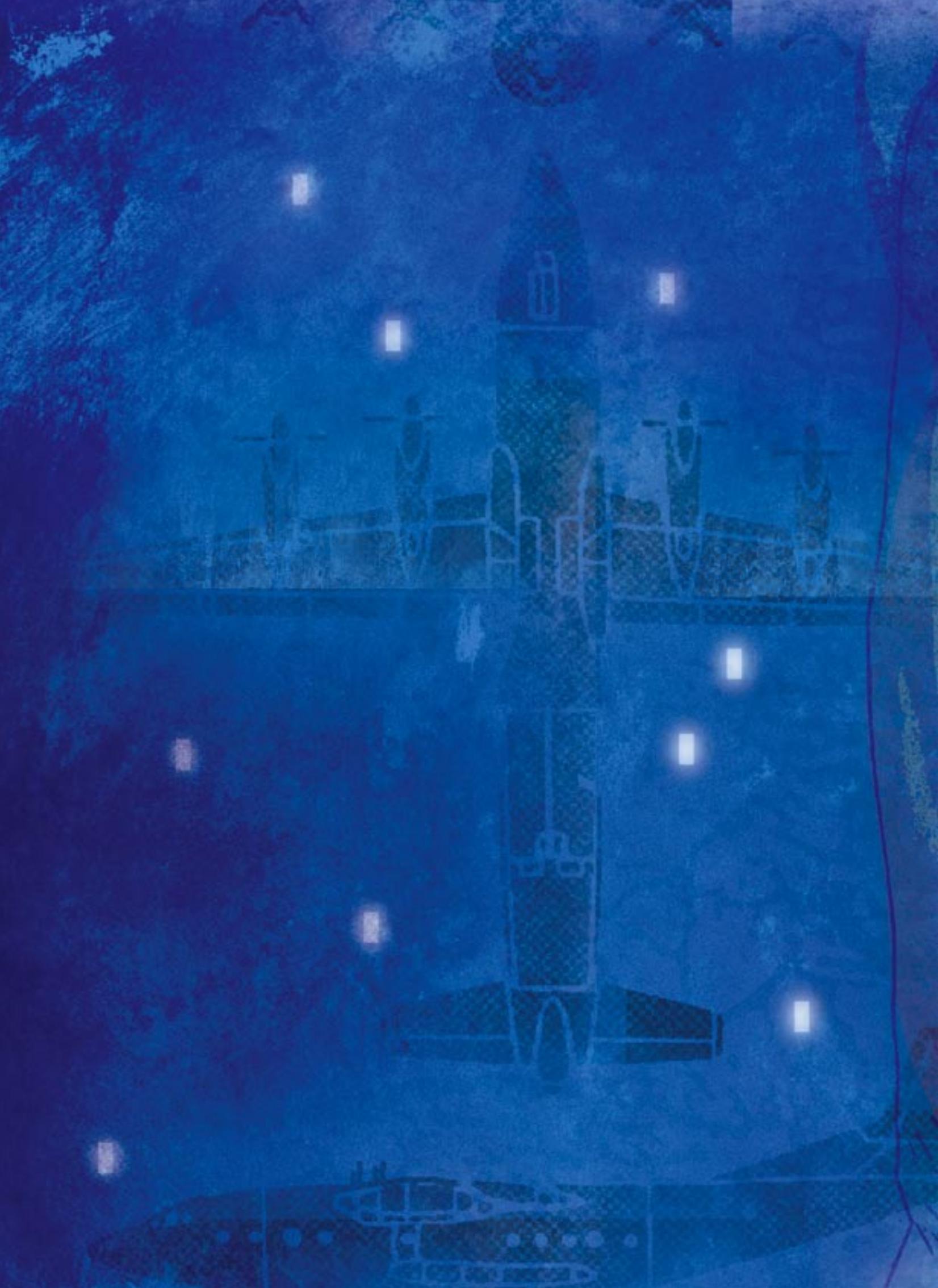
gva project

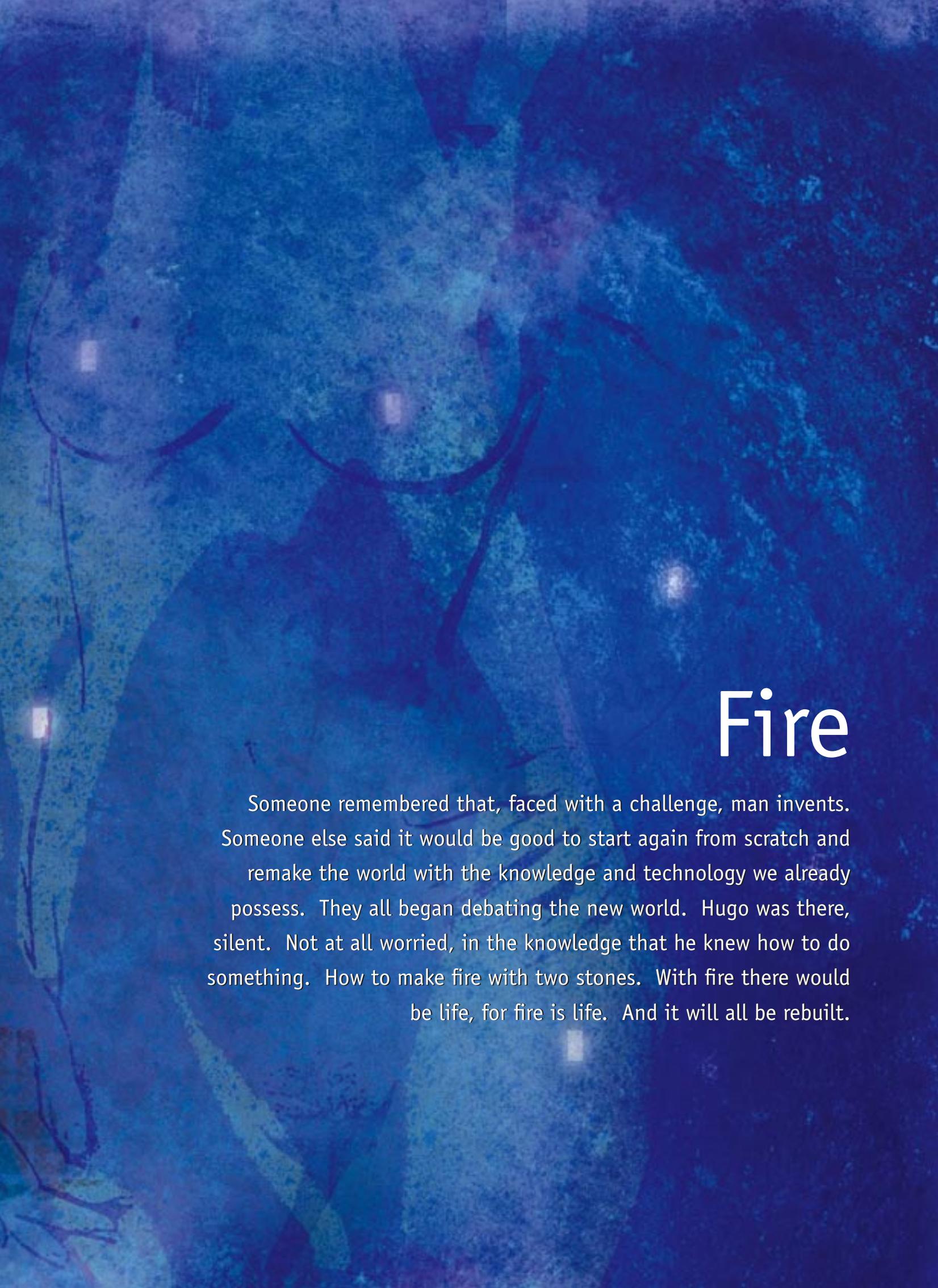
The Shareholder Value Generation (GVA) Project was implemented in

2005 and is a management system permitting the alignment of corporate strategy with the Company's operations. The objective is to optimize the value of the business and permit the measurement of the impact that the actions implemented for each process have on the Company's results and market value.

Calculation of the GVA is based on several metrics, particularly the external metric - Total Shareholder Return (TSR). Internally, the system uses the Total Business Return (TBR), CFROGI (ratio between Operating Cash Flow and Gross Capital Investment) and Cash Value Added (CVA).





A blue-toned cave painting of a mammoth, possibly a woolly mammoth, is the central focus. The mammoth is depicted in profile, facing right. Its body is covered in dark, textured lines representing fur. Several small, glowing white spots are scattered across the scene, some appearing to be on the mammoth's body and others in the surrounding space. The background is a textured, blueish-grey surface, suggesting a cave wall. The overall mood is mysterious and ancient.

Fire

Someone remembered that, faced with a challenge, man invents. Someone else said it would be good to start again from scratch and remake the world with the knowledge and technology we already possess. They all began debating the new world. Hugo was there, silent. Not at all worried, in the knowledge that he knew how to do something. How to make fire with two stones. With fire there would be life, for fire is life. And it will all be rebuilt.

4. Operating performance

Portfolio diversification has allowed us to increase sales from electricity distribution by 7.4%, grow unregulated market commercialization sales by 31.1% and expand our energy generation capacity to 1,501 MW by the beginning of 2007.

macroeconomic environment

Set against the appreciation of the Real vis à vis the US dollar and existing high rates of interest, Brazil registered only modest growth in industrial production and GDP, despite the recent changes in methodology introduced by the government statistics office (IBGE), which announced growth of 3.7% for the year.

Nonetheless, domestic consumption was healthier than forecast, the result of real increases in the minimum wage and average incomes, improved social benefits and continuing growth in consumer credit.

In addition to this, some agro-industrial segments registered positive performances – notably sugar and ethanol, orange juice and coffee, which are staple products of the interior of São Paulo state, the main area of operations of CPFL Energia's distribution companies.

This economic activity had a positive impact on the Company's business, particularly in the residential and commercial classes in the regulated distribution market.

regulatory environment

In 2006, Aneel consolidated its tariff adjustment regulations, in particular the methodology for use in the second round of the tariff review process for distribution companies, as determined by Aneel Resolution 234. Additionally, regulation on the general conditions for incorporating private networks, via Aneel Resolution 229, will be recognized on the basis of regulatory remuneration and in the "Benchmark Company" of the CPFL Paulista and RGE companies.

New conditions for the commercialization of electricity originating from energy sources enjoying tax breaks to a unit or a series of consumer units with loads equal to or greater than 500 KW, will provide greater flexibility for supplies of energy from alternative sources, in the light of the discounts offered on tariffs. Payments to compensate for the discounts on tariffs will be made annually to the distribution companies.

electricity tariff adjustments

distribution segment

In the Distribution segment, the following tariffs were approved under the sector's Annual Tariff Review – IRT, for 2006:

The Bandeirante Energia S.A.'s appeal with respect to the Tariff Re-

view process had a positive effect on the final rate reached for the first round of CPFL Piratininga's tariff review, as confirmed by Resolution 336/2001. This resolution approved the spin-off process and set the tariff adjustment rate for the two distributors' first review at the lower value. In April 2006, Aneel approved tariff adjustments for CPFL Paulista and RGE at 10.83% and 10.19% respectively.

The total tariff adjustment is made up of the following:

a) The "pure IRT", which takes into account variations in costs of Parcel A and the monetary adjustment of Parcel B (the difference between annual revenue and the value of Parcel A at the previous reference date, restated by the variation in the IGP-M index – annual inflation rate – for the months prior to the IRT, less the Factor X.

b) The pass-through of the financial components, regulatory assets and liabilities (reimbursement or rebate of amounts not originally considered in the tariffs), in particular the tracking account for the variation in the items included in Parcel A – CVA.

generation segment

Electric energy sales contracts for generating companies contain specific clauses on price readjustments, with the main indexer being the annual variation in inflation as measured by the IGP-M.

Annual Tariff Adjustment

Company	Average Adjustment	Date
CPFL Paulista	10.83%	April/2006
RGE	10.19%	April /2006
CPFL Piratininga	10.79%	October /2006

The Group accounts for 12.7% of the energy distribution and 4.2% of the private power generation capacity in Brazil.

consolidated performance of the businesses

The solid results recorded by CPFL reflect the quality of its assets, the electricity sector markets in which it operates and its operating efficiency. With a consistent and diversified portfolio, the Group registered an increase of 7.2% in total Group energy sales in 2006.

The acquisition of a further 32.69% stake in RGE and CPFL Brasil's success in attracting customers migrating to the unregulated market were key factors in this performance. Volume sales through the distribution and commercialization segments amounted to 41,112 GWh.

Sales to the regulated market accounted for 31,778 GWh of energy supplied, which equals growth of 1.7% over 2005. New connections made during the year by the Group's distribution companies added 200 thousand new consumers to their customer base.

Sales to the unregulated market totaled 9,334 GWh, an increase of 31.1% over 2005, reflecting CPFL Brasil's success in capturing clients migrating to this market and the increase in the customer base. In 2006, CPFL Brasil offered high value added services and signed partnership agreements with concessionaires and licensees through bilateral

contracts. The Company ended the year with 90 unregulated market clients.

The Group's distribution companies also registered growth in their portfolio of regulated market clients and in access to their networks for use of their distribution system, a service provided to unregulated market customers against the payment of a specific tariff (TUSD).

On the regulated market, only the industrial segment registered a fall in demand over the year. Consumer class performance was as follows:

Residential and Commercial Classes: Increase of 8% for the residential and commercial classes. This is due to a real increase in incomes stimulated by low inflation, a real increase in the minimum wage and higher employment rates. Another factor, particularly in the commercial class, was the increase in domestic appliance sales driven by more abundant consumer credit.

Rural Class: Increase of 13.6%, reflecting the low level of rainfall for the year (below the historical average) leading to greater use of irrigation.

Industrial Class: a 9.0% decrease, due mainly to the migration of some clients to the unregulated market.

Electricity Sales – GWh

	2006	2005	Var%
Regulated Market	31,778	31,236	1.7%
Unregulated Market	9,334	7,121	31.1%
Total	41,112	38,357	7.2%

Regulated Market – GWh

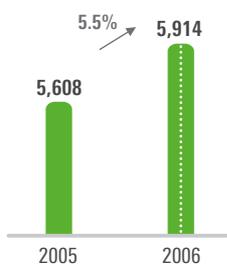
	2006	2005	Var%
Residential	9,489	8,783	8.0%
Industrial	10,882	11,955	-9.0%
Commercial	5,724	5,301	8.0%
Rural	1,966	1,730	13.6%
Others	3,717	3,467	7.2%
Total Regulated Market	31,778	31,236	1.7%



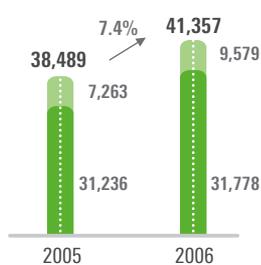
profile of the electricity distribution companies

CPFL Energia's electricity distribution business comprises four companies, CPFL Paulista, CPFL Piratininga, RGE and Companhia Luz e Força Santa Cruz (acquired in August 2006), which serve 550 municipalities in Brazil, located in the interior and coastal region of the state of São Paulo and the interior of the states of Rio Grande do Sul and Paraná. The volume of energy sales in the Group companies' concession areas grew by 7.4% in 2006, a greater increase than the 5% growth experienced in the previous year. A total of 205 thousand new connections were made (not counting disconnections), which is equivalent to an average of 17 thousand connections per month, 5.5% more than in 2005.

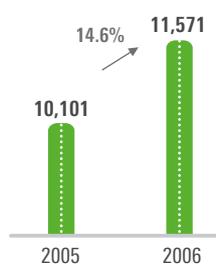
Growth in Customer Numbers
(thousands)



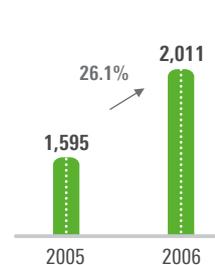
Growth in Energy Sales
(GWh)



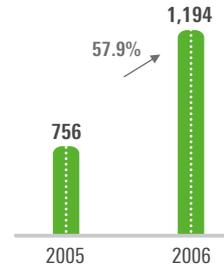
Gross Operating Revenue
(R\$ million)



EBITDA
(R\$ million)



Net Income
(R\$ million)



■ Regulated Market
 ■ TUSD



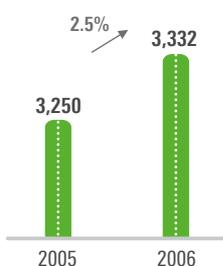
cpfl paulista profile

companhia paulista de força e luz

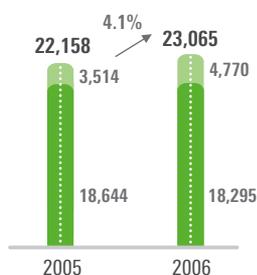
CPFL Paulista, the founding company in the CPFL Energia Group, operates in 234 municipalities in the interior of the state of São Paulo with a population of 9.8 million. A region of large urban, industrial and agro-industrial centers, its concession area includes cities such as Campinas, Ribeirão Preto, Bauru, São José do Rio Preto, São Carlos, Araçatuba and Marília, together forming one of the largest consumer markets in Brazil.

At the end of 2006, the Company served 3,332 thousand customers, an increase of 2.5% on the previous year.

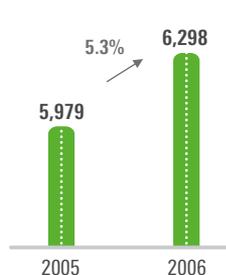
Growth in Customer Numbers
(thousands)



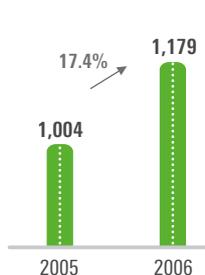
Growth in Energy Sales
(GWh)



Gross Operating Revenue
(R\$ million)



EBITDA
(R\$ million)



Net Income
(R\$ million)



■ Regulated Market ■ TUSD

cpfl piratininga profile

companhia piratininga

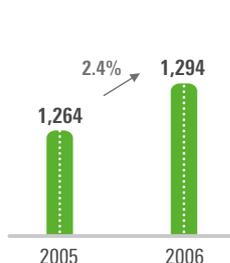
de força e luz



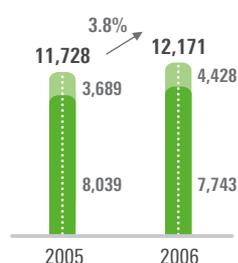
Companhia Piratininga de Força e Luz (CPFL Piratininga) began operations in 2001 and serves a region of 27 municipalities with a population of around 3.8 million. The company's concession area incorporates major cities in the interior and coastal region of São Paulo state, including Santos (with Brazil's largest port), Cubatão (with a major petrochemical complex), and further highly industrialized areas around the cities of Sorocaba and Jundiaí.

CPFL Piratininga ended the year with 1,294 thousand customers, an increase of 2.4% compared to the end of 2005.

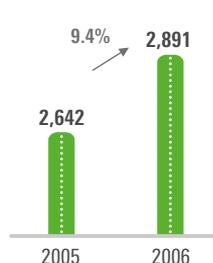
Growth in Customer Numbers
(thousands)



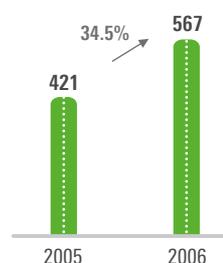
Growth in Energy Sales
(GWh)



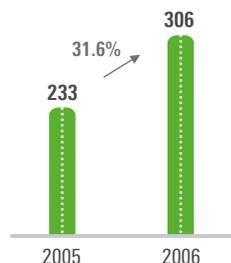
Gross Operating Revenue
(R\$ million)



EBITDA
(R\$ million)



Net Income
(R\$ million)



■ Regulated Market ■ TUSD

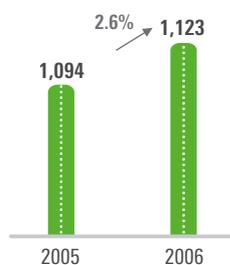


rge profile

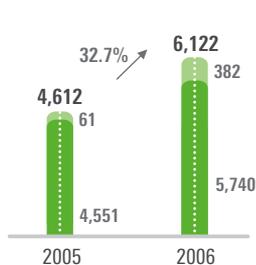
rio grande energia s.a.

RGE has been operating since 1998 and became a wholly owned subsidiary of the CPFL Group in 2006. The company serves 262 municipalities in the interior of Rio Grande do Sul state with a population of 3.3 million. The region includes cities such as Caxias do Sul, Passo Fundo, Canela and Gramado, and has one of the country's highest levels of social and economic development. It is the state's leading agricultural, ranching, industrial and tourist center. As of the end of 2006, the Company was serving 1,123 thousand customers, an increase of 2.6% on the previous year.

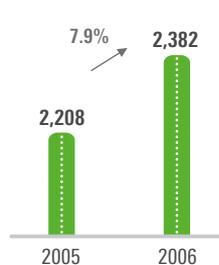
Growth in Customer Numbers
(thousands)



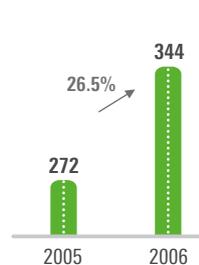
Growth in Energy Sales
(GWh)



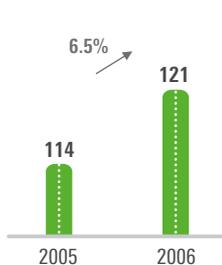
Gross Operating Revenue
(R\$ million)



EBITDA
(R\$ million)



Net Income
(R\$ million)



■ Regulated Market
 ■ TUSD

cpfl santa cruz profile

companhia luz e força

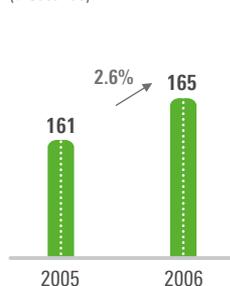
santa cruz



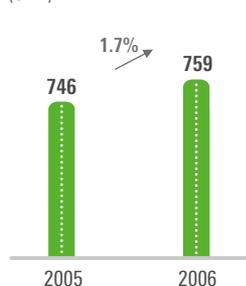
Acquired by the CPFL Energia Group in 2006, the Companhia Luz e Força Santa Cruz was constituted in 1909 and distributes electricity to 41 locations situated in 24 municipalities in the state of São Paulo and three in Paraná state, together representing a population of 600 thousand. The region includes cities such as Avaré, Ourinhos and Piraju.

At the end of 2006, the Company had a customer base of 166 thousand, an increase of 2.6% on the previous year.

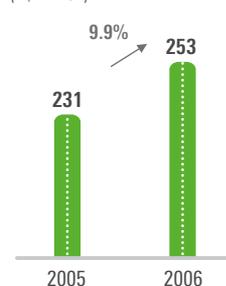
Growth in Customer Numbers
(thousands)



Growth in Energy Sales
(GWh)



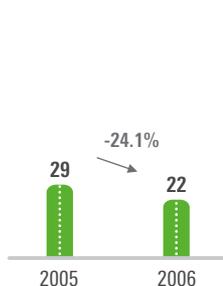
Gross Operating Revenue
(R\$ million)



EBITDA
(R\$ million)



Net Income*
(R\$ million)



CPFL Santa Cruz's performance is not reflected in CPFL Energia's results for 2006.

* In November 2005, electricity generation operations were spun off impacting the Ebitda and Net Income result for 2006.

performance of the distribution segment

The increase of 7.4% in energy sales in the distribution companies' concession areas, associated with authorized tariff adjustments, led to year on year growth of 14.6% in consolidated gross operating revenue. Consolidated EBITDA reached R\$ 2,011 million and exceeded the R\$ 1,595 million level achieved over the same period in the previous year – an increase of 26.1%.

Net income totaled R\$ 1,194 million for the year, 57.9% greater than in 2005. In addition to the factors already noted, the increase in EBITDA and net income were due to the proportionally greater reduction in commercial

losses and the growth in revenue than rises in costs and operating expenses.

commercial loss reduction

The distribution companies CPFL Paulista, CPFL Piratininga and RGE have been making considerable efforts to reduce commercial losses. In 2006, 557 thousand consumer units were inspected in the distributors' areas of operation. This is a 33% increase on the 420 thousand inspections carried out in 2005.

As a result of this activity, around R\$ 138 million of revenue was recuperated, thanks principally to the repair and substitution of 124 thousand meters and also efforts to curb and reduce fraud and clandestine connections.

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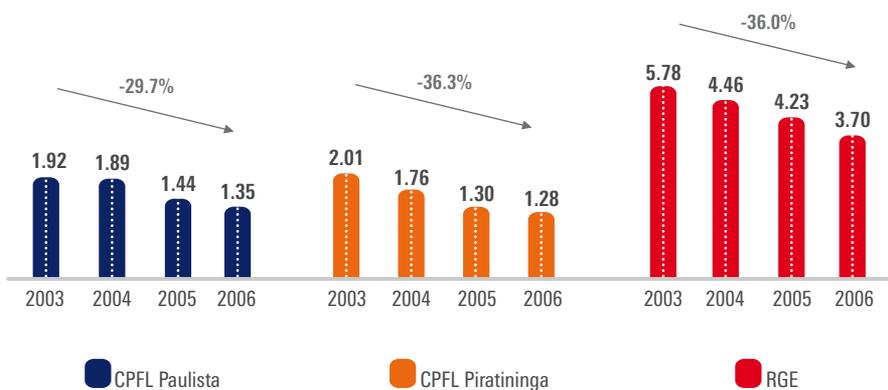
payment delinquency

CPFL Paulista and RGE reduced their respective levels of payment delinquency to 1.35% (a fall of 6.3% compared to 2005) and 3.7% (11.8% less), as a result of their efforts to negotiate and collect unpaid bills, and intensify and improve the efficiency of disconnections. At CPFL Piratininga, the

rate of unpaid bills for the year was 1.28%, a reduction of 1.5% compared to 2005. The index is based on energy billings more than 30 days outstanding.

The electricity generation and commercialization segments ended the year with zero levels of payment delinquency on existing contracts.

Payment Delinquency Rate
(%)



quality of services supplied

CPFL Energia's distribution companies are constantly investing in improvements to the quality of the supply of electric energy. Actions and initiatives are taken to upgrade the quality of service and assure excellence in customer service. To this end, the distribution companies invest in processes, methodologies and programs for constantly improving operations management and

the organizational logistics of the emergency service system.

The companies also focus on a continuous program of inspections and preventative maintenance of substations and distribution lines and networks for increasing quality of customer service. Investments are also made in employee training, state of the art technologies, work process standardization and in the sharing of best practices in operatio-

nal management among the Group's distributors.

The results of these practices are evident in improvements to electricity supply quality indicators, as well as the performance indicators published by Aneel. In 2006, Brazilian distributors registered an average of 16 hours for DEC (Average Duration of Service Interruptions by client) and 12 times for FEC (Average Frequency of Service Interruptions by client).

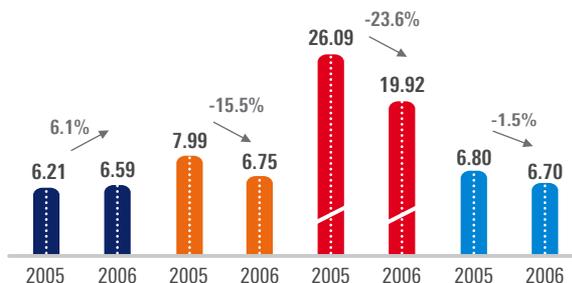
The megawatt per employee ratio rose from 3.2 thousand to 7.5 thousand. This index measures the distributors' ability to extract value from a single asset via process and procedural improvements and technological upgrading.

CPFL Paulista registered DEC of 6.59 hours in 2006 while CPFL Pira-

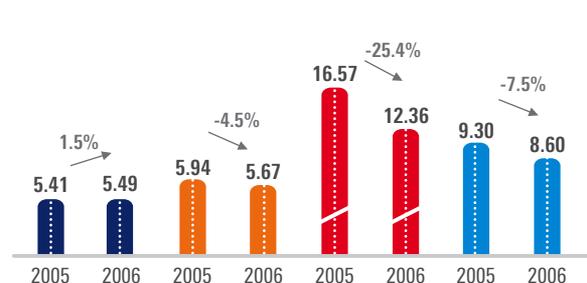
tinga reached 6.75 hours; FEC for CPFL Paulista was 5.49 times and 5.67 for CPFL Piratininga – both indicators being considerably lower than the national average. At RGE, the DEC for 2006 was 19.92 hours and FEC was 12.36 times, reductions of 23.6% and 25.4% respectively on the previous year. These figures should substantially improve in 2007 as the integration of the company into the Group proceeds apace with conclusion expected for early 2008.

With these results, CPFL Paulista and CPFL Piratininga hold first and fourth place respectively in the Brazilian ranking for best DEC among distribution companies, a result of their investments and the constant quest for excellence in customer service provision.

DEC – Average Duration of Service Interruptions by Client
(hours)



FEC – Average Frequency of Service Interruptions by Client
(times)

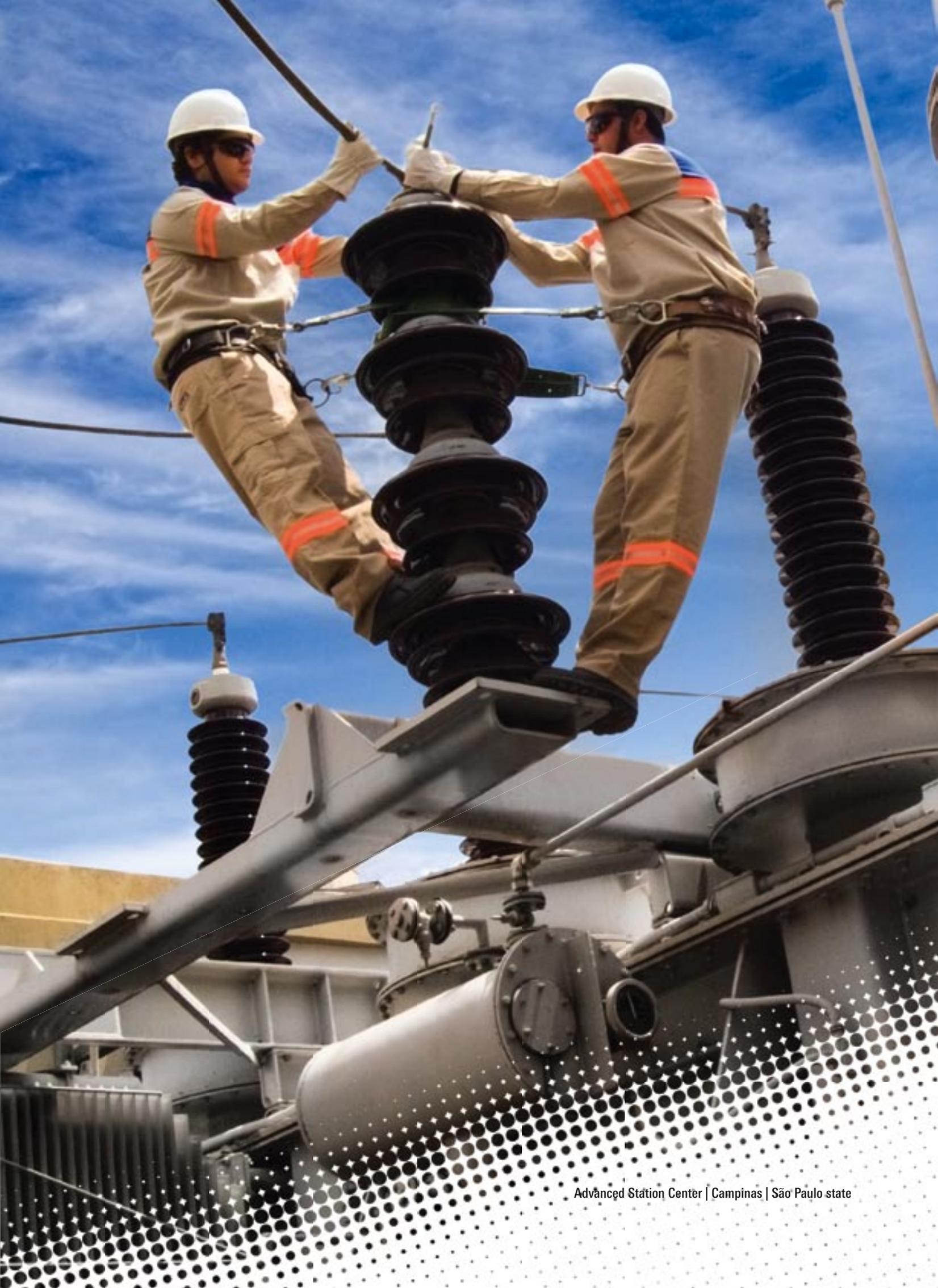


CPFL Paulista

CPFL Piratininga

RGE

CPFL Santa Cruz





customer relationship management

CPFL Energia Group's distribution companies constantly monitor levels of customer satisfaction with provision of services, customer support, quality of communication and information provided. To this end, they make use of the results of research carried out by Aneel and by the Brazilian Association of Electricity Distributors – Abradee.

Customer needs are also identified through other surveys, participation in committees and local commissions, among other activities. CPFL Energia distributors maintain Consumer Councils for assessment of service quality. This information forms the basis for service improvements.



The Company also carries out research to assess client satisfaction with the round-the-clock Call Center service (quarterly) and the Ombudsman (annual). In all, the Company's Call Centers (CPFL Paulista, CPFL Piratininga and RGE) handled 12,185,284 calls in 2006.

Consumer surveys ranked the Group's distributors among the best in Brazil. CPFL Piratininga was the winner of the IASC – Aneel Consumer Satisfaction Index Award, as judged by Aneel, for the best distribution company in the Southeast region of Brazil in the "more than 400 thousand clients" category.

The companies' Customer Satisfaction Levels were as follows: CPFL Piratininga – 68.45%, CPFL Paulista – 65.35%, RGE – 66.75%, and CPFL Santa Cruz – 67.56%, all above the Brazilian average of 61.38%.

The Abradee survey for 2006 awarded the Group's distributors the following ISQP – Perceived Quality Satisfaction Index ratings: CPFL Paulista – 82.2%, CPFL Piratininga – 78.7% and RGE – 76.8%. The ISQP is based on an annual Abradee survey. In 2006, CPFL Energia carried out 15 surveys, both internal and outsourced, interviewing about 7,500 individuals.

For corporate clients (medium to high tension), CPFL uses a different approach, which includes a Business Management Team and a Contact Center. This strategy aims to strengthen client relationships via personalized service to establish CPFL as a benchmark in the electric sector.

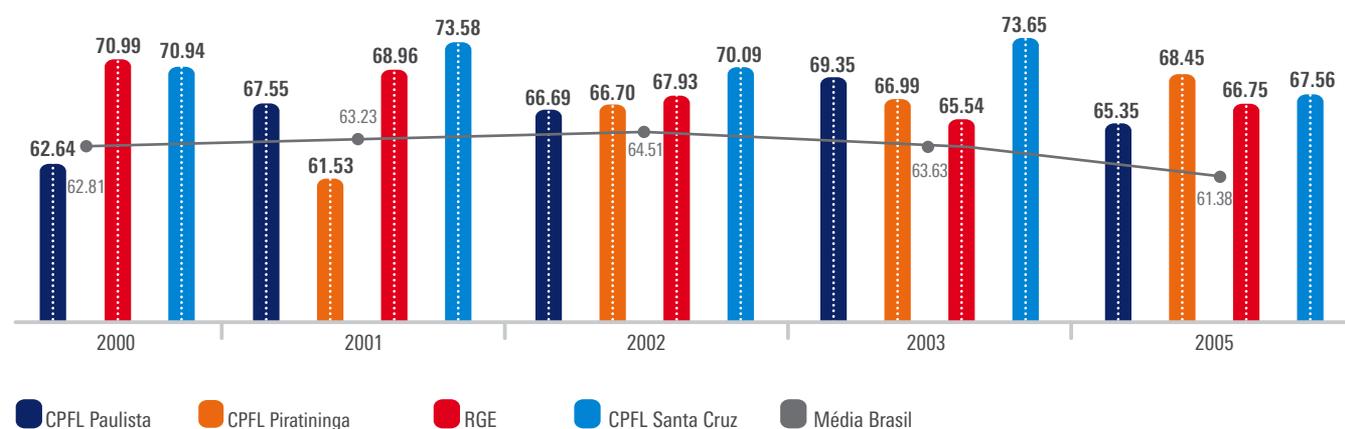
Two exclusive annual surveys are currently undertaken with corporate clients: the broader scope of the first covers topics from the quality of energy supply to our professionals' technical knowledge; the second focuses on client communication channels, such as the Contact Center, chat room events, fax, email, website, online support, etc. In 2006, we interviewed about 700 clients and handled 97,296 client service contacts.

2006 Surveys

Survey	Methodology	Requested by	Period	Public	Interviewees
Abradee	Quantitative	CPFL Paulista	March	Residential	831
Abradee	Quantitative	CPFL Piratininga	March	Residential	638
Call Center (Round 5)	Quantitative	Call Center (CPFL Paulista and CPFL Piratininga)	April	Residential	819
Call Center (Round 6)	Quantitative	Call Center (CPFL Paulista and CPFL Piratininga)	December	Residential	780
Call Center (Service)	Quantitative	Call Center (CPFL Paulista and CPFL Piratininga)	August	Residential	50
Fraud	Quantitative	Marketing (CPFL Paulista and CPFL Piratininga)	August	Residential	40
Group A Clients	Quantitative	CPFL Brasil	August	Major Clients	480
Relationship Channels	Quantitative	CPFL Brasil	June	Major Clients	200
CPFL Total Survey	Quantitative	CPFL Brasil	March	Residential	120
Ombudsman	Quantitative	Ombudsman (CPFL Paulista and CPFL Piratininga)	August	Residential	300
Ownership	Quantitative	Market (Energy Management)	June	Residential	2,000
Cultural Center	Quantitative	Cultural Center	May	Internal	15
Cultural Center	Quantitative	Cultural Center	October	Cultural Center	210
Brand and Image	Quantitative	CPFL Energia	December	Residential	800
Investor Relations Survey	Quantitative	Investor Relations (CPFL Energia)	August	CPFL Investor Readers	176

Evolution in Aneel Customer Satisfaction Index – IASC

(%)



Note : 2004 survey was cancelled by Aneel

Surveys planned for 2007

Survey	Requested by
Brand and Image – quantitative	CPFL Paulista and CPFL Piratininga
Brand and Image – qualitative	CPFL Paulista, CPFL Piratininga and RGE
Ombudsman Service	Ombudsman
Cultural Center – Qualitative	Corporate Communications
Abradee	CPFL Paulista, CPFL Piratininga and RGE
Group A Clients	CPFL Brasil
Relationship Channels	CPFL Brasil
Call Center Service	Call Center CPFL Paulista/ CPFL Piratininga
Ownership and Habits – Qualitative	Market

GRI
EC8

universal service coverage

CPFL Paulista and CPFL Piratininga were the first distributors in Brazil to provide universal coverage in their markets through power distribution lines and network connections. For new connections arising from private networks to be incorporated into the electricity network, CPFL Paulista is dependent on Aneel's authorization and guidelines. Companhia Luz e Força Santa Cruz, which was purchased in December 2006, has also reached universal coverage in its own market.

RGE still has to connect approximately 5,865 urban and rural customers to achieve its universal coverage target. In 2007, investment of R\$ 35 million has been budgeted for

connecting 4,695 customers, 2,015 of them under the Light for All Program in partnership with the Ministry of Mines and Energy and the state government and aimed at low-income rural families. This Program, supported by government financing, aims to extend the electricity distribution network at no charge to the new consumer, install equipment and fit three bulb sockets and two plug points in each household.

electricity distribution and transmission and biodiversity

Electricity distribution essentially uses public highways for the installation of its electrical infrastructure (poles) and does not interfere

GRI
EN11

in biodiversity-rich habitats. Electric energy transmission preferentially uses rights of way, which impose restrictions on the use of land but do not remove it from the administration of its owner, whether private or public.

In São Paulo state, the Serra do Mar State Reserve has been declared an "area rich in biodiversity". Out of a total of 315 thousand hectares, the Cubatão core area accounts for 115 thousand hectares, encompassing fifteen municipalities in the São Paulo metropolitan region as well as part of the Santos coastal belt, the latter being CPFL Piratininga's area of operation.

Although some transmission lines cross the reserve – the Pedro Taques line (Cubatão – Praia Grande), the Praia Grande branch and the Baixada Santista – Capuava line – their environmental impact is of modest significance. A CPFL Piratininga study in 2005 showed that only 23.32 hectares of rights of way are actually in the Reserve. There are further lines that cross areas of mangrove swamps in the Serra do Mar region, although outside the State Reserve area and with rights of way taking up only an additional 12.4 hectares.

environmental precautions in power distribution activities

Through the Environmental Management System, CPFL Energia companies have identified possible changes to

ecosystems resulting from the installation and operation of their assets:

a) Removal of vegetation during the building or maintenance of assets, including tree pruning and when necessary, felling. These actions can affect fauna, flora and even soil conservation, depending on their severity.

b) Use of forestry products – the main consumption of wood occurs in the purchase of products for the installation of cross arms.

Planning of transmission line routes prioritizes those that avoid areas of native vegetation and reduce the clearance of vegetation as much as possible. The impacts of using forest products is minimized by the demand for certificates showing the origin of the timber and that it was harvested in accordance with the Sustainable Forest Stewardship Plan approved by IBAMA, the Federal Environmental Protection Agency.

environmental initiatives

Urban Tree Planting Program – A series of interlinking activities to produce seedlings suitable for planting in the vicinity of electricity power lines and other urban infrastructure for donation to municipalities within CPFL companies' concession areas. This initiative aims to reduce the need for pruning and interfering with trees while also guaranteeing electric energy distribution and raising awareness and



education levels of the importance of this issue.

To meet the needs of the Urban Tree Planting Program, the Company runs two nurseries where seedlings are produced for encouraging urban tree planting programs, in partnership with city governments, NGOs and neighborhood associations. In 2006 over 81,000 seedlings were do-

nated for urban tree planting. The Program's target for 2007 is to set up a new nursery for serving regions in the west region of São Paulo state.

Rare Hardwood Tree Program: In 2006, RGE donated 40,000 seedlings of trees considered of the hardwood type or rare, as well as information booklets on these species. The cam-

Municipalities Served by the Urban Tree Planting Program – %

Year	CPFL Paulista	CPFL Piratininga
2006	14%	18%
2005	18%	26%
2004	9%	15%
2003	20%	26%
2002	20%	33%
2001	19%	0%
2000	17%	0%
1999	13%	0%

Seedlings Donated for Urban Tree Planting (*)

Year	CPFL Paulista	CPFL Piratininga
2006	75,450	6,240
2005	110,574	12,200
2004	40,909	5,716
2003	63,646	28,660

* RGE donates rare tree seedlings appropriate for planting in rural areas in its campaigns for disseminating rare hardwood trees and Paraná Pine (Araucárias) reforestation. However, it does not donate seedlings for urban tree planting.

campaign began in 2003 and has already distributed 134,000 seedlings.

Paraná Pine (*Araucária angustifolia*) reforestation campaign: RGE encourages planting of the Paraná Pine (*Araucária*), a native species to Brazil threatened with extinction. In 2006, the campaign increased the Paraná Pine popula-

tion in Rio Grande do Sul state by an estimated 25,000.

Waterside Forest Project: In partnership with other organizations, RGE has donated material for constructing isolation fences for the environmental restoration of 1,200,000 m² of areas adjacent to riverbanks.

Seedling Nursery | Jaguari small hydro facility | Pedreira | São





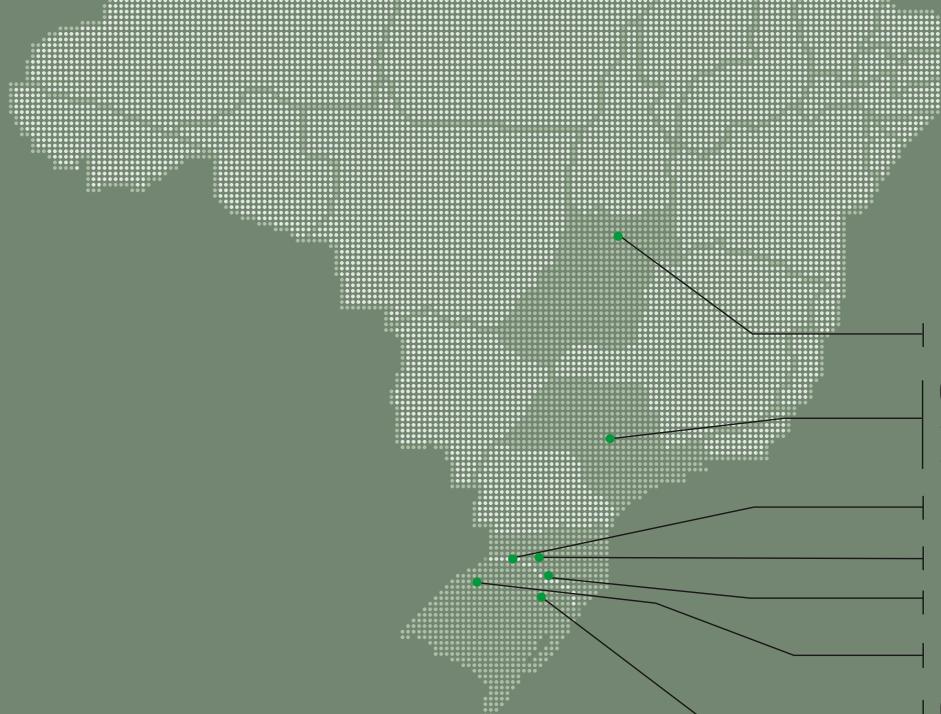
profile of the electricity generating companies

CPFL Geração is a publicly listed company, which acts as a holding company for the Group's electricity generation interests. Following incorporation of the two subsidiaries (CPFL Centrais Elétricas and Semesa), a process due for conclusion in March 2007, CPFL Geração will hold 100% operating control of:

- 19 Small Hydroelectric Power Plants – PCHs, with total installed capacity of 119.52 MW and assured energy of 68.03 average MW following the upgrading processes already underway and due for conclusion in 2007 and 2008, all located in the state of São Paulo;
- One Thermoelectric Power Plant – UTE, with installed capacity of 36 MW and assured energy of 25 average MW, also in São Paulo state; and
- 51.54% share in UHE Serra da Mesa (hydroelectric power plant) with installed capacity of 1,275 MW and assured energy of 671 average MW, in Goiás state.

CPFL Geração also retains an equity interest in five companies:

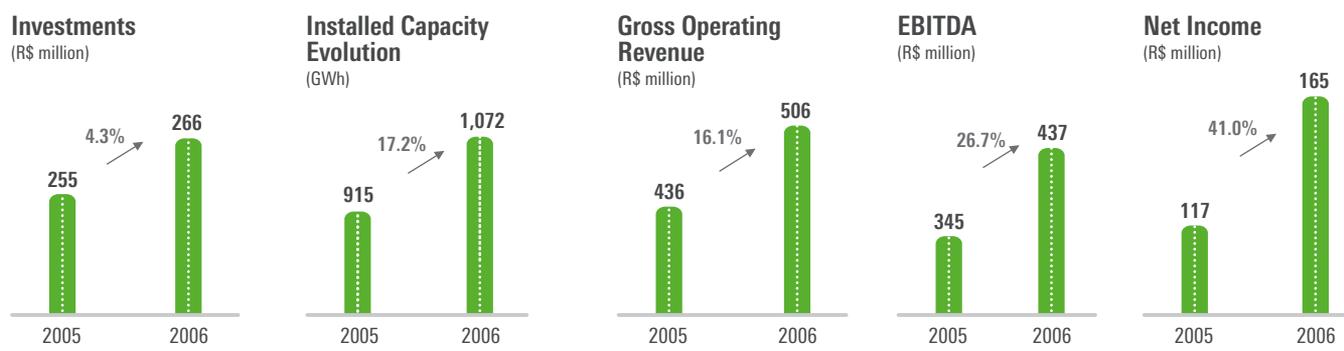
- 100% of CPFL Sul Centrais Elétricas, which controls four PCHs, with total installed capacity of 2.65 MW and assured energy of 2.45 average MW, all located in Rio Grande do Sul state;
- 65% of Companhia Energética Rio das Antas – Ceran, responsible for three plants located in Rio Grande do Sul state: UHE Monte Claro, in commercial operation since December 2004, with installed capacity of 130 MW and assured energy of 58.2 average MW; and the UHEs Castro Alves (with total installed capacity of 130 MW and assured



- UHE Serra da Mesa**
- CPFL Centrais Elétricas**
- 19 PCHs
- 1 UTE
- UHE Foz do Chapecó**
- UHE Campos Novos**
- UHE Barra Grande**
- 4 PCHs CPFL Sul**
- Ceran Complex**
- UHE Monte Claro
- UHE Castro Alves
- UHE 14 de Julho

energy of 64 average MW) and 14 de Julho (with total installed capacity of 100 MW and assured energy of 50 average MW), both in construction, with start-up of operations scheduled for the end of 2007 and the third quarter of 2008, respectively;

- 25.01% of Energética Barra Grande (Baesa), which holds 100% of the UHE Barra Grande in commercial operation since November 2005, located on the divide between the states of Santa Catarina and Rio Grande do Sul, with total installed capacity of 690 MW and assured energy of 380.6 average MW;
- 48.72% of Campos Novos Energia (Enercan), which controls UHE Campos Novos located in the state of Santa Catarina, and will begin commercial operations in February 2007, with total installed capacity of 880 MW and assured energy of 377.9 average MW; and
- 51% of Foz do Chapecó Energia, which controls 100% of UHE Foz do Chapecó with start-up of commercial operations forecast for 2010. Located on the divide between the states of Santa Catarina and Rio Grande do Sul, this plant will have a total installed capacity of 855 MW and assured energy of 432 average MW.



The process of expanding electricity generating capacity involves the construction of new power plants and upgrading of the Group's existing facilities.

Growth in Installed Capacity

Since its inception, CPFL Geração's business strategy has been to expand generating capacity. The last few years tell a graphic story: in 2000 installed capacity stood at 143 MW. By February 2007 this had risen to 1,501 MW.

In 2006 CPFL Geração continued construction work on UHEs Castro Alves (130 MW) and 14 de Julho (100 MW) and upgrading at PCH Gavião Peixoto (4.8 MW). The Company also began work on upgrading PCHs Capão Preto (4.3 MW) and Chibarro (2.6 MW) in October, and UHE Foz do Chapecó (855 MW) in December.

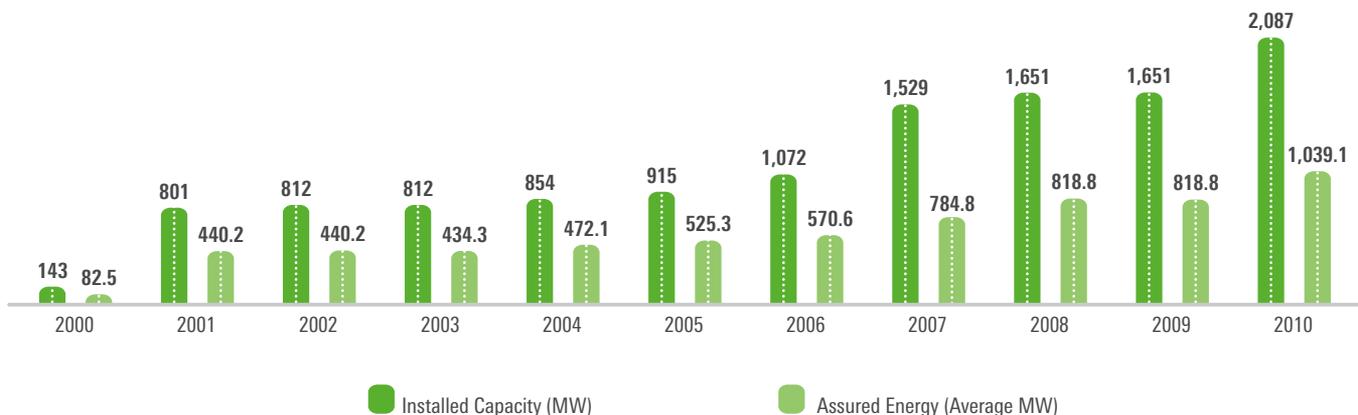
The Company has completed technical and economic feasibility studies for upgrading and modernizing PCHs Buritis and Três Saltos and for the restoration of PCH Ca-

riobinha. The second and the third (and last) turbines at UHE Barra Grande entered commercial operations in February and May 2006, respectively, increasing CPFL Geração's installed capacity by 115 MW. In November 2006, the second generating unit at UHE Monte Claro began operating, as a result of which the Company ended the year with 1,072 MW of installed capacity.

Continuing the expansion process, in November 2006, Enercan, a CPFL Geração subsidiary, began filling the UHE Campos Novos reservoir. The start of commercial operations, with the first generating unit in use as of February 2007, will increase CPFL Geração's installed capacity to 1,501 MW.

The graph below shows growth in CPFL Geração's installed capacity and assured energy:

Growth in installed Capacity and Assured Energy



Projects in Operation (31/12/2006)		CPFL Geração share (%)	Installed Capacity (MW)	Assured Energy (Average MW)	
PCHs (SP)	Upgraded/automated PCHs	Americana	30.00	9.00	
		Dourados	10.80	7.76	
		Eloy Chaves	19.00	12.20	
		Esmeril	5.04	2.88	
		Jaguari	11.80	9.00	
		Lençóis	1.68	1.68	
		Monjolinho	0.60	0.31	
		Pinhal	6.80	3.70	
		Salto Grande	4.55	2.72	
		Santana	4.32	2.90	
		São Joaquim	8.05	5.63	
		Socorro	1.00	0.60	
	PCHs with upgrading project (*)	Buritis	100%	1.30	1.08
		Capão Preto		4.30	2.28
		Chibarro		2.60	1.69
		Gavião Peixoto		4.80	3.82
		Três Saltos		1.00	0.78
	Mothballed PCHs	Cariobinha	100%	1.30	0.00
		Salto do Pinhal		0.58	0.00
	Total PCHs (SP)		100%	119.52	68.03
UTE (SP)	UTE Carioba	100%	36.00	10.70**	
PCHs CPFL Sul (RS)	Guaporé	100%	0.668	0.62	
	Pirapó		0.672	0.64	
	Andorinha		0.512	0.46	
	Saltinho		0.8	0.73	
Total CPFL SUL		100%	2.65	2.45	
UHEs	Serra da Mesa (GO)	51.54%	657.14	345.83	
	Monte Claro (RS)	65.00%	84.50	38.35	
	Barra Grande (SC/RS)	25.01%	172.54	95.17	
Total UHEs			1,072	570.6	
Projects in Operation (31/12/2006)		CPFL Geração share (%)	Installed Capacity (MW)	Assured Energy (Average MW)	
UHEs em construção	Campos Novos (SC)	48.72%	428.76	184.12	
	Castro Alves (RS)	65.00%	84.50	41.60	
	14 de Julho (RS)	65.00%	65.00	32.50	
	Foz do Chapecó (SC/RS)	51.00%	436.05	220.32	
TOTAL CPFL Geração in 2010			2,087	1,039.1	

(*) Considering Installed Capacity and Assured Energy following upgrading

(**) According to Ordinance 303 of November 18 2004

performance of the electricity generation segment

With UHE Barra Grande fully commissioned, the generating business reported gross operating revenue of R\$ 506 million in 2006, which equates to a 16.1% increase on 2005. The increase in operating revenue boosted adjusted EBITDA to R\$ 437 million, 26.5% year on year growth. This strong performance in addition to cost controls produced a net income of R\$ 165 million for the year, an increase of 41.0% over 2005.

Energy made available by CPFL Geração for commercialization corresponds to the assured energy of each plant, as shown below.

In 2006, the plants' total assured energy was traded with: (i) es-

entially CPFL Paulista in the case of the PCHs of CPFL Centrais Elétricas; (ii) CPFL Paulista, CPFL Piratininga and CPFL Brasil, for Barra Grande (Baesa) and Monte Claro (Ceran) plants; (iii) Furnas, in the case of Semesa. CPFL Sul Centrais Elétricas' PCHs have contracts with CPFL Brasil and other unregulated market consumers.

operating performance

The table on the following page illustrates equipment uptime trends for CPFL Centrais Elétricas' PCHs and Serra da Mesa (Semesa) and Monte Claro (Ceran) hydro plants. Uptime figures are shown for 2006, the first year of commercial operations for UHE Barra Grande (Baesa) as well as for CPFL Sul Centrais Elétricas' PCHs, which were only incorporated into CPFL Geração's assets in 2006.

Current Installed Capacity

	Installed Capacity MW	Assured Energy average MW
CPFL Centrais Elétricas	154.9	88.8
CPFL Sul Centrais Elétricas	2.7	2.4
UHE Serra da Mesa	657.1	345.8
UHE Monte Claro	84.5	38.4
UHE Barra Grande	172.5	95.2
Total	1,071.7	570.6

Note: On March 22 2006, the Ministry of Mines and Energy (MME), via Ordinances 04, 05, 06 and 07, and based on studies undertaken by CPFL, approved an increase in assured energy of the four PCHs of CPFL Sul Centrais Elétricas: Andorinhas, Guaporé, Saltinho and Pirapó. As a result, the PCHs now have total assured energy of 2.45 average MW, which represents an increase of 123% over the previous 1.1 MW average.

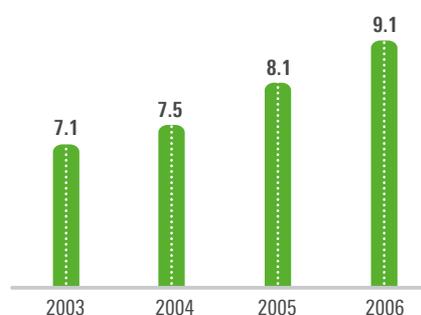
Equipment Uptime – %

	2006	2005	2004
CPFL Centrais Elétricas	95	96	96
UHE Serra da Mesa	87	86	83
UHE Monte Claro	99	98	–
UHE Barra Grande	85	–	–
CPFL Sul Centrais Elétricas	97	–	–

CPFL Geração's productivity, measured by the index of Installed Capacity (MW) per employee, is shown in the table below:

Productivity Index

(Installed Capacity / Employee Numbers)



CPFL Geração retained its five-year contract with Enercan for Provision of Operating and Maintenance Engineering Services at UHE Campos Novos. The Company also continued its contract for Provision of Operating, Maintenance and Environmental and Asset Management Services at UHE Barra Grande through the intermediary of the Barra Grande Operating Consortium (COBG).

In 2006, progress continued with the Team Qualification and Training Program for plant operation

and maintenance, the obtaining of Operator Certification to meet ONS (the National Grid System Operator) requirements and the preparation of new plant operation and maintenance manuals. Work also proceeded on the monitoring of the commissioning of Barra Grande, Campos Novos, and Monte Claro Generating Unit 2 plants, steps to further improve relationships with electricity sector regulatory agencies (CCEE, Aneel, ONS and others), and the performance of contractual inspections on new generating plant machinery.

Over the course of the year, the Company began performance assessment of the Digital Supervision and Control System (SDSC) and the Protection System, and made improvements to the Number 2 Generating Unit at UHE Serra da Mesa. It also continued improvement work to minimize equipment downtime and optimize operations through the Generation Operations Center – COG.

CPFL Geração is characterized by its practice of process excellence, particularly in operational planning and control, exemplified by its levels

R&D projects seek all that is new and use tools and models adjusted to sector realities.

of uptime and profitability, in addition to other parameters. Among its planning and expansion activities in 2006, numerous feasibility studies and analyses were carried out for new projects, such as its work on the A-3 and A-5 new energy auctions, which took place in June and October 2006, respectively.

Participation in these auctions reflects the corporate goal of increasing the Group's share of the electricity generation market, in addition to continuous efforts to develop a structured and sufficiently stable regulatory framework through our presence in sectoral forums, jointly with MME, Aneel, EPE, ONS and other Associations.

Closer integration among the

electricity generating entities, the ONS and CPFL Geração has helped capture greater process synergies, particularly in optimizing plant operation, allowing the development of models and tools for control, assessment, optimization and monitoring, as means of better understanding the effects and results of every activity.

CPFL Geração's policy of continuous improvement forms the basis for R&D projects, which are characterized by a search for new processes and by excellence in the use of tools and models increasingly adjusted to sector realities.

In recognition of its activities, CPFL Geração received the following awards in 2006: Occupational Health and Safety Management (Silver Category) from

UHE Barra Grande | 690 MW | Santa Catarina and Rio Grande do Sul states | Start-up of Operations – Nov/05



the Brazilian Safety Agency – ABS; and the Eloy Chaves Medal, from the Brazilian Association of Electricity Concessionaires – ABCE, for its top ranking in the generation category. Semesa was awarded Best Company in the Electric Energy Sector by Valor Econômico newspaper, notably for Value Creation and the Activity Margins and Profitability indicators. CPFL Centrais Elétricas also recorded its seventh consecutive year without a workplace accident.

investments

Consistent with its strategy of synergistic growth to consolidate its market share, in 2006 CPFL Geração invested in expansion and improvements to its electricity generating complex through participation in the construction of new generation projects and the upgrading of its PCHs. Within this remit, the company purchased a further stake of 11% in the Foz do Chapecó project, increasing its share from 40% to 51%.

In 2006, construction work was concluded at UHE Barra Grande while work continued at UHEs Campos Novos, Castro Alves and 14 de Julho. The PCH Upgrading Program also advanced, with construction ongoing at PCH Gavião Peixoto and commencing at Capão Preto and Chibarro PCHs. Another four PCHs (Andorinhas, Guaporé, Buritis and Três Saltos) are due for inclusion in this program between 2007 and 2008, in addition to studies for restoring operations at the

Cariobinha plant. The following table summarizes capital expenditure in 2006 in the Generation area:

progress of construction work

At the end of 2006, projects under construction were at the following stages:

UHE Campos Novos

The Campos Novos Plant is located on the Canoas River in Santa Catarina state and has installed capacity and total assured energy of 880 MW and 377.9 average MW, respectively. Of a total investment of R\$ 1.6 billion, CPFL Geração's share in the project stands at 48.72%. Construction work at the plant commenced on August 1st 2001. As of December 31 2006, 99.5% of the total project had been completed, as follows: Civil Construction – 99.4%; Equipment Supply – 99.8%; Electric and Mechanical Installation – 98.5% and Environmental Engineering Work – 99.9%. The start-up of commercial operations at this plant has been delayed due to problems in one of the diversion tunnels. This event, which was widely publicized in June 2006, culminated in the need to empty the reservoir. In November 2006, the Company began refilling the reservoir, scheduled to achieve Minimum Operating Level on January 31 2007 and begin commercial operations in February 2007. CPFL Geração's share of the plant's energy is already committed under power pur-

Summary of Investments in 2006

Project	Capital Investment (R\$ million)
Ceran Complex	195
UHE Barra Grande	5
UHE Campos Novos	31
UHE Foz do Chapecó	11
Upgrading of PCHs	22
Other Investments	2
Total	266

UHE Castro Alves | 130 MW | Rio Grande do Sul state | Start-up of operations – Dec/07 (Forecast) above

UHE 14 de Julho | 100 MW | Rio Grande do Sul state | Start-up of operations – Jul/08 (Forecast) below

chase contracts approved by Aneel and signed with the CPFL Paulista and CPFL Piratininga distributors and with the Group's power commercialization company, CPFL Brasil.

Ceran Complex

The Ceran Complex consists of three hydro plants under construction, located on the Rio das Antas in Rio Grande do Sul state: UHE Monte Claro plant (in operation since December 2004), with 130 MW of installed capacity and 59 average MW of assured energy; UHE Castro Alves with 130

MW of installed capacity and 64 average MW of assured energy; and UHE 14 de Julho plant, with 100 MW of installed capacity and 50 average MW of assured energy. Construction work at the Monte Claro plant started on April 1 2002, at the Castro Alves plant on April 1 2004 and work at the 14 de Julho plant on October 1 2004. As of December 31 2006, 68.8% of total work at the Ceran Complex had been concluded, as follows: Civil Construction – 74.1%; Equipment Supply – 64.0%; Electrical and Mechanical Installation – 38.0% and Environmental Engineering Work – 81.0%. The start-up of commercial operations at UHE Castro Alves is forecast for December 2007 and at UHE 14 de Julho for the second half of 2008. CPFL's allocation of energy from the three plants is already committed under power purchase contracts approved by Aneel with distribution companies CPFL Paulista and CPFL Piratininga and with CPFL Brasil.

UHE Foz do Chapecó

Located on the Uruguai River, on the border between the states of Santa Catarina and Rio Grande do Sul, this Plant will have an installed capacity and total assured energy of 855 MW and 432 average MW, respectively. Total planned investment is R\$ 2.2 billion and CPFL's stake in the venture is 51%. Construction began in December 2006, and commercial operations are due to start in 2010. CPFL



Geração's initial share in this project was 40%, of which the corresponding share of energy is already committed under power purchase contracts approved by Aneel and signed with distribution companies CPFL Paulista and CPFL Piratininga. In August 2006, CPFL purchased a further 11% interest in the project and the additional energy proportional to this further interest will be negotiated at the Aneel New Energy Auction in 2007.

CPFL Centrais Elétricas' PCHs

At the end of 2006, three small hydro stations, all located in the state of São Paulo, were undergoing construction work:

- **PCH Gavião Peixoto** – This plant is located on the Jacaré Guaçu River in São Paulo state and is being upgraded with its installed energy and total assured energy to be increased to 4.8 MW and 3.82 average MW respectively. Total planned investment is R\$ 20 million and work at the plant began on August 31 2005. By the end of 2006, 85.7% of the total work had been completed, as follows: Civil Construction – 90.5%; Equipment Supply – 90%; Electrical and Mechanical Installation – 40.0%; and Environmental Engineering Work – 90.5%. The first generating unit is expected to be commissioned in July 2007.
- **PCH Capão Preto** – Located on the Quilombo River and Ribeirão dos Negros, this plant is being upgra-

UHE Foz do Chapecó | 855 MW | Santa Catarina and Rio Grande do Sul states | Start-up of Operations – Aug/2010 (Forecast)



ded with its installed energy and total assured energy due to increase to 4.3 MW and 2.28 average MW, respectively. Total planned investment is R\$ 11 million. Construction work began in October 2006 and commercial start-up is due in December 2007.

- **PCH Chibarro** – Located on the Chibarro River, this plant is being upgraded with its installed energy and total assured energy planned to increase to 2.6 MW and 1.69 average MW respectively. Total planned investment is R\$ 9 million. Construction work began in October 2006 and commercial start-up is due in December 2007.

management of socio-economic impacts in electricity generation

Actions to mitigate and compensate the social impacts caused by the installation of new hydroelectric plants are monitored by official bodies through the environmental licensing process. These environmental initiatives



are grouped into programs and together make up the Basic Environmental Project for each plant. We highlight:

a) CERAN Complex

- Construction of two bridges across the Rio das Antas near the Castro Alves and 14 de Julho plants. These service bridges are for supporting the plants' construction activities. On completion of construction work, the bridges will be turned over to the community under the responsibility of the relevant municipalities.
- In 2006, 10,942 seedlings, native to the region, were donated to schools, local governments and rural producers.

b) Baesa – UHE Barra Grande

- Baesa has promoted improvements to infrastructure in the municipalities in the Barra Grande plant's sphere of influence, with the refurbishment and construction of schools, health clinics, highways and numerous installations, among other activities.
- Highlights of 2006 included the Technical and Social Assistance initiative which served 430 families benefited by the Rural Population Resettlement Program. Among the results are the enrollment of all children of school age; supervision of these children through the Family Health Program – PSF; the donation of agricultural machinery and equipment to local governments covering resettlement areas; the

social inclusion of resettled families in their new communities; diversification of agricultural production (milk, honey, red berries, handicrafts, ecological-based agriculture, etc.) and the inclusion of a domestic vegetable garden and orchard in all resettled families' properties to provide basic food requirements and increased income.

- Total investments in socio-environmental activities at UHE Barra Grande plant since its installation to December 2006, amounted R\$ 197 million (R\$ 27 million in 2006).

c) Enercan – Campos Novos hydro station

- Launch of the FDR – Rural Development Fund, in partnership with Sebrae/SC and FUNDAGRO, to which Enercan has earmarked a budget of R\$ 3 million for financing projects to add value to the agricultural production of neighboring communities. Among the projects supported by the Fund are the rearing of dairy cattle, the establishment of a meat packing plant, a milk storage facility, aviaries, apiaries, handicrafts – a total of 16 projects with 230 participants.
- Preparation of studies on Economic Potential and Investment Opportunities in the municipalities of Campos Novos, Celso Ramos, Anita Garibaldi and Abdon Batista.
- Refurbishment of churches and community centers in areas surrounding the reservoir.

- Partnership with the Federal Savings Bank (Caixa Econômica Federal) for the construction of 76 houses for descendants of quilombos – communities of runaway slaves.
- Construction of a paved state highway of 23 km to link the municipalities of Celso Ramos and Campos Novos and passing along the crest of the Campos Novos plant dam – Enercan is meeting 85% of the costs, and the state government is paying for the remainder.
- Asphaltting and draining of 4.4 km of highway linking Abdon Batista in Santa Catarina state to the community of Bom Jesus, and a further 6.6 km of rectification, draining and grit surfacing of the highway linking the communities of Bom Jesus and Santa Catarina in Abdon Batista in Santa Catarina state.
- Water supply to numerous communities surrounding the reservoir, not affected by construction works.
- Construction of six concrete bridges and crossings to integrate the municipal road system.
- Relocation of two central community points consisting of a church, community hall, cemetery, soccer playing field and others.
- Improvement to ferry service: replacement of one ferry and purchase of two tugboats.
- Transfer of R\$ 750 thousand to Campos Novos for improvements to the municipal health system, including upgrading of the Municipal Hospital's pediatrics department, and transfer of R\$ 60 thousand to the municipality of Celso Ramos for purchasing a dedicated vehicle for the transportation of patients and expanding the municipality's healthcare clinic.
- Sponsorship of traditional festivals in the four neighboring municipalities, such as: ExpoCampos (Campos Novos); the Sugarcane Festival (Celso Ramos); the Small Farmer and Driver Festival (Celso Ramos), and others.
- Refurbishment of the Campos Novos Museum and construction of a Cultural Center in partnership with the Local Government.
- Refurbishment and modernization of the "Casas de Memória" in the municipalities of Celso Ramos, Abdon Batista and Anita Garibaldi.
- Restoration of the four municipalities' historical and cultural heritage.
- Publishing of a book on the region's history and its interaction with the Plant.
- Acquisition of 1,150 ha of land for the creation of the Rio Canoas State Reserve, in compliance with CONAMA Resolution 02/1996.
- Enercan has also signed an agreement with the Ministry of Mines and Energy, FATMA – the State Environmental Protection Agency and MAB – the Movement for People Affected by Dams for indemnifying families indirectly affected by installation of the project. Payments to the families amounted to R\$ 5,999.0 thousand.



d) UHE Foz do Chapecó

UHE Foz do Chapecó's Installation License was extended by four years on December 5 2006 after proving compliance with socio-environmental undertakings agreed with IBAMA and stipulated in the PBA – Basic Environmental Project, investments amounting to R\$ 17.4 million.

Among the activities under the Project:

- Term of Agreement reached with the 13 municipalities situated in the area directly affected by the installation, which determines lines of action for population resettlement services and activities.
- Continuation of the Social Communication Program.
- Purchase of 67 properties located within the works site totaling 541,000 hectares.

e) Semesa – UHE Serra da Mesa

Semesa became a member of the Development Fund for municipalities of the north-northeast region of the state of Goiás, created from an InterAmerican Development Bank – BID proposal, and run by the Ministry of Mines and Energy with the participation of the Brazilian Micro and Small Companies Support Service of the State of Goiás – SEBRAE-GO, and other local companies.

In 2006, Semesa and Furnas also continued with the Permanent Environmental Exhibition Center's activities, installed at the plant itself for creating a line of communication between the company and the population of the region.

f) CPFL Centrais Elétricas

A joint project has been started with the CRCA – Cooperation and Association Reference Center to support the work of the Dom Bosco Scavengers' Cooperative. The Center supports local cooperative groups active in the garbage recycling segment and promotes ideas for economic solidarity projects. The CRCA currently supports eight local cooperative groups with a total of 117 members.

The Dom Bosco Scavengers' Cooperative has been included as part of Campinas' (in São Paulo state) municipal authorities' Selective Garbage Collection program. As a result, the cooperative's 25 members no longer conduct their activities in the street but now take delivery of material under this Program and from other large companies which generate recyclable waste.

The project encompasses the following activities, which will be developed over two years at a total cost of more than R\$ 382 thousand:

- Construction of a warehouse and purchase of equipment and furniture for the Cooperative.
- Environmental restoration and landscaping of the area where the Cooperative will be installed, thus making the center a benchmark for socio-environmental intervention.

Again in 2006, an environmental diagnosis was performed on the area surrounding one of the reservoirs of PCH Capão Preto to verify the potential for the sustainable use of this land. This

study will provide the necessary support to the municipal government of São Carlos (interior of São Paulo state) for developing a community leisure center.

electricity generation and biodiversity

One of the major ways in which hydro-electric power generation installations impact biodiversity is through the flooding of areas necessary to the formation of reservoirs, and the alteration of aquatic environments.

Electric energy installations using hydro potential are by nature neces-

sarily installed in Areas of Permanent Protection (APP), but in the case of CPFL's plants and PCHs they affect neither federal, state nor municipal Conservation Units.

The construction and operation of electric energy generation projects that interfere in habitats rich in biodiversity adhere to the relevant legal requirements. Environmental procedures for mitigating and compensating impacts are monitored by either federal or state agencies during the environmental licensing process.



UHE Monte Claro | 130 MW | Rio Grande do Sul state | Start-up of Operations – Dec/04

Facilities with an installed capacity/ flooded area ratio

above 10 MW/km² are eligible for carbon credits.

GRI
EN26

GRI
EN11

Areas of primary or secondary vegetation affected by the flooding of land for reservoirs at each project

Plant	UHE Barra Grande	UHE Campos Novos	UHE Monte Claro	UHE 14 de Julho	UHE Castro Alves
Flooded Area (ha)	8,322.91	2,556.54	72.40	281.49	311.10
Area with primary vegetation	2,077.45	–	–	–	–
Area with secondary vegetation at medium or advanced-stage regeneration	4,573.89	989.01	12.70	5.20	233.13
Ratio of Installed Capacity/ Reservoir Area (MW/Km ²)	7.3	26.7	92.9	20.0	26.0

Plant	Total Land Area (ha)	Total Flooded Area (ha)	Constructed Area (ha)	Constructed Area / Total Area (%)
CPFL Geração (PCHs)	2,386.4	1,857.0	3.9	0.17%
UHE Campos Novos	5,051.2	2,556.5	15.0	0.30%
UHE Barra Grande	12,577.4	8,322.9	18.0	0.14%
UHE Monte Claro	489.4	72.4	8.9	1.82%
UHE 14 de Julho	950.8	281.5	In construction	–
UHE Castro Alves	1,079.9	311.1	In construction	–
UHE Serra da Mesa	175,507.0	175,476.3	30.7	0.02%



environmental precautions in electricity generation

In hydroelectric energy generation, the construction of dams and the resulting formation of reservoirs can alter a region's physical, biological and socio-economic environment in numerous ways. This requires entrepreneurs to adopt a series of activities to mitigate and compensate for these impacts.

The impacts resulting from the construction and operation of hydroelectric plants are generally in proportion to the scale of the undertaking.

In the case of small hydro power plants, the area flooded for reservoirs is relatively small and the impact on local biodiversity is insignificant. For large-scale projects, however, the flooding of forest areas

for reservoir formation can lead to the removal of whole habitats, with an impact on the diversity of the region's fauna and flora.



protected and restored habitats

Among the Environmental Programs operated at power generation projects in which CPFL Energia has a stake, numerous actions focus on biodiversity, particularly the programs for monitoring and conservation of flora and fauna, reforestation programs for areas along reservoir margins and investments in the planning and implementation of conservation units. We highlight the following biodiversity projects:

- a) At the Ceran Complex, 18.10 hectares have been reforested with the planting of 34 thousand native seedlings in the Area of Permanent Preservation of the UHE Monte Claro reservoir. Some 61.56 hectares of land unavoidably spoiled during plant construction were also restored.
- b) At UHE Barra Grande, the Flora Monitoring and Rescue Program has led to the collection of 20 million seeds, the production of more than 680 thousand seedlings and around 70 native forest species, plus the recovery and relocation of species of special interest to conservation. The Waterside Vegetation Recovery Program has already been responsible for planting over 350 thousand



Social Programs at the New Projects |
UHE Barra Grande | Santa Catarina and Rio Grande do Sul

seedlings of native species over the period from 2004 to 2006.

c) At UHE Campos Novos, the Areas of Permanent Preservation have been replanted with 206 thousand native seedlings, including threatened species such as the Araucária (Paraná Pine) in addition to the constitution of a Legal Reserve Area of some 540 hectares.

d) At UHE Serra da Mesa in the state of Goiás, funds for environmental compensation have been used to establish two state reserves, Terra Ronca and Pirineus. As of December 2006, over R\$ 10 million had been invested in the reserves.

protection of threatened species

CPFL Energia's hydro projects contribute technically and financially to the conservation and preservation of Brazilian species of flora and fauna threatened with extinction:

- At the Ceran Complex seedling nursery, part of the Araucária State Program, Paraná Pine (*Araucária angustifolia* – a threatened species) seedlings are produced. Studies are also being conducted on the distribution and reproductive pattern of three endemic species of flora: *Callisthene inun-data*, *Lafoensia nummularifolia* and *Dickia* sp.
- Also at the Ceran Complex, the Fauna Monitoring Program studies the distribution and natural occurrence of the bird species *Serpophaga nigricans* (Sooty Tyrannulet).
- In line with the conditions of the UHE Barra Grande's operating license conditions, the Reophyte (*Dyckia distachya*) Relocation and Monitoring Program is underway in association with EMBRAPA/CENARGEN, with areas selected for the relocation and classification of rescued species.



Threatened Species

Project	Fauna	Flora
UHE Campos Novos (1)	6 mammals (3 families) 1 bird (1 family)	2 species (2 families)
UHE Barra Grande	13 mammals (9 families) 1 amphibian (1 family) 2 reptiles (1 family) 15 birds (9 families)	1 species (1 family)
Complexo Ceran	3 mammals (2 families) 2 birds (2 families)	6 species (4 families)

⁽¹⁾ Fauna and flora species found on the Official List of Brazilian Species Threatened with Extinction (IBAMA, 1992, 2003).

Note: 124 species are listed on the IUCN 2006 Red List (IUCN 2006. 2006 IUCN Red List of Threatened Species. <www.iucnredlist.org>. Downloaded on 23 February 2007.)

The program for upgrading and modernizing our small hydroelectric stations – PCHs permits a reduction in emissions thanks to an increased 10 MW of power production with no additional environmental impact. Three of the PCHs (Esmeril, Dourados and São Joaquim) were upgraded between 2001 and 2003. Construction work is underway at Gavião Peixoto, Capão Preto and Chibarro PCHs.



Clean Development Mechanisms - CDMs: PCH Upgrading and Carbon Credits

CPFL Energia Group companies run projects which contribute to reductions in greenhouse gas emissions and minimize environmental impacts. One of these is the Upgrading and Automation Program for small hydroelectric power plants – PCHs, which increases electricity generation capacity without additional environmental side effects. This type of upgrading helps avoid the need to generate energy from other sources such as thermoe-

lectric plants, which release pollutants into the atmosphere.

The Program has been implemented gradually and has allowed the Company to receive carbon credits. The project was registered on December 15 2006 by the United Nations Framework Convention on Climate Change – UNFCCC. The volume of emissions reductions to be traded under this project is 112 thousand metric tonnes of CO₂ by 2012. The program has been extended to Ceran, where one of the hydroelectric plants – UHE Monte Claro with a 130 MW installed capacity – has an impressive installed capacity/flooded area ratio. This allowed the company to submit a project to the Ministry of Science and Technology requesting the carbon credits generated, a favorable response being received in December 2006. UHEs Castro Alves and 14 de Julho, part of the same complex, are also to be included in this project as well as UHE Campos Novos. The UHE Monte Claro CDM Project at the Ceran Complex will contribute with an emissions reduction of 850 thousand metric tonnes of CO₂ and other GHGs.

PCH Gavião Peixoto | 4,8 MW | State of São Paulo | Start-up of Operations (Upgrading) – Jun/07



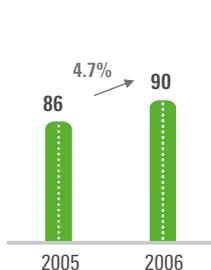


profile of the electricity commercialization business

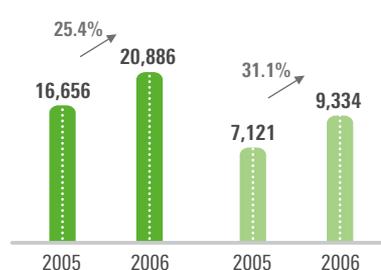
Active in the electricity commercialization sector on a nationwide scale, CPFL Brasil trades electric energy in the unregulated and regulated markets as well as providing value added services. Its competitive edge in the market lies in its accumulated experience and market knowledge, which it uses to serve a broad range of client needs in distinct areas, such as the planning and installation of energy self-generation systems, substations, and transmission and distribution lines, energy management consultancy, and others.

In 2006 total energy sales were 20,886 GWh generating gross operating revenue of R\$ 1,831 million, equivalent to an increase of 25% for energy billings and 29% for revenue over 2005. CPFL Brasil's sales on the unregulated market rose 31% in 2006, reaching a total of 9,334 GWh.

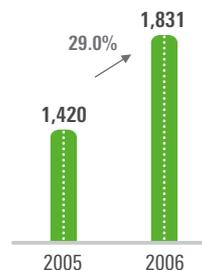
Unregulated Market Customers
(number)



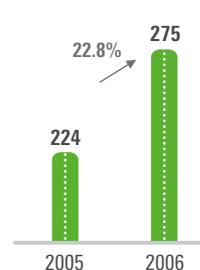
Growth in Energy Sales
(GWh)



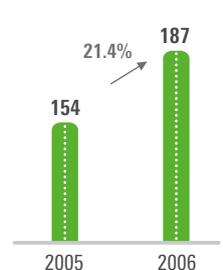
Gross Operating Revenue
(R\$ million)



EBITDA
(R\$ million)



Net Income
(R\$ million)



■ Total
 ■ Unregulated Market Sales

The Company ended the year with a portfolio of 90 unregulated market clients and retained its leading sales position among commercializing companies, with a market share of 27%.

performance of the commercialization segment

CPFL reported significant growth in 2006 and as a result accounted for 27% of all electric energy traded by commercialization companies in the domestic market.

This scale gives the company significant negotiating power with wholesale market agents, providing an important competitive differential and ranking the company as the principal purchaser of energy from competitive sources, PPT thermoelectric plants, and from biomass.

Sales to the unregulated market increased 31.1% over the year and reached 9,334 GWh of energy sold to unregulated market customers and through bilateral contracts (7,121 GWh in 2005). In the industrial segment of the unregulated market, the main sectors served by CPFL Brasil were metallurgical – 24%, chemical – 19% and textiles – 9%.

Operating revenue for the commercialization segment reached R\$ 1,831 million in 2006, a 29.0% increase on the previous year. Among other factors, this is a reflection of the migration of regulated market clients to the unregulated market and an increase in consumption of CPFL Brasil's unregulated market client base.

This sales increase led to an adjusted Ebitda of R\$ 275 million, gro-

wth of 22.8% relative to performance in 2005, and net income of R\$ 187 million, 21.4% more than for the previous year.

operational excellence

CPFL seeks to maintain this good performance and monitor significant short-term oscillations in energy prices by using a planning team which crystallizes market expectations, builds models and projections of the Settlement Price Differences (PLD) and also assesses trends and possible commercialization opportunities.

These analyses and market growth predictions (also calculated using advanced projection techniques) are used in weekly meetings that fall within the remit of the Chief Energy Management Officer for discussing and deciding on purchase and sales strategies on a monthly and multi-year basis, in line with the company's strategic planning. Using this strategy the Company is able to mitigate business risks and seek the best possible margin in energy purchases and sales.

high performance consultancy

At the end of 2006, CPFL Brasil had a portfolio of concluded work and work in progress that included sixteen 88 and 138 KV substations, totaling 345 MVA of installed transformer capacity. The Company also has a customer

portfolio for providing consultancy services in energy management and participation in regulated market energy auctions.

In addition to energy purchases and sales, CPFL Brasil also offers a range of value-added services. These services include: the planning and construction of self-generation systems, substations, and transmission and distribution lines, representation at auctions, CCEE representation, energy contract optimization, asset management, co-generation projects, energy efficiency projects, online monitoring, consultancy and training.

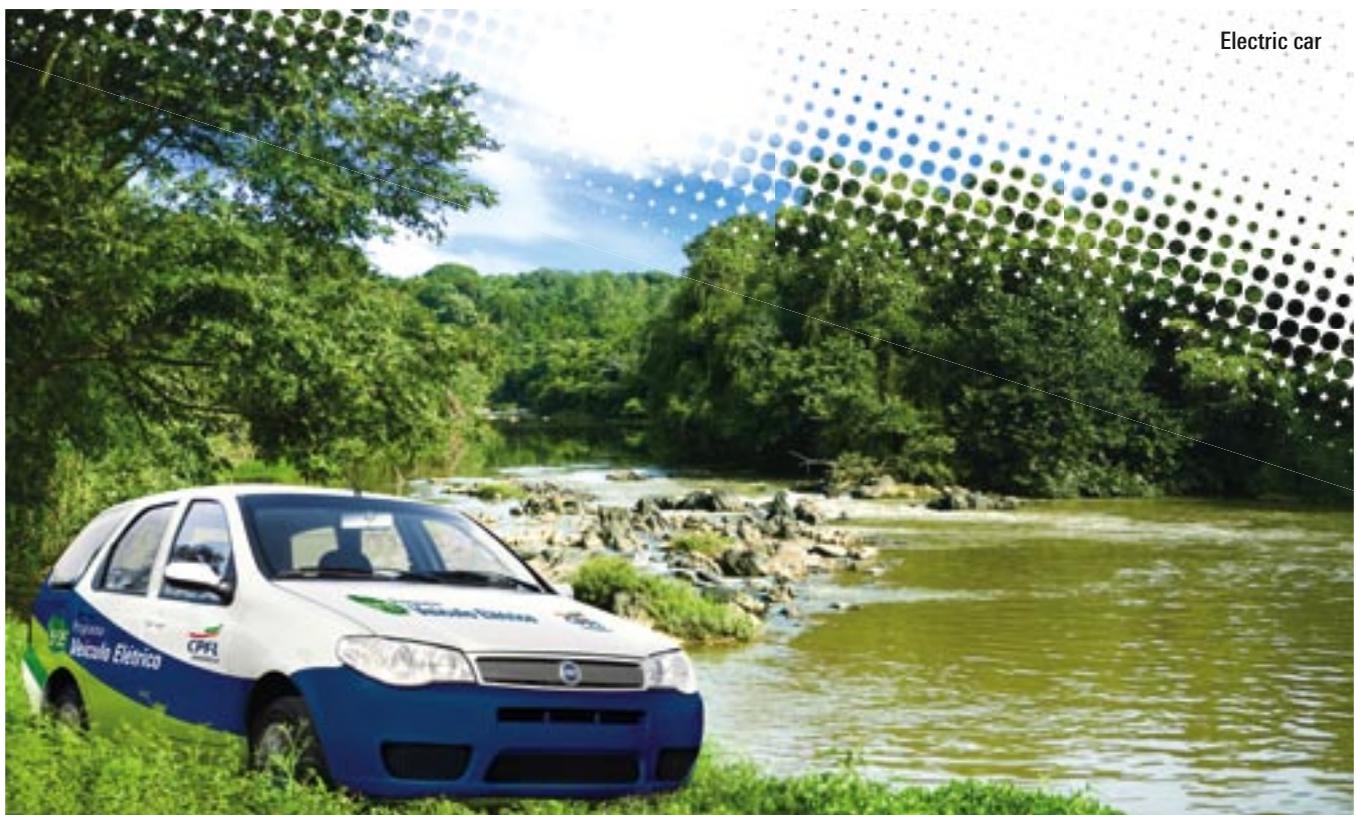
The Company develops a personalized plan for each client which makes use of all technology developed and currently used by CPFL Brasil. The scope of work, however, goes beyond the technical arena and includes legal, regulatory and financial elements,

where CPFL Brasil can offer its expertise to clients. The results of these efforts are evident in the 2006 customer survey which shows CPFL Brasil's client approval rating at 84%.

electric car

A pilot project is being undertaken on electric battery-operated and hybrid vehicles with fleet tests and assessment of emissions reductions, with a view to extending their use to the entire CPFL fleet. The company is aiming to identify market niches for electric vehicles, which could represent new business potential.

A prototype electric vehicle assembled in Switzerland has been purchased, and a further three are being acquired. The Palio electric prototype is the result of a partnership between Fiat, KWO, Itaipu Binacional and CPFL.



Electric car

Time

We fell over backwards on the day a television show produced by a famous doctor came searching for Alfredo. One of us must have recommended him.

— We want to use him as an example of someone living well at 40.

— You've made a big mistake! I'm not living well at 40. Nothing of the sort!

— A mistake?

— I'm 73. But you have been most charming!

That was a week ago. It has made us realize that life can be changed.



5. Economic and Financial Performance

Increases in power production and sales, financial discipline, synergistic growth and gains in efficiency and productivity contributed to CPFL Energia achieving the best results in its history.

In 2006, CPFL Energia reported its best results ever. The Company surpassed its historic figures for 2005, reporting new records for gross operating revenue, net operating revenue, EBITDA and net income. This performance reflects the efforts to constantly improve methods, processes and equipment, investments in new technologies, in the training of its professionals and in the quest for excellence in the provision of services.

These factors together with rigid financial discipline, responsible management of inputs and the commissioning of new plants all contributed to the Company's stellar results for the year.

The comments on economic and financial performance and operating results should be read in conjunction with the Audited Financial Statements and the respective Explanatory Notes. More detailed information on the financial and balance sheet variations can be found on the website www.cpfl.com.br, the website of the Brazilian Securities and Exchange Commission – www.cvm.gov.br, and the Financial Statements and Explanatory Notes on the CD attached to this Report.

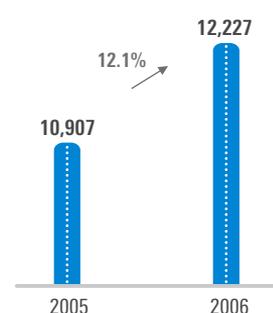
gross operating revenue

CPFL Energia reported gross operating revenue of R\$ 12,227 million in 2006, an increase of 12.1% compared with 2005. Several factors contributed to this result:

- Increase of 7.2% in the total sales of energy which reflects the acquisition of a 32.69% stake in RGE.
- Distributors' tariff readjustments,
- Increase of 46.4% in revenue for the use of the distribution system (TUSD).

Growth in gross operating revenue was partially offset by the termination of the collection of emergency energy charges by Aneel (R\$ 226 million).

Gross Operating Revenue
(R\$ millions)



cost of power

The total cost of energy was R\$ 4.2 billion in 2006 compared with the cost of R\$ 3.9 billion recorded in the previous year, an increase of 6.6%.

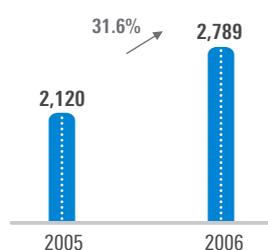
power purchased for resale

On a consolidated basis, the cost of electricity bought for resale reached R\$ 3.4 billion in 2006. This is equivalent to an increase of 7.7% compared with R\$ 3.2 billion posted in 2005, reflecting principally the increase of 6.4% in the volume of energy acquired.

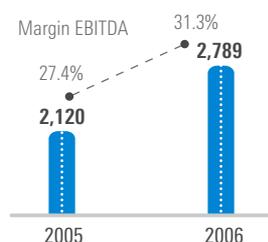
charges for use of the distribution network

Charges for the use of the distribution system and of exclusive connections and sharing with other entities, as well as the prorating of the charges for using the system's services, amounted to R\$ 774.1 million in 2006, equal to year on year growth of 2.2%.

EBITDA
(R\$ millions)



EBITDA Margin Growth
(R\$ million)



operating costs and expenses

In 2006, total operating costs and expenses reached R\$ 2.3 billion, 12.9% higher than reported in 2005. Payroll costs registered an increase of 25.7%, increasing from R\$ 315.7 million to R\$ 396.9 million at the end of the fiscal year. Among other factors, these expenses arose due to the commissioning of UHE Barra Grande (Baesa) and CPFL Sul Centrais Elétricas, and the incorporation of the costs of RGE in light of the acquisition of the 32.69% stake in the company.

The Fuel Consumption Account (CCC) and the Energy Development Account (CDE) increased by 41.2% and 35.7%, respectively (R\$ 259.2 million). It is important to point out that these are non-manageable expenses since it is Aneel which sets the charges and establishes the percentage pass-through to the tariff.

operating cash generation – ebitda

The operating cash generation measured by EBITDA reached R\$ 2,789 million in 2006, an increase of 31.6% (R\$ 669 million) compared with 2005.

This result is mainly due to the 15.2% increase in net revenue (R\$ 1,175 million), which exceeds the increase of 6.6% in energy costs (R\$ 261 million), and an increase of 20.4% in operating expenses (R\$ 335 million), excluding expenditures with the Complementary Private Pension Plan, Depreciation and Amortization.

EBITDA is calculated as the sum of net income, taxes, financial income/expenses, depreciation/amortization and pension fund contributions, in addition to adjustments with respect to the extraordinary item.

The EBITDA margin at the close of 2006 was 31.3% compared with 27.4% in 2005.

Reconciliation of Net Income and EBITDA – R\$ millions

	2006	2005	06/05
Net Income for the Period	1,404.1	1,021.3	37.48%
Complementary Private Pension Plan	(7.7)	89.6	-108.60%
Depreciation and Amortization	336.3	310.8	8.21%
Financial Income (Expense)	289.3	519.8	-44.34%
Equity Income	–	–	–
Social Contribution Tax	187.8	92.4	103.33%
Income Tax	546.5	244.0	123.99%
Extraordinary Item	32.6	32.6	0.00%
Reversal of Interest on Equity Capital	–	(190.6)	-100.00%
EBITDA	2,788.9	2,119.8	31.56%

financial result

CPFL Energia ended 2006 by reporting an increase of R\$ 230 million in its net financial result, moving from a negative R\$ 520 million in 2005 to negative R\$ 289 million in 2006. The following factors explain this change:

- Financial revenue: an increase of 10.5% (R\$ 61 million), growing from R\$ 577 million in 2005 to R\$

638 million in 2006, due mainly to an expanded collection base for PIS/Cofins over 2005, which resulted in an increase in these charges of R\$ 122 million.

- Financial expenses: a reduction of 15.5% (R\$ 170 million), the result of the reduction in the cost of Company debt from 13.9% p.a. to 13.4% p.a., among other factors.

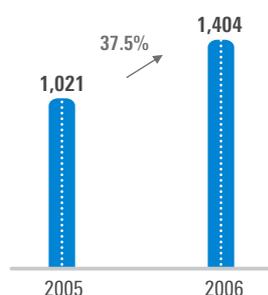
Financial Result (R\$ millions)

	2006	2005	2004	06/05	05/04
Financial Revenue	638	577	432	10.5%	33.6%
Financial Expenses	(927)	(1,097)	(1,116)	15.5%	1.7%
Net Financial Result	(290)	(520)	(684)	44.2%	24.0%

Center of Commercial Operations | Head Office | Campinas | São Paulo state



Net Income (R\$ million)



net income

CPFL Energia reported a 2006 net income of R\$ 1,404 million, growth of 37.5% compared with R\$ 1,021 million reported in the preceding year. With this result, net earnings per share were R\$ 2.93, a 48.7% improvement over the result for 2005 of R\$ 1.97 per share.

This result stems largely from the following factors: the increase of 31.6% in EBITDA (which reached R\$ 669 million), the reduction in Complementary Pension Plan-related expenditure (R\$ 97 million) and the increase of R\$ 50 million in the non-operating result.

consolidated cash flow analysis

The Company's closing cash balance was R\$ 540 million, a reduction

of 20.4% (R\$ 138 million) compared to the previous year.

These factors contributed to the variation in cash flow for 2006:

- the acquisition of corporate stakes totaling R\$ 593 million, highlights being participations of 32.7% in RGE and 11% in UHE Foz do Chapecó and 99.99% in Santa Cruz;
- the purchase of fixed assets amounting to R\$ 797 million (covered in the Capital Expenditures section);
- the amortization of principal amounts of loans, financing and debentures (exceeding total third party funding by R\$ 96 million); and
- dividend payments for the second semester of 2005 and the first semester of 2006, totaling R\$ 1,090 million.

Consolidated Cash Flow Analysis (R\$ million)

	2006	2005	2004	06/05	05/04
Initial Balance	679	500	375	179	125
Operating Cash Flow	2,298	1,588	1,084	710	504
Total Net Capex	(1,250)	(744)	(555)	(506)	(189)
Net Financial Flows	(1,186)	(665)	(86)	(521)	(579)
Increase in Cash for the Period	(138)	179	443	(317)	(264)
Closing Balance	540	679	818	(138)	(139)

debt

CPFL Energia's total debt at the end of 2006 stood at R\$ 5,168.4 million, a year on year increase of 3.8%. Among other factors, this was due to the net effects of the incorporation of a tranche of RGE's debt following the additional acquisition of 32.7% of the company's capital.

Despite the debt trend in nominal terms, the cost of debt declined from 13.9% p.a. in 2005 to 13.4% p.a. in 2006 due to the fall in CDI (Inter-Bank Deposit Rate) and the TJLP (Long Term Interest Rate) during the year, partially offset by the increase in the IGP-M/IGP-DI. Other factors contributing to debt movement during the year were the repayment of the Floating Rate Notes and the debentures of CPFL Paulista, the debenture issues by CPFL Piratininga and CPFL Paulista, the contracting of debt indexed to the

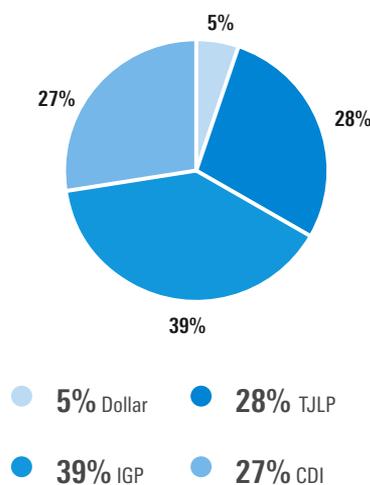
CDI by RGE, and the drawing down of BNDES lines for CPFL Paulista, CPFL Piratininga and generation projects.

The increase in financial debt also increased the Company's net adjusted debt, which totaled R\$ 4,415.8 million, 19.4% higher than 2005. Net adjusted debt calculated as total debt (loans and financing and derivatives plus complementary pension fund debt), excluding regulatory assets/CVA and cash/cash equivalents/marketable securities. In spite of the increase in net adjusted debt, CPFL Energia reported a significant improvement in the Net Adjusted Debt/EBITDA ratio, falling from 1.74 to 1.56 times.

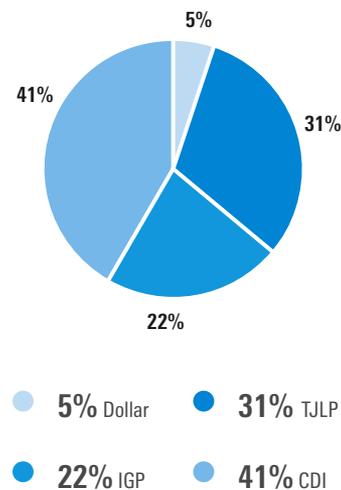
In 2006, CPFL Energia's debt profile continued to improve, a trend that has been constant since 2004, when the Company began taking steps to restructure its finan-

Breakdown of debt

Dec/05



Dec/06



cial liabilities. The participation of debt indexed to the CDI has grown (from 27% to 41%) and to the TJLP (from 28% to 31%), while debt linked to the IGP-M/IGP-DI has di-

minished (from 39% to 22%). Of CPFL Energia's total financial debt at the end of 2006, 82.3% (R\$ 4.3 billion) was made up of long-term maturities.

Wealth generation and distribution



Generation and Distribution of Wealth (R\$ thousands)

Generation of Wealth	2006	2005	06/05 %
A. Gross Operating Revenue	12,193,565	10,750,999	13.42
B. Goods and Services acquired from third parties	(5,174,280)	(4,825,737)	7.22
C. Gross Value Added (B-A)	7,019,285	5,925,262	18.46
D. Retentions	(482,479)	(431,494)	11.82
E. Net Value Added (C-D)	6,536,806	5,493,768	18.99
F. Transfers	528,801	554,347	(4.61)
Equity Income Result	—	—	—
Corporate Participations Result	(173)	(40,371)	(99.57)
Financial Income	528,974	594,718	(11.05)
G. Total Value Added to be Distributed (E+F)	7,065,607	6,048,115	16.82
Distribution by Stakeholders	2006	2005	06/05 %
Government	4,624,713	3,903,307	18.48
Taxes/Duties/Contributions	3,527,965	2,890,843	22.04
ICMS	2,166,204	1,948,324	11.18
PIS/PASEP	69,781	109,904	(36.51)
COFINS	548,183	500,216	9.59
ISS	662	902	(26.61)
IRPJ payable for the fiscal year	477,773	178,536	167.61
CSSL payable for the fiscal year	265,362	152,961	73.48
Social Charges	65,330	61,163	6.81
Sectoral Charges	944,982	873,579	8.17
Others	86,436	77,722	11.21
Employees	352,733	387,220	(8.91)
Financing Institutions	684,065	736,310	(7.10)
Shareholders	1,333,891	917,985	45.31
Retained	70,205	103,293	(32.03)
Total	7,065,607	6,048,115	16.82



Night View | Campinas | São Paulo state

SOS Planet Earth

More frequent droughts,

intense heat waves,

raised sea levels

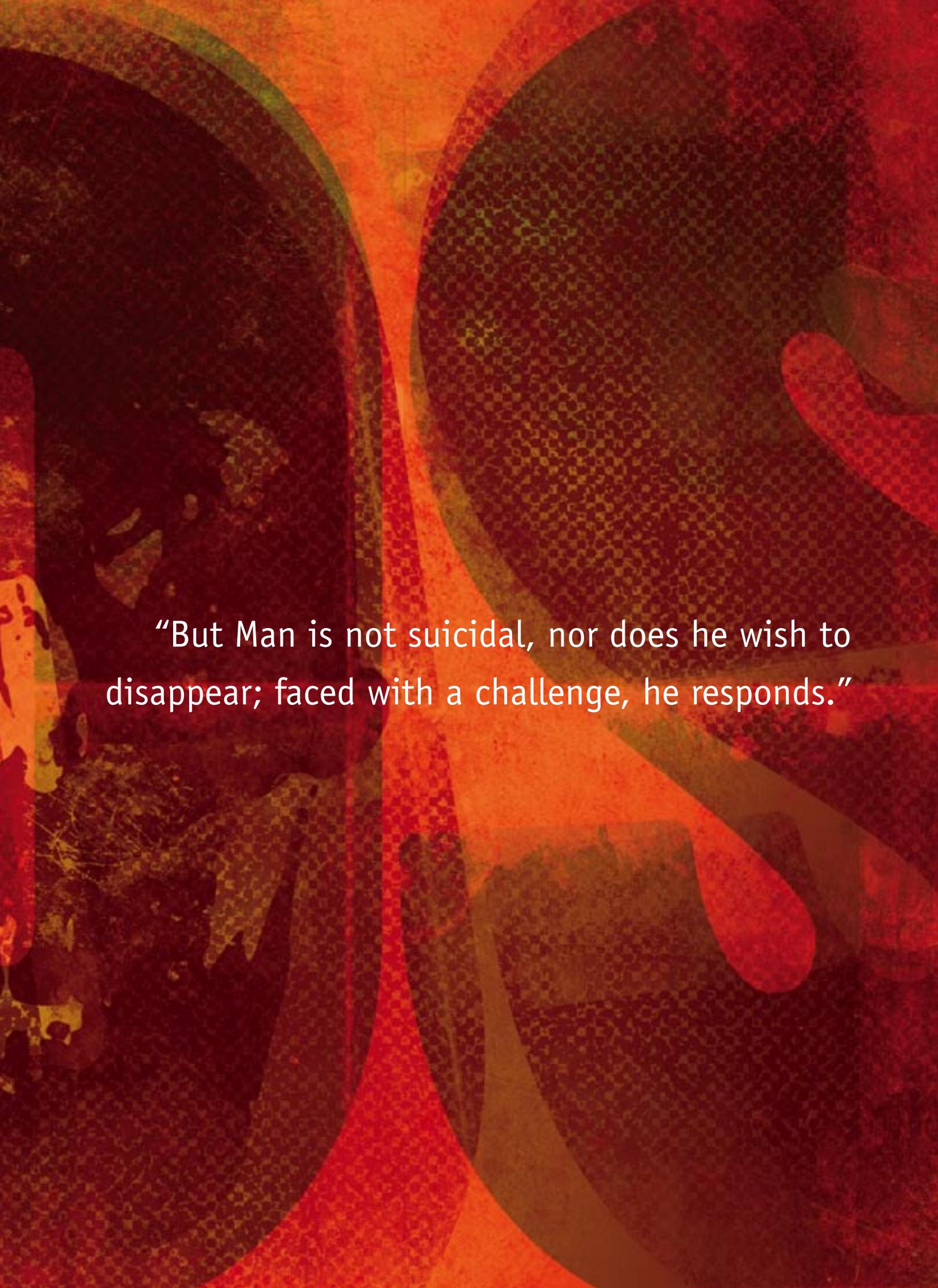
reduced polar ice sheets

greater intensity of rainfall

increased concentration of carbon

dioxide in the atmosphere.

United Nations Intergovernmental Panel on Climate Change, IPCC, signed by 2,500 scientists from 130 countries, released on February 2nd, 2007 in Paris, France.

The background is an abstract composition of warm, organic shapes in shades of red, orange, and brown. The colors are layered and textured, creating a sense of depth and movement. The overall mood is contemplative and artistic.

“But Man is not suicidal, nor does he wish to disappear; faced with a challenge, he responds.”

6. Management of corporate sustainability and responsibility

The CPFL Corporate Responsibility and Sustainability Program manages opportunities in the economic, environmental and social areas of its businesses across a range of activities.

The activities undertaken by CPFL Energia Group companies as part of the CPFL Corporate Responsibility and Sustainability Program follow the guidelines expressed in its Vision, Mission and Values, cover management of opportunities in the economic, environmental and social areas of its businesses across a range of activities, and are gaining increasing recognition among Brazilian institutions.

In 2006, some examples of this recognition were:

- “Model Company in Corporate Responsibility and Sustainability” awarded to CPFL Energia by Exame magazine in its Good Corporate Citizen Guide, as in 2002, 2003 and 2004. The Exame magazine assessment covered 201 corporations active in Brazil, of which only 10 were deemed model companies.



See complete list of Awards at the end of this Report.

- For the fifth year running, CPFL Energia was judged among “The Best Companies to Work For” in an Exame magazine study.
- For the second year in a row CPFL Energia shares were part of Bovespa’s Corporate Sustainability Index – ISE. Bovespa’s annual evaluation included 60 companies among the 120 invited to take part, with only 34 being selected for inclusion in the ISE stock portfolio.

management of opportunities

- 1. Management of Product Responsibility:** Process Excellence; Channels for Dialog; Client Safety; Supplier Policies and Practices
- 2. Environmental Management and Performance:** Environmental Balance; R&D; Emissions; Energy Efficiency; Waste Management; Environmental Initiatives
- 3. Management of Social Performance:** Human Resources; Indigenous Rights; Communities and Social Influence
- 4. Risk Management:** in the Financial, Operating, IT and Regulatory fields.

corporate guiding principles

vision

To be recognized as a corporate benchmark in the energy sector, for the quality of its products and services, the skill of its employees and values held.

mission

To compete effectively in the domestic energy market, providing clients, shareholders, employees and partners with satisfaction and making a decisive contribution to the development and welfare of society.

values

- Responsiveness and courtesy towards clients
- Respectful and dignified treatment for all
- Occupational safety and quality of life

- Search for excellence and growth
- Ethical and transparent behavior
- Professional pride
- Social and environmental responsibility



Methods for Dissemination of Company Vision, Mission and Values.

Method	Characteristics
Internet	www.cpfl.com.br
Intranet	Available for use by all employees
Institutional Materials	Folders, Code of Ethics
Events and Talks	Presentation of Vision, Mission and Values at beginning of events as well as dissemination on banners, depending on the occasion
Posters	Specifically communicating Vision, Mission, Values and Policies, available in all Company meeting rooms and areas

Quality Policy

To promote the enduring satisfaction of our customers, shareholders, employees and partners through the continual improvement of our products and services.

product responsibility

a) process excellence

With a corporate strategy directed toward growth, operating efficiency and business sustainability, CPFL Group companies continually improve their management practices by adhering to the Management Excellence Model® – MEG, of the National Quality Foundation – FNQ®, and in accordance with the international standards of the Integrated Management System – SGI, which are certified according to the ISO 9001, ISO 14001, OHSAS 18001 and SA 8000 standards.

Assessment of work practices and standards occurs systematically by means of external verification and audits which are carried out by internationally recognized bodies. This facilitates the consolidation of organizational know-how.

In 2006, the external auditors granted recertification to all existing 18 certifications held by CPFL Paulista, CPFL Piratininga, CPFL Centrais Elétricas and RGE, and registered no situation of non-conformity, indicative that SGI adheres to the required norms.

As a result of the systems implemented by the Integrated Management System, in 2005 the distribution companies CPFL Paulista, CPFL Piratininga and CPFL Centrais Elétricas were the first electric energy companies in Brazil to ob-

tain environmental certification in line with the ISO 14001:2004 standard.

The objective for 2007 is to conclude the introduction of SGI and MEG within RGE in order to standardize best management practice across the entire CPFL Group.

The Integrated Management System Certifications are as follows:

CPFL Paulista

- ISO 9001:00, OHSAS 18001:99 and SA 8000:01 for Distribution and Sale of Electric Power
- ISO 9001:00 for Electricity Consumer Call Center Service; Electricity Transmission Systems Operations; Compiling and Processing of Technical and Commercial Indicators of Electricity Supply Quality
- ISO 14001:094 for Harmony between Urban Electricity Distribution Networks and the Environment.

CPFL Piratininga

- ISO 9001:00, OHSAS 18001:99 and SA 8000:01 for Distribution and Sale of Electric Power
- ISO 9001:00 for Compiling and Processing of Technical and Commercial Indicators of Electricity Supply Quality
- ISO 14001:04 for Harmony between Urban Electricity Distribution Networks and the Environment.

CPFL Centrais Elétricas

- ISO 9001:00, ISO 14001:04, OH-



SAS 18001:99 and SA 8000:01 for Hydraulic Power Generation

- ISO 9001:00 for Operation of the Electric Power Generation System.

RGE

- ISO 9001:00 for Electric Power Distribution.

Innovations at CPFL Paulista and CPFL Piratininga

A highlight of 2006 at CPFL Paulista and CPFL Piratininga was the introduction of the Six Sigma Program, a method for identifying opportunities for process improvement with cost reductions. With the introduction of this initiative, the distributors aim to eliminate any losses in operating processes, such as unnecessary travel time by field teams, reduced

damage to distribution transformers and a reduction in the number of call-backs to the customer call service center.

Six Sigma Strategy

In accordance with the Six Sigma strategy, seven projects were implemented in 2006, focused on loss reduction in distribution processes. For 2007, we envisage 10 new projects and the consolidation of financial gain totaling R\$ 3.5 million resulting from projects implemented in 2006.

A further objective for 2007 is to extend the employee training process, which will widen the scope for new project development, to include the generation and commercialization businesses and corporate procedures.

Maintenance in live line



b) channels for dialog with stakeholders

Main Channels

Audience	Channels for Dialog with Internal and External Stakeholders
Employees	<ul style="list-style-type: none"> • Talk to the CEO: an ongoing direct Intranet channel through which employees, irrespective of hierarchy, are guaranteed a response to questions asked on any issue; • Coffee/ Breakfast with the CEO: a monthly meeting including the CEO, Vice-President, employees (of a different area for every meeting), and the Officer responsible for the relevant area; • Annual Strategy Presentation (Millennium Plan) made in person and/or by videoconference, by the CEO; • Regular participation in program launches such as: Valuing Diversity; the Aprender (Learning) Project, involving CPFL Paulista patrolmen; inclusion of the CEO's speech in the presentation folders for these internal programs; • Regular participation in seminars on Ethics; • Quarterly meeting for assessing the performance of the Distribution sector and main results, including the Officer for Distribution and other Officers, alongside employees; • Participation in the annual 5S Award ceremony; • Disclosure of results and actions implemented in light of the Organizational Climate Survey; • Commemorative Events: recognition of length of service, Christmas Party and Internal Accident Prevention Commission (CIPA) awards – both annual, Advanced Stations Ranking barbecue - quarterly.
Clients	<ul style="list-style-type: none"> • Customer Service Line; • Ombudsman service; • Annual participation of the CEO and Officers in Consumer Council meetings; • Donation of high efficiency lighting bulbs from senior management to low-income clients and public authorities; • Senior management participation in the opening of Municipal Energy Management and Planning Courses for public authority clients.
Suppliers	<ul style="list-style-type: none"> • Supplier meetings on issues concerning corporate responsibility with participation of Officers; • CPFL Growth: an internal technical seminar sponsored by senior management for encouraging the exchange of experiences and innovations, at which major suppliers present their products and technologies.
Government and Society	<ul style="list-style-type: none"> • Meetings with regulatory bodies for dealing with contractual, regulatory, strategic and business-related regulations; conducting technical, commercial and financial inspections of the electric energy distribution services; and for presenting statements, defense and appeals relating to the inspection results; • Participation in audiences and public consultation processes called by regulatory bodies for setting out sectoral regulation proposals; and in meetings on regulatory issues organized by regulatory bodies; • Acting alongside public bodies to deal with issues relating to the environmental management of plants; • Participation in sector forums (Abradee, SIESP, CBIEE, ABCE) for examining and influencing the development of sector legislation and regulations; • Coordination meetings with Abradee for the formulation of proposals to be presented to regulatory bodies at the sector regulation audiences and public consultation processes; • Participation in working parties on regulatory issues for preparing sector studies; • Participation in PROCON meetings • Participation in organizations representing the corporate sector; • Visits of business executives and students to the SGI and the company (Systems Operation Center, Call Center); • Participation in national conferences on Social Responsibility, Ethics and Social Development; • Institutional visit of the Instituto Ethos Board of Directors to CPFL; • Social project presentations to the Culture Secretariat; • Cultural Center with numerous events open to the general public.



Communities	<ul style="list-style-type: none"> • Awarding of annual prizes for electric energy saving; • Participation in environmental management events; • Interviews with and releases to the press on projects, plans, programs, actions and results; • Regular delivery of improvement projects in the city of Campinas and other communities in the Company's areas of operation; • Participation in charity events in Campinas, including equipment donations; • Sponsorship of numerous cultural events (art exhibitions, ballet, etc.).
Shareholders	<ul style="list-style-type: none"> • Monthly meeting with the Board of Directors, Fiscal Council and Committees; • Board of Directors website, updated daily; • IPAQ, available to members of the Board of Directors with daily updating of information; • Monthly, quarterly (for CVM) and annual management reports; • Officer and shareholder visits to CPFL Paulista sites; • Individual meetings with Shareholders for detailing specific topics of importance; • Legal publications (Annual Report, minutes, notices).
Investors	<ul style="list-style-type: none"> • CPFL is the first company worldwide to employ CRM – Customer Relationship Management (SAP) to increase efficiency and reliability in investor relations (a joint effort on the part of the Investor Relations and IT areas); • 1st Meeting with Investors in partnership with Apimec-SP, held on December 7th, 2006 in Campinas (São Paulo state), opened by CPFL Energia's CEO.



CPFL Cultural Center | Head Office | Campinas | São Paulo

GRI
PR1

c) customer safety

CPFL Group distributors monitor all accidents involving neighboring communities and have identified electric shocks as the principal cause. Ongoing campaigns are employed to remind the public of the risks involved in using electricity and to increase consumer awareness of the precautions necessary for accident prevention.

GRI
EC6GRI
PR1

Publicity Campaigns

CPFL's distribution companies run year-round publicity campaigns with explanations and guidelines on the risks and precautions when using electricity. The concession contracts with Aneel lay down the basic requirements for safeguarding consumer health and safety.

The incorrect use of electricity can be dangerous and for this reason activities taking place near the electrical network must be rigorously monitored so as to decrease the risk of accident.

As electric energy sector concessionaires, CPFL Energia Group company personnel are adequately trained in the prevention and mitigation of electricity-related accidents and their adverse effects.

Our prevention and emergency service procedures have been formulated with the safety of all interested parties in mind: employees, service providers, consumers and the general public.

CPFL Group companies spare no efforts in accident prevention but, in the event of an occurrence, they seek to deal with the event in the most expeditious manner possible. Any serious accident is promptly investigated and assessed by the GIAA – the Accident Investigation and Analysis Group, to identify the immediate causes, the underlying

motives and the faults and failures in control which contributed to the event and the ways in which non-conformities can be eradicated to prevent the recurrence of a similar accident.

d) supplier policies and practices

On approving new suppliers, CPFL companies check everything from compliance with technical quality criteria through to respect for environmental preservation, occupational health and safety and social responsibility. Commitment to evaluation criteria is enshrined in contractual clauses.

CPFL Group companies carry out periodic checks at their principal suppliers to ensure management conduct and practices comply not only with the policies and criteria of the CPFL Group Integrated Management System, but also with Ethos Social Responsibility Indicators. In addition to this, procedure 5656 – Environmental Directives for Contracted Companies, determines that service suppliers must ensure their employees are trained and made aware of CPFL's environmental policy and guidelines before commencing work.

Suppliers of materials whose malfunctioning could present a risk to the electrical system, to employees and to the general public and its property are subject to evaluation

according to criteria determined by CPFL companies. Goods are inspected once received and before use to ensure they conform to requirements. These inspections are either carried out at the supplier's site or in a CPFL laboratory, depending on the characteristics of the goods in question.

Suppliers of goods and services considered a priority (suppliers accounting for 80% of billings in the previous six months) are also audited according to standards relating to the environment, occupational health and safety and social responsibility.

CPFL requires priority suppliers to commit contractually to fulfilling the requirements of the SA800 Social Responsibility standard. At CPFL Group companies in São Paulo (CPFL Paulista, CPFL Piratininga, CPFL Geração, CPFL Centrais Elétricas and CPFL Brasil), all contracts include clauses prohibiting child and forced labor. We also encourage suppliers to answer the Ethos Institute Social Responsibility questionnaire.

Among the Procurement Department's objectives for 2006, the creation of a specialized Contact Center had already been completed by March. This service center aims to answer supplier doubts on the processes of registration and purchase of goods and services via e-Procurement. The system

covers everything from supplier registration to the purchase of goods and equipment or the contracting of works and services, and allows users to monitor the entire process. The system is incorporated in the CPFL Energia portal and meets the principal aim of creating uniformity of supplier proposals.

Value Network

Among its actions for creating value in its relationships with different audiences, CPFL Energia has been holding discussions and meetings with its suppliers to encourage Corporate Social Responsibility practices. This work led to the creation of the Value Network in 2005, a partnership between CPFL and its suppliers for promoting monthly discussion groups for sharing and disseminating the concepts of social responsibility and corporate sustainability. Every six months, workshops are held to address the issue in greater depth.

In turn, suppliers of the suppliers that are already involved have also been invited to join. The Value Chain is currently made up of 28 companies.

The Value Network held the V Supplier Convention in 2006 with 90 suppliers of goods and services from various regions in Brazil. Participants were able to discuss their experiences of exemplary Corporate Responsibility practices and un-

The Value Network, created by CPFL Energia for the interchange of exemplary Corporate Responsibility practices, includes 28 participating suppliers.



Of all suppliers in 2006, 143 accounted for 80% of the total value of contracts against 155 in 2005 and 137 in 2004. The CPFL Group's energy suppliers include Cesp, Furnas, Itaipu, AES Tietê, Duke, Tractebel, Petrobrás, Queiroz Galvão, Santa Clara, Copel, Chesf, Guaraniana, in addition to CPFL Geração.



CPFL Value Network: Main Achievements

Conventions and Dates	Objectives and Issues	Participant Numbers
1st Convention of CPFL Energia Suppliers, November 2002	To disseminate concepts of social responsibility and corporate sustainability and provoke discussion on the issue	40 companies
2nd Supplier Convention, October 2003	A formal invitation made by CPFL for its suppliers to adopt the performance indicators suggested by the Ethos Institute for Corporate Social Responsibility and the creation of a forum for dialog with monthly meetings (nascent Value Network)	50 companies Five companies immediately agreed to the forum for dialog with monthly meetings. The 6th company joined in 2004.
3rd Supplier Convention, June 2004	Focus on the difference between social and philanthropic activities and responsible management conduct	60 companies
4th Supplier Convention, June 2005	Discussion on the credibility of sustainability management in fiercely competitive environments	80 companies
1st Corporate Responsibility and Sustainability Workshop, held over 2 days in November 2005	To disseminate corporate responsibility practices	Companies from the metropolitan region of Campinas and Jaguariúna
5th Supplier Convention, August 2006	How socially responsible actions affect a company's sustainability	90 companies

Value Network Program | Head Office | Campinas | São Paulo



derstand that this responsibility is not a parallel activity, but one that incorporates the interests of society as a whole.

Value Network objectives fulfilled in 2006 and due for implementation in 2007: to continue monthly meetings with the core group; to hold an annual meeting with CPFL suppliers for sharing know-how and resources; to hold workshops on corporate responsibility and sustainability issues; to promote the corporate responsibility movement; to conduct planning on a semi-annual basis.

Tear Program – Building Sustainable Social Responsibility Networks in Micro, Small and Medium-sized Brazilian Companies

CPFL Energia has taken on the challenge of being one of the eight companies among large-scale organizations of different sectors involved in the Tear Program – Building Sustainable Networks, run by the Ethos Institute, the Inter-American Development Bank – BID, and the Multilateral Investment Fund – FUMON. The total program budget is US\$ 2.6 million, of which 50% comes from direct BID investments, 25% from Ethos and 25% from the group of anchor companies.

CPFL has committed to disseminating good corporate responsibility practices for increasing the

competitiveness of companies in its business chain. The management of these companies is encouraged to adopt a strategic planning process which provides for ethical and transparent relationships with all stakeholders, and to establish corporate goals compatible with sustainable development, the preservation of environmental and cultural resources, with respect to diversity and as a means of reducing social inequality.

In May 2006 the representatives of the 10 companies responding to CPFL Energia's invitation were confirmed; the program launch seminar took place on June 6th and the first of the 24 planned meetings of the group was on September 13th.

The Tear Program takes place over three years: in the first year, the methodology is adopted and the remaining years are for incorporating Social Responsibility in the micro and small companies.

The program for 2007 includes monthly working meetings, the adoption of the Ethos Institute indicators, participation in one of the Ethos Institute international conference workshops, meetings with other companies promoting Tear and alignment of activities. For 2008 we envisage meetings for exchanging information among participating companies, regional seminars, use of the Ethos indica-





Environmental Management System

As part of the Integrated Management System – SGI, the Environmental Management System – SGA, aims to control all aspects of activities carried out by CPFL Group companies, to eliminate or mitigate environmental impact in a manner that integrates with other management standards and optimizes training and verification processes. The SGA deals with environmental impacts from the planning, implementation and operation of assets, to the final disposal of waste, in line with CPFL Energia's Corporate Responsibility and Sustainability Policy. The SGA's annual targets are set in accordance with CPFL's Environmental Policy. The Environmental Management System also encourages the transfer of management processes and acquired knowledge to suppliers. Contracts for supplier service provision contain clauses relating to environmental and health and safety requirements applicable to the contracted activity.

tors and a closing seminar.

The results we expect are: improved sustainability of company management; access to new markets and development of products and services; gains in competitiveness and productivity; a closer commercial relationship with partners involved; development of a reference model for rolling out the program in each company's areas of operation; greater domestic and international visibility.

Of the criteria used for selecting participating companies, of note are: sales of up to US\$ 5 million per year; a component in the electric energy sector value chain; a strategic position in CPFL Energia's business chain, either through special characteristics such as possessing unique technology, or through identified potential for replicating activities; and the ability to disseminate knowledge acquired through their production chain.

environmental management

initiatives for achieving environmental equilibrium

CPFL Energia Group companies are aware that the effects of global warming are a major challenge to be met by governments, companies and society due to the environmental risks they pose, not only to economic and corporate activities, but to the whole of humanity.

For this reason, CPFL Group companies take steps to prevent and mitigate these problems, thereby minimizing and compensating for the impacts of their operations.

These initiatives range from CPFL Energia's involvement in the Brazilian version of the Worldwide Emissions Report as a way of assessing the range of actions taken on this issue to the development of R&D, Carbon Neutralization and Energy Efficiency projects and the management of environmental impacts among others, as described below.



Total investments in environmental protection, by type

CPFL Energia – Consolidated, R\$ thousands	2006	2005	2004	2003
Investments linked to operations	34,122	24,342	56,229	27,504
Investments in outside programs and projects	13,810	1,257	1,013	670
Total	47,932	25,598	57,242	28,174



Environmental protection area | PCH Socorro | Socorro | São Paulo state

Investments and Costs – 2006

CPFL Energy – Consolidated, R\$ thousands	R\$ thousands	Share of total
Maintenance of operating processes for environmental improvement	3,686	7.69%
Preservation and/or recovery of damaged environment	29,640	61.84%
Environmental education for employees, outsourced and self-employed workers, and managers of organizations	3,973	8.29%
Community environmental education	1,167	2.43%
Other environmental projects	9,466	19.75%
Total	47,932	100%

Environmental Management Responsibilities

Area Vice Presidents and Officers assess the performance of the Environmental Management System – SGA, on the basis of annual targets. In the event of an unfavorable result or additional issue, the Deliberative Committee may hold an extraordinary meeting for critical assessment of the situation. Under normal circumstances, the Committee meets annually for scrutiny of the SGA's performance.

CPFL takes part in international report on carbon emissions

CPFL Energia took part in the global information-gathering exercise named the Carbon Disclosure Project – CDP4, which in 2006 produced a specific report on Brazilian companies for the first time, covering carbon emissions and domestic understanding of climate change.

Headquartered in London, the CDP4 initiative brings together 225 institutional investors from across



the globe, many of them Brazilian, jointly responsible for assets of US\$ 31.5 trillion. Through its annual surveys, the CDP tracks the degree of environmental responsibility of the world's 500 largest corporations.

This is the fourth edition of this global project by which corporations disclose carbon emission-related information. It aims to encourage them to reduce greenhouse gas emissions which are contributing to a rise in the earth's average temperature, an issue already on the strategic agenda of major worldwide organizations. The CDP4 shows that there are considerable and increasing numbers of corporate leaders committed to this necessary change with over 2,100 companies from across the world answering the questionnaire.

Brazil is the first Latin American country to become involved in this project. Until 2005, only those Brazilian companies listed in the FT500 ranking of the Financial Times received an invitation to disclose information (from two to four companies). In 2006, the request from institutional investors for information was also sent to the 50 companies with greatest liquidity listed on Bovespa's Brazil Index (IbrX).

There was a 66% response rate to the questionnaires sent to companies in Brazil. The CDP4 revealed a range of challenges to be addressed in the country, among which are the need to:

- a) increase understanding of the issue in certain corporate sectors which registered the lowest response levels
- b) improve the quantification of greenhouse gas emissions
- c) increase participation of companies in every sector in this initiative
- d) improve the view on opportunities resulting from emission reduction goals.

One of the Brazilian CDP4 report's conclusions on the electric energy sector, which includes CPFL Energia, suggests that the climate regime established by the Kyoto Protocol is encouraging the sector to develop CDM – Clean Development Mechanism projects, particularly small hydroelectric facilities and alternative energy sources. Companies have an important role to play in the area of research into these alternative energy sources, together with the public sector and universities.

Responses from Brazilian electric energy sector companies show that the issue has already been placed on the strategic agenda to a certain extent, through efforts to introduce new technologies, design new products and services, and attempts to capitalize on business opportunities and operational synergies.

The worldwide CDP4 Report has confirmed that global corporate and investment communities have

made great progress in grasping climate change and its financial and competitive implications, in addition to methods for measuring these implications.

All CDP4 responses are openly available at www.cdproject.net

research & development projects

Research & Development Projects promote technological innovation, which is fundamental to CPFL Energia's strategic competitiveness. As of 2006 year-end, CPFL Group companies had invested around R\$ 80 million in the R&D program, which has been in place since 1999. CPFL's guiding policy in this area is the quest, with the help of technological partners, for greater efficiency of internal processes leading to productivity gains and consequent tariff benefits for consumers. CPFL Energia is engaged in technological innovation projects which translate into effective products, with a role to play in the production process, and reconciling the need for efficiency with environmental preservation.

The company has recourse to the most advanced scientific knowledge available in Brazil, through 54 research centers linked to 39 institutions and universities in seven states.

Good ideas have led to superior products. In all, the R&D program comprises 94 projects. Many of

these ideas were exhibited at CPFL's headquarters in Campinas in April 2006, as part of the 1st R&D Exhibition, which was visited by Aneel's Director-General. The exhibition stands built in partnership with the research centers and universities provided evidence of how creativity and technological development can work together for a sustainable future for Brazil.

Among CPFL Energia's R&D projects, highlights are:

a) Green Transformer

The biggest advance for distribution transformers is the use of insulating vegetable oil which has a longer working life and is environmentally cleaner. The oil increases the capacity of a conventional transformer and helps reduce technical failure, as well as being completely bio-degradable. The transformers show increased efficiency because cellulose, the most important substance in the insulating system, decomposes more slowly. This insulator can be made from soybean, sunflower seeds or other plants and biodegrades in 45 days, whereas mineral oil takes 15 years to decompose completely.

The Green Transformer was developed from a partnership between CPFL Piratininga, B&M and Itaipu Transformadores. The first lot of 250 Green Transformers has already been purchased for use in the Company's proprietary projects.

CPFL Energia's R&D policy is centered around effective partnership between Group companies, universities and research centers for seeking ways to encourage the development of domestic sustainable technology.



b) Electric Power Generation from Biomass Residues for Emissions Reductions

Biomass is one of the most viable energetic alternatives to fossil fuels and their derivatives, responsible for high levels of greenhouse gas emissions. This has led CPFL to invest in a gasificator for generating electric energy of up to 12 kVA from various types of biomass residues.

The system is linked to a low-polluting motor with a catalytic cleaning system which turns the waste into gas fuel. The cleaning system is dry and avoids the disposal of water contaminated with tar and other materials into the environment.

The system also increases the gas's calorific capacity by 30% by optimizing the production of hydrogen and carbon monoxide.

c) Energy Transmission Networks and Vegetation

This cooperative project between CPFL Paulista and CPFL Piratininga aims to identify plant species and installation models to be used along energy transmission lines rights of way, not only to reduce interruptions in energy supply stemming from tree growth, but also to contribute to an improvement in the ecosystem through the establishment of ecological corridors.

For urban tree planting, the project will produce a long list of tree spe-

cies suited to planting under the electric transmission network, where to locate the seeds and how to produce them; it will also provide guidance to city governments, private seedling producers, NGOs and universities on increasing their seedling production, for greater urban biodiversity and favoring an improved coexistence between trees and the electricity system.

In rural areas, the project will focus on rights-of-way to identify maintenance alternatives that are both cheaper and with reduced environmental impact compared to periodic brush clearance, the method currently employed by the electric energy sector.

d) Residential Distributed Generation System

This study aims to plan, construct, test and make available an electric energy distributed generation prototype for residential use connected to the network, comprising a natural gas reformer and a 2kW fuel cell. Equipment will be obtained from technology-based companies operating in Brazil and tested and assembled for operation by Campinas State University – Unicamp.

Distributed generation, as proposed, will help avoid the construction of extensive transmission lines; reduce energy losses in transmission; use energy sources available on site; dispense with the

need to build large power generation installations; assist the development of energy production from alternative sources and reduce the environmental impact associated with the installation of the electric energy production chain.

e) Glulam Cross Arms and Spacer Cables

CPFL has begun a R&D cross arm construction project, which aims to substitute the use of native timbers with reforested wood species, with no loss in resistance, rigidity or electric isolation, using glulam – glued-laminated timber, technology. The use of native wood in cross arms has also been reduced by the installation of spacer cable compact networks. Compared to a conventional network, every kilometer of compact network uses 0.5m³ less of native wood.

CPFL is seeking to assure that all native wood used in the construction of energy distribution structures, such as cross arms, comes from sustainable sources.

f) R&D at RGE

With a focus on suitable waste management, in 2006 RGE began its project for the development of colorimetric methodology for halochlorine dosing in the field and 2007 sees the start of the company's project to develop techniques for correcting soil contaminated by small oil leakages.

initiatives for reducing greenhouse gas emissions

a) Carbon Neutralization

CPFL is studying the implementation of its Carbon Neutralization Program which, in addition to diagnosing the current state of Group companies on issues related to the control of greenhouse gas emissions, also aims to formulate the strategies to be adopted over time.

The first step is to identify the GHG emissions status of operating and production processes and administration activities of CPFL Group companies, starting with the headquarters in Campinas (São Paulo state). After this, a strategy will be formulated for the implementation of projects to reduce and neutralize GHG emissions in coming years.

b) Mitigation of the Impacts of Product, Material and Employee Transportation

The Fleet Management process exists to promote preventive maintenance of all vehicles and transportation equipment and ensure the whole fleet is kept in adequate operating conditions. CPFL operates a semi-annual control system for particulate emissions (black smoke) for the whole diesel fleet. Reports are issued by the company approved for performing these tests.

CPFL has established environmental guidelines for contracted companies (Procedure 5656) which determine that vehicles used in the



Prior to 2006 CPFL, Energia did not quantitatively record gas emissions resulting from its activities. CPFL Energia is currently studying the adoption of a Carbon Neutralization Program.

service of CPFL must possess a maintenance plan covering the following:

- Quantification of black smoke for diesel-powered vehicles in line with existing legislation

- Checking mufflers for possible leaks and perforations which may cause increased noise levels
- Maintenance plan for hydraulic equipment, including hose pipes.



Consolidated Annual Fuel Consumption (liters)

Year	Gasoline (Liters)	Diesel (Liters)	Ethanol (Liters)
2006	2,540,538.0	2,980,914.0	399,999.0*
2005	1,688,804.0	2,980,914.0	273,473.0
2004	1,736,494.0	2,406,830.0	293,212.0
2003	1,629,792.6	2,263,728.6	385,664.9
2002	1,524,828.0	2,136,189.0	657,982.0

a) * Vehicles powered by ethanol and biofuels

b) 2006 total includes RGE

c) Reference for conversion: www.nef.org.uk/energyadvice/co2calculator.htm

Emissions resulting from use of fuel

Year	Emissions (t CO ₂)
2006	15,405
2005	11,740
2004	11,550
2003	11,021
2002	10,812

Basis for calculation:

1 liter gasoline or diesel oil = 2.68 kg CO₂

1 liter hydrated ethanol = 1.52 kg CO₂



Direct Energy Consumption

The power distribution network supplies electricity to the CPFL Group companies to meet their daily requirements.

As the Brazilian National Grid System is integrated, the composi-

tion of the country's energy matrix is proportional to the primary sources used to produce power supplies, hydroelectric energy being the largest source of energy (76.66%, see table below).

Brazilian Energy Matrix

Type	Share (% of installed capacity)
Hydroelectric	76.66%
Gas Thermoelectric	11.14%
Petroleum Thermoelectric	4.61%
Biomass Thermoelectric	3.83%
Nuclear	2.07%
Coal Thermoelectric	1.46%
Wind Power	0.24%
Total	100.00%

Source: Aneel

Energy Consumption

Energia (GJ)*	2006	2005	2004	2003
CPFL Paulista	69,764	66,927	66,792	69,619
CPFL Piratininga	14,270	14,380	13,704	13,096
RGE	6,929	6,357	4,951	5,304
CPFL Geração	6,655	7,722	7,018	6,706
Total	97,618	95,386	92,465	94,725

* Energy consumption in KWh has been converted to GJ (109 J) by multiplication by 0.0036.

energy efficiency

The CPFL Energy Efficiency Program promotes activities for encouraging the rational use of electricity in public illumination, schools, hospitals, police stations, law courts, sanitation services, local government offices, sports stadia and public squares. This includes donating fluorescent lighting bulbs to low-income consumers, the holding of municipal and industry energy management courses, education programs for low-income customers and the Pro-

cel Program in schools.

The Energy Efficiency Program has been in place since 1998, aiming to assure productivity, generate energy savings and increase public safety.

The program is regulated by Aneel and has a budget of 0.25% of electric energy companies' net operating revenue with the purpose of promoting more efficient use of electricity, reduction in wastage, preservation of the environment and enhancing citizenship.



The CPFL Energy Efficiency Program helped reduce indirect energy consumption by 90,874 MWh in 2006.

Energy Efficiency Program

	2004	2005	2006	Total
CPFL Paulista				
Investment (R\$ thousands)	14,592	19,132	22,410	56,134
Energy Saving (MWh/year)	18,920	26,462	44,016	89,398
Reduction in Peak Demand (kW)	4,444	5,723	11,646	21,813
Number of projects			273	
CPFL Piratininga				
Investment (R\$ thousands)	8,853	11,756	5,227	25,836
Energy Saving (MWh/year)	11,117	14,706	9,714	35,537
Reduction in Peak Demand (kW)	2,624	3,359	2,095	8,078
Number of projects			181	
RGE				
	*	**	***	
Investment (R\$ thousands)	5,466	7,084	7,933	20,482
Energy Saving (MWh/year)	20,410	9,491	37,144	67,045
Reduction in Peak Demand (kW)	6,463	2,167	12,619	21,249
Number of projects	3	1	2	

*2003/2004 cycle concluded in December 2005

**2004/2005 cycle concluded in December 2006

***2005/2006 cycle currently underway with conclusion scheduled for July 2007

Source: Sales Management Department

Total energy originating from purchased biomass: 1,439 GWh (3.5%*). Total energy sold by the CPFL Group: 41,112 GWh.

*Does not include RGE as the company does not yet possess indicators on indirect energy consumption.



CPFL Program to Promote Co-generation

Co-generation is the technology of combined production of thermal and electric energy and is more efficient than conventional thermal generation alone. It is an economically attractive option from the energy efficiency point of view.

The main advantage of this solution is that less fuel is required for power production, providing savings for the consumer, while the process also allows for the sale of surplus power at competitive prices.



In addition to its experience in the development of the best technical solutions in electrical connections and parallelism, and in the management and execution of co-generation projects, CPFL is also able to offer the component services for the main stages of the co-generation process:

- Co-generation project feasibility studies
- Consultancy for energy usage optimization
- Advice on obtaining BNDES credit including formulation of the financing application
- Technical advice on connection to the electric system
- Planning and construction of distribution and transmission lines and medium to high-tension substations
- Sale of energy surplus via Long Term Contracts – PPAs

CPFL's co-generation operations are a pioneering activity in Brazil.

The company signed its first contracts with co-generators in 1987 for the purchase of surplus electricity produced from sugar cane bagasse. CPFL's leadership, experience and technology have been apparent in its ability to present the best solutions for co-generation projects from the technical, economical, and financial points of view.

waste management program

CPFL Energia Group companies' waste management program is designed to avoid the pollution of ecosystems. Disposal only occurs at units licensed by the relevant environmental bodies after a final certificate has been issued for the purpose.

The main types of waste resulting from the different operating processes are identified and classified. For each type of waste, standards have been established for storage, transportation and the best method for disposal, according to the legislation in force. Internal procedures have been made available for all employees to follow.

Waste storage areas are frequently inspected and CPFL employees always monitor disposal procedures. The main procedures analyzed are:

1. Storage and disposal of public illumination bulbs
2. Replacement, storage and disposal of equipment containing PCB (polychlorinated biphenyls)
3. Storage and disposal of waste contaminated with insulating oil
4. Selected collection of recyclable waste, in operation since 2002 at CPFL Energia's headquarters
5. Storage and disposal of scrap

Storage and Disposal of Scrap (*)

Year	Bulbs sent for decontamination and recycling	Bulbs replaced	% Bulbs decontaminated and replaced
2003	108,993	188,319	57.88
2004	147,270	186,897	78.80
2005	150,825	178,801	84.35
2006	158,054	181,428	87.12

(*) Includes CPFL Paulista and CPFL Piratininga

Disposal of Equipment with PCB – Polychlorinated Biphenyls – Incineration

Material	Unit.	CPFL Energia				
		2006	2005	2004	2003	2002
Capacitors with PCB oil	Ton.	–	10.95	–	–	22.1

RGE: the company's last batch of equipment with PCB was sent for incineration in 2002

Total Equipment with PCB – Polychlorinated Biphenyls

Year	CPFL Paulista			CPFL Piratininga		
	Total Equipment (units)	Equipment with PCB (un)	%	Total Equipment (units)	Equipment with PCB (un)	%
2003	109,000	1,090	1%	37,464	895	2.40
2004	111,186	915	0.82	37,964	844	2.22
2005	114,848	882	0.76	38,637	793	2.05
2006	118,700		0.74	39,224	793	20.2
	Total volume of oil (liters)	Volume of PCB (liters)	%	Total volume of oil (liters)	Volume of PCB (liters)	%
2003	17,620,344	8,110	0.05	6,256,706	5,370	0.09
2004	18,106,311	6,786	0.04	6,346,481	5064	0.08
2005	18,428,742	6,588	0.04	6,446,221	4,758	0.07
2006	18,769,575	6,588	0.04	6,598,493	4,758	0.07



Non-recyclable Material Sold as Scrap – Recycling of Materials

Material	Year	Ferrous and non-ferrous metals (ton)	Distribution Transformers (un)	Reflectors (un)	Cross Arms (un)	Wooden and concrete poles (un)	Iron posts (m)	Ladders (un)
CPFL Paulista	2006	345	894	61,213	13,728	9,156	145	175
	2005	523	938	25,930	14,800	9,558	43	142
	2004	488	1,069	13,357	18,846	10,438	495	160
	2003	679	1,744	22,388	22,424	12,740	692	805
	2002	630	2,117	7,399	29,869	18,516	726	248
CPFL Piratininga	2006	370	370	20,769	9,333	3,169	235	24
	2005	510	352	5,980	13,723	4,596	112	111
	2004	303	363	11,091	7,773	2,862	0	55
	2003	343	264	24,943	6,789	4,926	3	34
	2002	321	306	3,581	3,794	2,386	17	287
RGE	2006	763	402	N/A	14,126	21,809	N/A	–
	2005	663	47	N/A	11,774	20,420	N/A	–
	2004	456	211	N/A	7,467	14,983	N/A	–
	2003	579	159	N/A	11,518	26,504	N/A	–
	2002	450	411	N/A	13,227	23,245	N/A	–

RGE does not install or maintain public illumination. Local government carries out this activity in the concession area, including management of purchase and disposal of materials.

RGE's Reverse Logistics system processes an average of 120 metric tons/month of damaged equipment and materials removed from its electric system and sent for recycling and recovery. A highlight is its process for decontaminating public illumination bulbs, totaling 128,548 bulbs in 2006.



Reverse Supply Chain

The Reverse Supply Chain selects material removed from the distribution network or transmission lines and partially recycles it, thus reducing costs and consumption of natural resources. This process includes materials replaced due to wear and tear or because of improvements or

expansion work.

The works area at each of the Company's sites is charged with reclassifying material and disposing of it appropriately. The correct reclassification of waste material is particularly scrutinized when closing down or decommissioning an installation. The Company's processing system is

also able to trace recuperated material when necessary.

Examples of material that can be recovered or recycled are: metal fittings (such as pole climbing belts, couplings), insulators, single phase

switch gear and distribution transformers, all of which must conform to CPFL Energia's technical specifications.

In 2006, RGE recovered 50% of all distribution transformers examined.



Materials used by Weight or Volume*

Material Category	Year	Distribution transformers (un)	Concrete poles (un)	Cables (m)	Cables (kg)	Meters (un)	Public illumination units** (un)
CPFL Paulista	2006	5,353	33,356	3,971,462	399,025	219,318	625,280
	2005	5,885	35,152	3,492,738	358,407	191,974	778,468
	2004	3,949	22,444	2,705,843	350,124	175,004	678,728
	2003	3,970	20,222	837,313	631,557	163,450	337,513
	2002	4,607	25,682	630,238	837,112	146,370	526,315
	2001	4,607	25,682	630,238	837,112	146,370	526,315
CPFL Piratininga	2006	2,102	11,845	2,203,959	151,910	110,774	234,781
	2005	2,134	12,709	2,153,223	170,552	97,738	267,780
	2004	2,170	10,622	1,814,429	221,138	86,854	181,942
	2003	1,922	7,170	1,201,824	149,682	78,330	136,535
	2002	787	2,588	590,338	81,081	30,402	69,034
RGE***	2006	5,913	46,622	1,721,796	598,031	92,196	N/A
	2005	3,602	25,270	1,529,449	433,383	58,371	N/A
	2004	1,977	12,157	1,205,568	368,384	96,291	N/A
	2003	1,154	7,960	1,157,423	304,140	53,190	N/A
	2002	1,380	13,757	1,714,256	364,011	67,011	N/A

Notes:

* The above table contains the principal items of inventory purchased by the Company representing 80% of total consumed by value. The materials shown are used in the maintenance and expansion of the electricity distribution system.

** Bulbs, relays, reactors and reflectors

*** RGE does not install or maintain public illumination. Local government carries out this activity in the concession areas, including management of purchase and disposal of materials.

GRI
EN9

Water Consumption

Water consumption is both recorded and monitored by CPFL Energia Group companies every month. These indicators are assessed and used as input for future planning activities.

During the year a working group was set up to discuss this issue and ensure that the Company's use of natural resources in its activities is in line with the requirements of the various standards used internally, established by institutions such as Abradee, the Ethos Institute for Corporate Responsibility and ISE – the Bovespa Corporate Sustainability Index.

Water usage at the CPFL Group's energy distribution companies is solely for the day to day require-

ments of employee hygiene, office cleaning and air conditioning, with consumption kept to a minimum.

Water is the main material used in hydroelectric generation. However, this process involves no consumption but only storage for harnessing energy potential for power generation. None of CPFL Energia's facilities are located in wetlands listed by the Ramsar convention.

Water management meets the demands of all relevant environmental programs, such as the formation and preservation of Areas of Permanent Preservation surrounding power plant reservoirs, constant monitoring of water quality, aquifers and river/reservoir banks.

GRI
EN8

CPFL Energia total water consumption (m³/year) – by source

CPFL Energia	Supply from the Public Network – m ³ /year	Wells – m ³ /year	Total – m ³ /year
2006****	173,541	-	173,541
2005***	134,025	19,430	153,455
2004***	107,668	40,623	148,291
2003**	98,281	23,225	121,506

** Consumption for CPFL Paulista and CPFL Piratininga

*** Consumption for CPFL Paulista, CPFL Piratininga and CPFL Geração

**** Consumption for CPFL Paulista, CPFL Piratininga and RGE



Compliance

Monetary value of significant fines and total number of non-monetary sanctions resulting from non-compliance with environmental legislation and regulations

Year	Company/Location	Reference	Severity	Municipality
2006	RGE	• Tree cutting without prior authorization*	Low	Caxias do Sul
2005	CPFL Paulista	• Notice of Infraction Number 6742 – Oil Leakage	High	Piracicaba
	CPFL Paulista	• AIIPM Number 21000470 – Oil Leakage*	High	Piracicaba
2004	–	–	–	–
2003	CPFL Paulista	AIA Number 143798/03 - Tree pruning without prior authorization	Low	Piracicaba
	CPFL Piratininga	Complaint Number 532/2003 – Felling of native tree	Low	Sorocaba

* Appeal sub judice

CPFL Energia – 2006

Number of environmental, administrative and legal suits brought against the organization	1
Value of fines and indemnification on environmental issues, determined administratively or legally	0
Environmental liabilities and contingencies	0

RGE: Penalties were imposed on the Company on nine occasions in 2006 on environmental issues of low severity. Appeals have been submitted and are currently sub judice. They are therefore not recognized as environmental infractions. In 2006 no environment-related fines were paid.

Environmental Licensing for Brush Clearance

In 2006 CPFL Piratininga progressed in its negotiations with the environmental agency for regularization of authorization for brush clearing and firebreaks along its old electric power transmission lines. As a compensatory measure resulting from this activity, reforestation of 67.40 hectares of land is envisaged from 2007 onward

with the planting of approximately 112,000 seedlings. The process is due for conclusion in the first quarter of 2007.

Reservoir Refilling

An incident in one of the UHE Campos Novos diversion tunnels required the emptying of the whole reservoir. All necessary measures and precautions were taken to avoid additional environmental impacts,



such as removal of wood accumulated in the intake, protection of the fish population and continual monitoring of water quality both up and downstream from the dam. These actions were deemed to be effective and in November 2006 led to FATMA – the Environmental Protection Agency, authorizing the refilling of the reservoir.

environmental initiatives

In addition to CPFL Energia companies' compliance with the environmental licensing processes of their projects, senior management is also committed to implementing activities to preserve biodiversity.

On the basis of environmental studies, management identifies the impacts of the company's activities and then sets certain initiatives, among which we highlight:



1. Fisheries Conservation Program

– The objective of this Program is to protect and preserve the fish population in the hydrographic basins where the small hydro facilities (PCHs) are located. The following initiatives are being implemented:

- a) Restocking of rivers and reservoirs – In 2006, the Program released 390,000 curimatá fish spawn into the rivers and reservoirs of the hydrographic basins in CPFL Energia companies' areas of operation.
- b) Maintenance of fish migration mechanisms (to preserve the migratory flow of fish along rivers).
- c) Waterside Reforestation – The objective of this Program is to carry out and maintain reforestation projects in the land surrounding power plant reservoirs and their tributaries using flora native to the region, and fruit-bearing trees in particular.

2. Reforestation Programs – All authorizations for cutting native flora and for crossing Areas of Permanent Preservation – APPs, issued regularly by environmental agencies, translate into a commitment on the part of CPFL to carry out reforestation for the purposes of environmental restoration. CPFL reforestation programs are generally directed toward areas that interlink natural forest habitats to encourage gene flow among native flora and fauna.

Retirada de aguapés do Reservatório | PCH Americana | Americana | São Paulo



3. Aquatic Plant Monitoring Program – 2006 saw the practical implementation of a project first developed through R&D studies for the collection and mechanical shredding of aquatic plants found in CPFL plant reservoirs. A total of 38,017m³ of this material was removed (equivalent to 60.30 ha). Studies are being developed to find the best end use for this type of aquatic plant.

4. Environmental Education Program – Thousands of students of different ages visit CPFL facilities to receive instruction on a range of environmental issues, particularly those related to the conservation of water resources and hydraulic power generation. In 2006, 2,359 students from nearby schools visited CPFL units.

5. School Ship Project – At the Americana plant, CPFL sponsors the Voluntary Environmental Agent and Sailing on the Waters of Knowledge projects of the School Ship of Nature Association, both aimed at an audience of young children, and Environmental Volunteers aimed at adult awareness. These partnerships seek to generate awareness of problems in water resources in the Piracicaba River basin and initiatives for environmental recovery. In 2006, 12,980 people took part in School Ship Project events, including talks, courses and field days. The partnership was

broadened through sponsorship of the Young Citizen project targeted at adolescents.

6. Community Environmental Education – CPFL Energia companies' educational program for the community encompassed activities such as talks, film screenings, the production of an environment primer and special events during Environment Week, including theatrical performances, workshops, a musical show and debates.

Visitors to the Environmental Education Programs

	2006	2005	2004	2003	2002	2001
Installations	2,359	3,409	5,248	6,302	6,316	9,258
School Ship	12,980	14,013	9,714	8,244	5,734	3,678
Total	15,339	17,422	14,962	14,546	12,050	12,936

7. Environmental Education for Employees – Activities for employee awareness and involvement with the requirements of social and environmental responsibility cover training sessions, talks and workshops, during which developments in programs are discussed, along with necessary actions, items pending, strengths, and opportunities for improvement in processes and their consequences. At each meeting of the Internal Commission for Accident Prevention at CPFL Centrais Elétricas, environmental issues relevant to the company's activities are discussed.

CPFL Paulista and CPFL Piratininga invested R\$ 893 thousand in energy efficiency programs for schools, low-income clients and industry.

Human Resources Policy

“To attract, manage and develop employees, creating conditions for professional achievement in a healthy environment characterized by well-being, respect for corporate values, ethical and transparent relationships and opportunities for significant social learning, which strengthen the CPFL Group’s reputation as an excellent place to work.”

management of social performance

human resources management*

For the fifth consecutive year, employees ranked CPFL Energia among the Best Companies to Work for in Brazil, in a survey organized by Exame and Você S.A. magazines – a reflection of the companies’ Human Resources policy of enhancing and encouraging professional development.



Another positive result for Human Resources management is the Organizational Climate Survey conducted among CPFL Energia Group companies. In 2006, this was completed by 96% of employees and achieved a favorability score of 74%, continuing to rank the Group among those with the best employee management practices in the country, according to the Hay do Brasil consultancy group.

Among other activities, a highlight of the year was the implementation of the Succession Plan, which

covers the Group’s main executive posts. This project set out the new competences required which acted as guidelines for evaluating the management team. The results of these actions will act as a benchmark for activities linked to management of executives between 2007 and 2008.

In 2006, CPFL Energia maintained its investments in employee training and development, with each employee receiving an average of 111.25 hours of training.

Average annual hours of training per employee

	2006	2005	2004	2003
CPFL Energia	111.25	111.19	129.99	109.38

Respect for Diversity

The Respect for Diversity Program, introduced in 2003, is gradually achieving results for its four inclusion groups, all with targets set for achievement by 2009, which are:

- people with special needs
- people of different races

Objective of the Respect for Diversity Program

To increase the representation of Afro-Brazilians, women, people with special needs, the over 45s, and those out of the labor market for more than two years among Company employees.

* Quantitative data refers to companies operated by the CPFL Energia Group.

- c) people of different gender, and
- d) people aged over 45

The CPFL Opportunities Program was created to increase the inclusion of people with special needs at CPFL Energia and to contribute toward increasing their employability. This includes the Adapting for Accessibility Program, which carries out structural changes at all Group units to offer this category of employee greater autonomy. CPFL Energia currently has 116 employees with special needs among its staff. Of this total, 74 are part of the CPFL Opportunities Program.

The CPFL Opportunities Program hires people with special needs and an incomplete secondary education for up to two years, for an eight-hour day, four of these spent working at CPFL and the remaining four taken up by educational study. They attend courses to complete their secondary education, in partnership with the State Supplementary Education Center at Unicamp – Campinas State University; a professional training course (covering IT and the skills required by CPFL Energia); and they receive support in their search for opportunities in the labor market. At the conclusion of the Program they are taken on by either CPFL Energia or elsewhere in the labor market. All have now been placed.

Among the objectives of the

Respect for Diversity Program for 2007 is the completion of a new census – the first was carried out in 2004 – to update information on all aspects of diversity, given that new companies have since joined the CPFL Energia Group.

Among the targets and already in progress, is the promotion of dialog on respect for diversity with the company's key suppliers, to further their inclusion of employees in need of new opportunities for social and economic development.

Preparation for Retirement

The New Time Program, a post-retirement project, was created by CPFL Energia in 2005, following a pilot program, for supporting employees in retirement-related decision-making and helping them to develop their own view of the future. The Program is aimed at direct employees less than three years away from full retirement, in accordance with the rules of the INSS – the National Social Security Department.

The Program is decentralized and follows a sequential module format, with meetings occurring monthly. In 2006, 26 lectures were held to disseminate it across the CPFL Group.

Half of the employees eligible for the Program enrolled, which is a significant rate of take up given its first year of activity.

Management Alignment with the Sarbanes-Oxley Act

In 2006 the major processes in CPFL Energia's human resource management and variable remuneration were aligned with the requirements of the Sarbanes-Oxley Act.





100% of employees of the distribution companies and CPFL Centrais Elétricas receive regular performance and career development assessment

Assistance with Psycho-Social Needs

In January 2006, the Talk to Me Program was launched to offer support to employees and their families with personal problems, typically those of a legal, psychological, financial or social nature. The Program operates 24 hours daily via a telephone service.

Over the year, 1,339 cases were handled originating from 843 users, 78% being employees and 22% their dependents. Legal issues domina-

ted in 59% of the cases, followed by psychological conditions, with 30%. In all, issues were resolved in 97% of situations.

Employee Profile

The CPFL Energia Group ended 2006 with 5,722 employees, compared to 5,736 in 2005. The staff turnover rate was 7.13%. The employee profile at CPFL Energia is as follows: average length of service of 12 years; average age of 37.8 years.



Breakdown of workforce by employment type, contract and region

Company	State	2006	2005	2004	2003
CPFL Paulista	São Paulo	3,161	3,080	3,071	3,065
CPFL Piratininga	São Paulo	1,198	1,164	1,070	1,033
CPFL Geração	São Paulo	6	6	9	28
CPFL Centrais Elétricas	São Paulo	129	123	125	82
CPFL Brasil	São Paulo	96	82	51	26
RGE	Rio Grande do Sul	1,401	1,444	1,407	1,318
Total		5,991	5,899	5,733	5,552

Total employees and outsourced workers
 - Permanent employees: 5,722
 - Outsourced labor: 269

GRI
LA2**Total number and rate of employee turnover – by region, gender and age group**

Empresa	2006	Female	Male	18-35	over 45
CPFL Paulista	4.66	1.32	3.34	2.77	1.24
CPFL Piratininga	10.07	2.85	7.22	5.88	2.76
CPFL Geração	0.00	0.00	0.00	0.00	0.00
CPFL Centrais Elétricas	10.88	3.18	7.73	5.45	2.73
CPFL Brasil	13.24	8.33	5.00	8.33	1.67
RGE	9.43	3.18	8.79	8.65	1.55
Total	7.13				

GRI
LA13**a) Composition of responsible Corporate Governance bodies by gender**

Company	Statutory*		Executives		Managers		Leadership		College Graduates		Operational		Total	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
CPFL Paulista	0	5	1	14	6	61	16	101	120	249	293	2,142	436	2,572
CPFL Piratininga	0	5	1	12	1	17	6	49	65	136	128	715	201	934
CPFL Geração	0	5	0	0	0	1	0	0	0	0	0	0	0	6
CPFL Centrais Elétricas	0	0	0	2	0	6	0	15	17	26	5	41	22	90
CPFL Brasil	0	1	0	1	2	2	0	2	16	32	3	3	21	41
RGE	0	2	0	0	3	26	11	49	45	112	231	920	290	1,109
Total	0	18	2	29	12	113	33	216	263	555	660	3,821	970	

* Statutory: refers to the number of positions in the companies and not to the number of managers

Note: For tables A and B consider

Statutory: CEO and Vice Presidents

Executives: Officers

Managers: Department Managers and Division Managers

b) Composition of responsible Corporate Governance bodies by age group

Company	Statutory*			Executives			Managers		
	18-35	36-45	over 45	18-35	36-45	over 45	18-35	36-45	over 45
CPFL Paulista	0	0	5	1	2	12	4	26	37
CPFL Piratininga	0	0	5	0	2	11	1	7	10
CPFL Geração	0	0	5	0	0	0	0	0	1
Centrais Elétricas	0	0	0	0	0	2	2	0	4
CPFL Brasil	0	0	1	0	0	1	2	1	1
RGE	0	1	1	0	0	0	6	9	14
Total	0	1	17	1	4	26	15	43	67

* Statutory: refers to the number of positions in the companies and not to the number of managers

c) Composition of responsible Corporate Governance bodies by ethnic group

Empresa	Oriental	Caucasian	Afro-Brazilian	Indigenous
CPFL Paulista	18	2,719	270	1
CPFL Piratininga	11	995	127	2
CPFL Geração	0	6	0	0
CPFL Centrais Elétricas	8	98	6	0
CPFL Brasil	1	58	3	0
RGE	3	1,324	72	0
Total	41	5,200	478	3

* In CPFL Group Companies⁽¹⁾, 122 managers consider themselves Caucasian, 1 Oriental and 2 Afro-Brazilian. All 31 executives consider themselves Caucasian. Of the leadership group, 5 consider themselves Oriental, 228 Caucasian and 16 Afro-Brazilian. Among college graduates, 23 consider themselves Oriental, 774 Caucasian, 20 Afro-Brazilian and 1 Indigenous. Among the statutory personnel there are 18 Caucasians.

In remaining positions, 4,027 employees consider themselves Caucasian, 12 Oriental, 440 Afro-Brazilian and 2 Indigenous.

Leadership			College Graduates			Operational			Total		
18-35	36-45	over 45	18-35	36-45	over 45	18-35	36-45	over 45	18-35	36-45	over 45
43	48	26	99	130	140	955	1,007	473	1,102	1,213	693
25	20	10	85	61	55	375	352	116	486	442	207
0	0	0	0	0	0	0	0	0	0	0	6
0	8	7	16	19	8	6	17	23	24	44	44
1	0	1	24	16	8	5	1	0	32	18	12
29	17	14	92	34	31	858	212	81	985	273	141
98	93	58	316	260	242	2,199	1,589	693	2,629	1,990	1,103



Proportion of average remuneration between men and women, by category

Company	Statutory		Executives		Managers		Leadership		College Graduates		Operational	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
CPFL Paulista	0.0%	100.0%	6.8%	93.2%	6.4%	93.6%	11.0%	89.0%	28.5%	71.5%	6.9%	93.1%
CPFL Piratininga	0.0%	100.0%	6.8%	93.2%	6.4%	93.7%	11.1%	88.9%	28.8%	71.2%	9.4%	90.6%
CPFL Geração	0.0%	100.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CPFL Centrais Elétricas	0.0%	0.0%	0.0%	100.0%	0.0%	100.0%	0.0%	100.0%	33.0%	67.0%	9.5%	90.5%
CPFL Brasil	0.0%	100.0%	0.0%	100.0%	46.3%	53.7%	0.0%	100.0%	24.7%	75.3%	54.2%	45.8%
RGE	0.0%	100.0%	48.7%	51.3%	54.1%	45.9%	40.1%	59.9%	44.8%	55.2%	52.0%	48.0%

Note: Consider:

Statutory: CEO and Vice Presidents

Executives: Officers

Managers: Department Managers and Division Managers



All CPFL Energia Group employees are represented by independent labor organizations and included in collective bargaining agreements, except the statutes.

Employees represented by labor unions – %

Company	2006	2005	2004	2003
CPFL Paulista	80%	80%	83%	86%
CPFL Piratininga	48%	48%	57%	73%
CPFL Geração*	0%	33%	22%	48%
CPFL Centrais Elétricas	47%	49%	61%	–
CPFL Brasil	18%	20%	21%	–
RGE	33%	–	–	–
Total	60%	70%	75%	82%

* Between 2003 and 2005 the figures cover employees of Ceran, Enercan and Baesa. For 2006, the data refer to all companies operated by the CPFL Energia Group.



Employee Benefits

CPFL Energia Group employees enjoy benefits in line with the best labor market practices: private pension plan; medical/hospital/dental insurance; meal vouchers; food vouchers; transportation vouchers; day care; special needs day care facilities. In addition, employees attached to the CESP Foundation also have the following benefits: personal loans; social security savings fund; group life assurance; subsidized medications; refunds for prosthesis and orthopedic brace purchases; assistance for the disabled, and refunds on purchases of medications.

At other units, arrangements are made with third party fitness centers for monthly membership at a subsidized rate. There are also special arrangements in place with universities, language schools, numerous colleges and commercial establishments.

Management of Occupational Health



Variation of lowest salary proportional to local minimum salary – %

Company	%
CPFL Paulista	166.55
CPFL Piratininga	166.55
CPFL Centrais Elétricas	166.55
CPFL Brasil	280.17
RGE	13.43

Head office employees have at their disposal a fitness center open 14 hours a day; sports centers for volleyball, basketball and indoor soccer; and workplace exercises. The Bauru and Ribeirão Preto regional offices also have fitness centers and workplace exercises.

Health and Quality of Life

Among the main achievements of the CPFL Group companies' Quality of Life Program, we highlight:

- Talks on stress control and depression.
- Formation of the CPFL Energia employees' athletics team consisting of 27 athletes from the Group.
- Participation in the SESI regional games in the following sports: athletics, bowling, checkers, dominoes, soccer, indoor soccer, beach volleyball, senior indoor soccer, chess, table soccer, fishing, foot volleyball, weightlifting, swimming, snooker, singles tennis,

doubles tennis, table tennis, cards, and volleyball.

- Hiking and other physical activities.
- An increase in the number of arrangements with gymnasiums and fitness centers to facilitate employees' access to physical activities. In 2006, 31 new agreements were concluded.
- Workplace exercises and quick massages for head office employees. Around 5,424 quick massages were performed and there were 41,400 participations in workplace exercises during the year.
- Dissemination of information to all divisions of the Group's companies on the problems caused by the consumption of alcohol and narcotics, in partnership with the CIPAs – Internal Accident Prevention Commissions.
- Nutritional assessment and guidance. In 2006 121 assessments of group employees and 10 lectures took place.

Serious Illness Prevention and Assistance Programs

Personal guidance is given to CPFL Group companies' employees during their periodic medical checkups, in addition to the awareness and education on HIV-AIDS prevention through lectures at CIPA – Internal Accident Prevention Commission meetings.

Treatment is provided to employees if required through the CESP Foundation Private Healthca-

re Plan. Employees and their families also have the confidential and free Talk To Me Program at their disposal to help with personal problems.

Formal Health and Safety Committees

The following Committees and Commissions are of particular importance within the CPFL Group:

- Joint Commission, with the participation of labor unions, as called for in the collective labor agreement.
- Integrated Management System Committee – SGI, which validates activities arising from Quality, Environmental and Health and Safety Policies. Employees participate in this committee through the CRE – Employee Representative Council.
- CIPAs, Internal Accident Prevention Commissions – 1 at CPFL Brazil, 21 at CPFL Paulista, 1 at CPFL Geração and 5 at CPFL Piratininga.

Risk situations are included as part of operational training and in Emergency Situation Response Planning – PASE, so as to ensure rapid and effective action.

Among our occupational health and safety activities, begun in previous years and regularly revised and updated, we highlight:

- DSS – Weekly Safety Dialog, which is supported by a booklet covering 60 issues on accident prevention



The Occupational Health and Safety Management Plan of CPFL Energia Group companies is certified by the OHSAS 18001:99 standard.

and the promotion of health and quality of life.

- Safety at Your Side Program covering accident prevention and health and quality of life for those working in the field.
- Green Light to Safety Program, which in 2006 used inspections to focus employees on the need to adhere to CPFL standards and other health and safety norms

- CIPA Ranking Table, which promotes healthy competition between the 28 commissions and awards the winners every year.

These actions as a whole have certainly led to an improvement in our performance for 2006, a period in which CPFL Group companies achieved some of their lowest TFs – Frequency Rates, and TGs – Degree of Severity, in the work safety field.



Rates of injury, occupational illness, lost days, absenteeism and work-related fatalities – Employees

Own Workforce	2006		2005		2004		2003	
	TF	TG	TF	TG	TF	TG	TF	TG
CPFL Paulista	1.54	125	3.07	1,197	2.65	418	2.04	188
CPFL Piratininga	0.91	36	0.93	52	0.49	3	4.27	6,206
CPFL Geração	0.00	0	0.00	0	0.00	0	0.00	0
CPFL Centrais Elétricas	0.00	0	0.00	0	0.00	0	10.02	90
CPFL Brasil	8.46	59	0.00	0	0.00	0	0.00	0
RGE	1.57	95	5.32	337	7.49	2,403	4.80	2,151
CPFL Energia	1.47	97	3.21	711	3.54	885	4.26	2,492

TF: Frequency Rate

TG: Degree of Severity

Note: The considerable reduction in accidents with time off work at CPFL Paulista and CPFL Piratininga led to a reduction in the TF for 2006 compared to 2005. The TG also declined significantly, which indicates a lesser degree of severity of registered accidents.



Rates of injury, occupational illness, lost days, absenteeism and work-related fatalities – Third Parties

Third Parties	2006		2005		2004		2003	
	TF	TG	TF	TG	TF	TG	TF	TG
CPFL Paulista	7.34	2.726	5.23	1,355	not calculated		not calculated	
CPFL Piratininga	0.64	3.810	2.97	89	not calculated		not calculated	
CPFL Geração	14.34	100	0.00	0	not calculated		not calculated	
CPFL Centrais Elétricas	Figures included in CPFL Geração							
CPFL Brasil	Figures included in CPFL Paulista							

Note: In 2003 and 2004 these indicators were not reported for Third Parties.

Note:

a) At CPFL Paulista the increase in accident numbers for 2006 relative to 2005 is due to greater monitoring resulting from the implementation of the Loss Control Register IT system.

b) At CPFL Piratininga there was a considerable reduction in the number of accidents with time off work leading to a reduction in the TF for 2006 relative to 2005. The 2006 TG increased due to a fatal accident.

c) At CPFL Geração and CPFL Centrais Elétricas an impact accident with an engine fitter led to an increase in the TF and TG.

MOC – outsourced labor

d) Information not available for RGE

health and safety issues covered by formal labor union agreements

The Joint Labor Agreement for CPFL Group companies provides for the participation of employee representatives in numerous formal channels, such as:

- Supplying minutes of CIPA meetings to the Unions to allow them to monitor and interact with the commissions' work
- Notification of work-related accidents involving time off work to the Union, within a maximum of 24 hours

- Participation of a Union-appointed representative in the GIAA – Accident Investigation and Analysis Group.



- At RGE, the Joint Labor Agreement (clauses 17 to 32) covers:
 - Treatment for post accident recovery or rehabilitation
 - Reimbursement of hospital and medical treatment expenses to employees following accidents
 - Special transfer for employees with medical conditions requiring specialized treatment outside their region of residence. This benefit is extended to dependents.



Negotiation on Operational Changes

CPFL Group companies always seek to forewarn employee representative bodies of operational changes so as to open a dialog on solutions to any potential problems. The Joint Labor Agreement covers this prior notification, although without establishing a timeframe.



Coverage of Pension Plan Obligations

At CPFL Group companies, retirement benefits, offered through mixed plans, are guaranteed through the contributions of members, sponsors and the return on investments, which are administered by the CESP Foundation (a closed pension fund). There are two systems:

a) Under the terms of the CPFL Employee Complementary Pension Plan – PPCPFL, offered to the employees of CPFL Paulista, CPFL Geração de Energia, CPFL Comercialização Brasil and CPFL Centrais Elétricas, the employer's obligations to pay a pension in the event of invalidity or death are covered by a fund managed by the CESP Foundation, which holds the plan's assets. Liabilities are totally covered as notified in the Statement of Actuarial Assessment Results – DRAA. There is a contract for readjusting mathematical reserves to make up for any shortfall on the part of the sponsor with respect to



the benefits paid out up to October 31st 1997.

The pension fund member's Real Contribution Salary (SRC) acts as the basis for calculating his/her contribution.

b) The model for CPFL Piratininga's Complementary Pension Plan – PSAP, is predominantly that of Defined Benefit – BD type. The Plan also allows the participant to make a Defined Contribution – DC (voluntary or sporadic) so as to receive additional benefits.

For complete coverage of the Plan's payment obligations, the legislation allows for an extraordinary contribution to be made exclusively for covering shortfalls. There is a contract for readjusting mathematical reserves to make up for any shortfall on the part of the sponsor with respect to the benefits paid on March 3rd 1998.

indigenous rights

CPFL respects the rights of all indigenous people living in the areas around the Serra da Mesa and Foz do Chapecó plants. In both cases, compensation requirements are discussed with the Brazilian National Indian Agency – Funai, and are taken into account during the respective environmental licensing processes.

UHE Serra da Mesa is the first infrastructure project in Brazil to receive National Congress authorization



for installation on indigenous territory. One of the venture's socio-environmental programs, known as Management of the Indigenous Question, is to compensate the Avá-Canoeiro Indians for the construction of a power plant on part of their indigenous territory, which occupies 38,000 hectares on the upper course of the Tocantins River.

Actions to protect, support and assist this community are grouped into eight subprograms for maintaining the socio-cultural balance of the indigenous group. Furnas and Semesa make royalty payments established by the National Congress. In the period from 2003 to 2006, approximately R\$ 800 thousand was transferred to Funai.

In the case of UHE Foz do Chapecó, the consortium paid R\$ 2 million to Funai for credit to the Indigenous Heritage Fund. The consortium is also committed to purchasing 1,500 hectares of territory for land regularization of the Aldeia Condá Indigenous Reserve. Of this total, 995 hectares have already been purchased, and of these, 919 hectares have a final registered deed of purchase.

Training in Human Rights Policies and Procedures – 2006

- Ethical leadership course: 192 training hours for 24 employees
- Course on enhancing diversity for company leadership : 2,304 training hours for 192 employees
- Course on managing people with special needs: 36 training hours for 6 employees
- Seminars on Ethics.

socio-economic initiatives

CPFL's educational, cultural, artistic and health-related projects for local communities, suppliers and clients are approved by the Social Responsibility and Corporate Ethics Management Committee in line with corporate principles and the Company's commitment to its various stakeholders. They are generally developed jointly with communities in the CPFL Group companies' concession areas and focused on specific community needs, aimed at disseminating knowledge as an agent of change and growth in citizenship.

CPFL Corporate Responsibility and Sustainability Policy

“To include issues of social responsibility and sustainability in the administration of the businesses on a permanent basis, by managing the economic, social and environmental impacts of the Company's activities in alignment with society's legitimate interests and in compliance with the applicable legislation.”

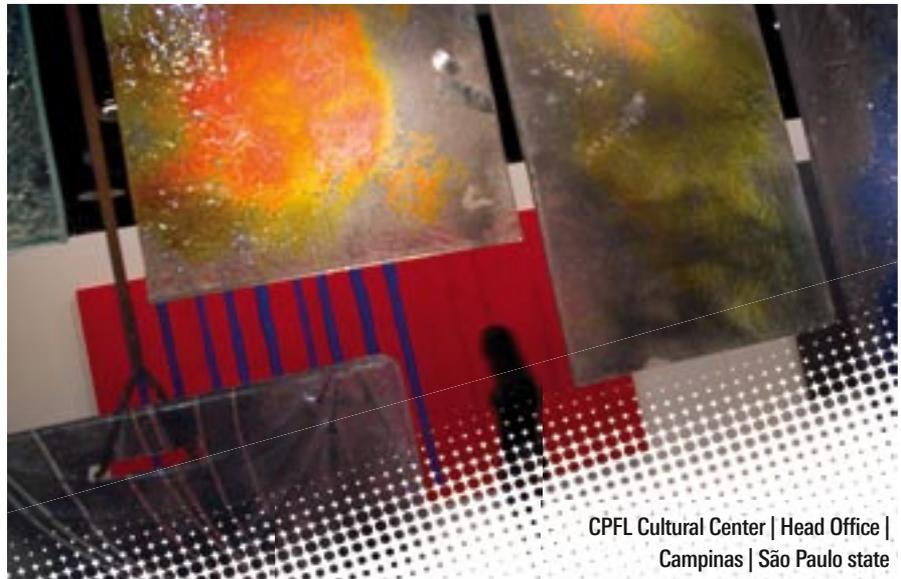
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Donations to communities, civil society and other groups

CPFL Group companies make donations (with or without tax breaks) to projects for improving quality of life and bringing knowledge and culture to Brazil's communities. In 2006, cultural investments, support and sponsorships by CPFL Energia and its subsidiaries totaled R\$ 16,181,333.00, (29.5% higher than the total of R\$ 11,398,955.00 in 2005). In 2006, CPFL's investments were distributed as follows:

In culture: the CPFL Group invested R\$ 11,265,000.00. In 2005 it was the eighth largest investor under the Rouanet Law using the tax incentives scheme for funding culture, totaling R\$ 7,234,680.02. In education: R\$ 166,000.00. In community health and sanitation: R\$ 1,081,000.00, including investments made in the modernization of the Charity Hospitals (Santas Casas).

In independent institutions that disseminate Corporate Responsibility practices: R\$ 278,000.00. In project sponsorship and social events: R\$ 1,176,333.00. In Municipal Child and Adolescent Rights Councils – CMDCA: R\$ 2,215,000.00 (read more in the Citizenship section)



CPFL Cultural Center | Head Office |
Campinas | São Paulo state

community initiatives

CPFL Cultural Center

Located at Company headquarters in Campinas and open to the general public. The center is intended to provoke thought and reflection on today's world by combining several fields of knowledge and artistic expression through events held daily from March to November with entry free of charge. The annual program is organized according to thematic modules, under the responsibility of academics and specialists in their field. The theme of the 2006 program was "The Invention of the Contemporary: Creating New Forms of Life". In all, over 196 thousand people have participated in the Center's programs since it commenced activities in 2002.

Since its foundation in 2003, the CPFL Cultural Center has developed a successful partnership with

the Padre Anchieta Foundation as part of the process of presenting its activities to an ever-larger audience. Meetings and discussions formed the basis for three weekly programs broadcast on TV Cultura: Coffee with Philosophy, An Examination of the 20th Century – Paradigms for the 21st Century and The Invention of the Contemporary. The TV programs are also available on DVD and sold in major bookstores in Brazil.

CPFL Volunteer Work Program

A corporate program launched in 2005 at CPFL Energia coordinating over 2,000 employees involved in volunteer activities of an educational, cultural and social nature, in the communities where the Group companies operate.

Main achievements in 2006: The Board of Directors approved the

CPFL Energia Voluntary Work Policy and the establishment of Volunteers Committees; donations of books and videos for the library, winter clothing and Christmas with toys campaigns; workshops were held to raise awareness of people with Down's Syndrome; 17 newsletters were published with fortnightly interviews with staff volunteers; visitors to the Program website – the CPFL Volunteer Portal, increased by 1,637%; and the number of site users increased by 36%, with 173 blogs already online. In 2006, CPFL invested R\$ 150,000.00 in the Program.

Objectives for 2007: To establish regional Volunteers Committees; to set up the Energy Self-Help Group; to distribute a primer to all employees; to hold "Welcome Aboard" Seminars at the head offices and in each of the regions; to hold themed workshops; winter clothing campaign; Christmas with toys campaign; to celebrate International Volunteers Day.

The CPFL Goes to School Project

This project aims to encourage safe and responsible use of electricity, reduce electricity wastage and raise awareness of the need for environmental preservation. The program has already reached more than 3 million children and teenagers from the public and private school system via two projects: the Kids against Energy Wastage Program

(in partnership with the Mauricio de Souza Institute) and Procel at School, which promotes learning through experiments and games. Both are part of the Procel Energy Efficiency Program and have been supported by CPFL Group distributors since 1996.

The Aprender (Learning) Project

The aim of this project is to help adolescents from the ages of 16 to 18 from low-income families prepare for the labor market. In 2006 119 teenagers were enrolled in the program, with selection based on criteria prioritizing diversity. Participants work a 6-hour shift at CPFL Energia in a support capacity in the administrative area and then for two hours every day take part in activities to increase their employability and sense of citizenship.

CPFL Program for Modernizing the "Santas Casas" and Philanthropic Hospitals

In October 2006, five "Santas Casas" (Charity Hospitals) in the interior of São Paulo state (São Joaquim da Barra, Ituverava, Franca and Piracicaba – two hospitals in the latter) received management quality certificates as a result of the CPFL Program for Modernizing the Santas Casas and Philanthropic Hospitals. After six months' participation in the program, the institutions were assessed by the Commitment to Hospital Quality or-





ganization, part of the National Quality Foundation.

The CPFL Program for Modernizing the Santas Casas and Philanthropic Hospitals is a pioneering initiative for offering management assistance to these institutions and has been run since 2005 in partnership with the Augusto Leopoldo Ayrosa Galvão Study Institute – Cealag, the Federation of Santas Casas and Philanthropic Hospitals of São Paulo state, the Health Secretariat and the São Paulo state government. The Program aims to help implement hospital management techniques and to offer staff training to improve administrative performance and the quality of service offered by the institutions. A pilot project for this initiative is currently underway in 19 hospitals in the cities of Franca and Piracicaba (São Paulo state) using CPFL Energia funding. In addition to offering courses and specialized assistance, the Program is setting up centers for technical support and is forming a volunteer group of CPFL employees and their families to help with the various aspects of the action plan. The assistance offered by CPFL Energia to the Santas Casas and Philanthropic Hospitals in its concession areas has seen considerable advances since 1997 when the Group first began providing support for this cause.

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shows on tour to the furthest reaches of Rio Grande do Sul state, free of charge. Since its inception in 2001, 370 municipalities have benefited from this program, attracting an audience of over 390 thousand.

RGE Electricity Account in Braille Project

This project was aimed initially at users registered in the municipality of Caxias do Sul. Since February 2007 it has been extended to the company's entire concession area.

economic and social leadership initiatives

Millennium Development Goals and Global Compact

In 2006, the Permanent Regional Forum for Citizenship and Solidarity, created by CPFL Energia and currently comprising about 40 companies in the Campinas Metropolitan Region, held the 3rd National Citizenship and Solidarity Week to alert society to the UN's Eight Millennium Goals which have been approved by 191 countries. One of the Week's events was the Citizenship and Solidarity Walk held at the Taquaral Lagoon on Sunday August 13th, which included pauses along the way to explain the MDGs which must be reached by 2015.

In 2006, CPFL Energia also signed the Corporate Pact for Integrity Against Corruption, a United Nations Development Program – UNDP initiative, which also includes the Ethos



See below the CPFL Group companies' actions toward achieving the eight Millennium Goals

RodacineRGE

This is a cultural inclusion program executed by RGE, which takes movie

Institute among its participating institutions. The Group also signed up to the Corporate Pact Against the Sexual Exploitation of Children and Adolescents on Brazilian Highways, which was created by the World Childhood Foundation – WCF, to ensure that companies include the issue in the training of truck drivers and transportation sector workers.

In addition to this, CPFL Energia Group companies carried out a range of actions in support of the Global Compact, launched by the United Nations to convince companies to adhere to principles on human rights, working conditions, the environment and the fight against corruption. CPFL Energia has been a signatory of the Global Compact since 2004 and in 2005 it joined the Brazilian Committee for this global agreement.

CPFL Knowledge and Growth Program

Management Excellence for Micro, Small and Medium-sized Companies: a CPFL Energia initiative for spreading the concepts of management quality, social responsibility and competitiveness to micro, small and medium-sized companies in São Paulo state, thereby helping companies to become more efficient, profitable and provide more jobs.

The training of business people relies on partners such as the National Quality Foundation – FNQ, the Ethos Institute, the Paulista

Management Excellence Institute – IPEG and SEBRAE-SP and occurred at events held between June and November 2006. Presentations on management tools, social responsibility concepts and the criteria and basics of excellence were made at a total of 14 meetings.

The series of meetings took place in Campinas, Santos, Ribeirão Preto, Sorocaba, Bauru, São Carlos, Jundiaí, Araçatuba, São José do Rio Preto, Marília, Piracicaba, Botucatu and Franca, all areas in which CPFL Group companies operate. Enrollment was free of charge for representatives of the business community from these metropolitan regions in the interior and Santos areas of São Paulo state, covering 90 municipalities. In total, there were 854 participants.

A hot site has been created, at www.cpfl.com.br/conhecerecrescer to facilitate the dissemination of information on the Program and the enrollment process. In 2007, the Program is continuing its program of training and supervising the micro and small companies taking part.

Community Kitchen Gardens

These are located on CPFL Energia property for the benefit of low-income families in concession areas in São Paulo state – 35 in the town of Americana, 16 in Sorocaba, 30 in Santos and 8 in Votorantim.



Further information on the Global Compact principles and CPFL actions resulting from them is available at the end of this Report.

Community Kitchen Garden | Sorocaba



Citizenship

CPFL donated over R\$ 2 million to Municipal Child and Adolescent Rights Councils – CMDCA, which benefited 31 cities in regions where it operates. A total of 73 projects were supported out of a total of 274 applicants. Since 2001, CPFL Energia has donated the equivalent of 1% of its income tax payments to these Councils.

Commitments

CPFL has partnerships with ABERJE – the Brazilian Corporate Communication Association, the Abrinq Foundation, the FEAC Foundation, the Ethos Institute for Corporate Social Responsibility, Comunitas and with the Akatu Institute as part of the responsible energy consumption initiative.

Sponsorship

The CPFL Energia Sponsorship Committee, which is made up of Corporate Communications and Institutional Relations specialists, examines projects for possible future sponsorship.

Global Reporting Initiative

Since 2003, CPFL Energia has published its Annual Report (its first covered the 2002 fiscal year) in line with the Global Reporting Initiative – GRI, international reporting guidelines.

Government-partnered Society Initiatives

RGE, UNICEF and You

This project raised more than R\$ 1.1

million in funds for Rio Grande do Sul state Health Secretariat's A Better Early Childhood Program. These funds were raised from consumers' donating an additional R\$ 1.00 on their electricity bills – also paying for the training of journalists for writing on themes related to childhood in 102 municipalities in Brazil as well as the printing of a thousand copies of the Stronger Brazilian Family kit. The kit comprises five albums, used by community health officials throughout Brazil for providing advice to families on raising and caring for children from birth to six years of age.

RGE-Rio Grande do Sul Government Film Award

Awarded once again in 2006, this joint RGE and Rio Grande do Sul state government initiative seeks to nurture the creativity and potential of filmmakers in Rio Grande do Sul, while at the same time developing the state's film industry. Investment in regional film production creates jobs, attracts domestic capital, drives the distribution sector and has a direct impact on the state's GDP.

In 2006, there were three full feature film winners for the third year of the Award: "Fuga em ré menor para Kraunus e Pletskaya" by Otto Guerra, "Insônia" by Beto Souza and "Quase um Tango Argentino" by Sérgio Silva. Each of these projects will receive R\$ 1.5 million through the Rio Grande do Sul state culture incentive law and the

federal audiovisual law. The RGE/State Government Film Award is the largest incentive granted in the history of the Brazilian audiovisual sector.

Iberê Camargo Museum

RGE signed a partnership agreement with the Iberê Camargo Foundation for the construction of the museum to exhibit the works of this celebrated local painter. The Iberê Camargo Museum, currently in construction on the banks of the Guaíba River in Porto Alegre, will be a major cultural and architectural landmark in Brazil, in terms of both size and significance. It is due to open in November 2007.

Gramado Film Festival

Since 1998, RGE has been one of the major sponsors of the Festival which presents one of the most important photography awards for full feature-length films in Brazil.

Gramado Christmas Lights Pageant

RGE is the principal sponsor of this large and traditional Christmas event now in its 22nd year. It directly involves around 2,000 people in the building and assembly of the structure, using over 1 million lights and 1.5 million recycled plastic bottles as raw materials for the decoration.



Millennium Goals	Types of Action
	<p>1. Eradicate extreme poverty and hunger</p> <ul style="list-style-type: none"> Support for job and income creation Support for school meals Action to reduce hunger in rural areas Nutritional educational programs Volunteer work programs Programs for greater inclusion of Afro-Brazilians, people with special needs and other groups suffering discrimination Hiring of interns
	<p>2. Achieve universal basic education</p> <ul style="list-style-type: none"> Action against child labor Support for and investment in schools and NGOs engaged in educational programs Promotion of education for employees and dependents Supplementary educational projects Contributions to Municipal Child and Adolescent Funds
	<p>3. Promote equality of the sexes and independence for women</p> <ul style="list-style-type: none"> Programs promoting diversity focused on gender and race Income generation programs for single mothers
	<p>4. Reduce infant mortality</p> <ul style="list-style-type: none"> Improve access to cheap and reliable medicines Improve access to clean drinking water Support and awards for exemplary projects
	<p>5. Improve maternal health</p> <ul style="list-style-type: none"> Improve women's working and occupational health conditions Support NGOs working on this issue
	<p>6. Fight HIV/AIDS, malaria and other diseases</p> <ul style="list-style-type: none"> Make available reliable and cheap medicines Support for education, prevention and treatment programs Support for other health projects
	<p>7. Guarantee environmental sustainability</p> <ul style="list-style-type: none"> Environmental Impact Management Education and training in the sustainable use of environmental resources Waste treatment programs
	<p>8. Promote the World Partnership for Development</p> <ul style="list-style-type: none"> Promote decent working conditions for adolescents Implementation of partnerships for sustainable development

CPFL Group Actions

- Volunteer Work Program
- Respect for Diversity Program
- Community Kitchen Gardens
- The Aprender (Learning) Project

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- Compliance with SA 8000 standards
 - Inclusion of clauses prohibiting child labor in supplier contracts
 - The Aprender (Learning) Project
 - Partnership with Abrinq Foundation
 - The School Ship Project
 - The CPFL goes to School Program
 - CPFL Cultural Center Program
 - Improvements to the public education system in regions affected by new hydroelectric projects
 - Donations to Municipal Child and Adolescent Rights Councils

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- The Respect for Diversity Program
 - Support for the Center for Research and Assistance for Socially Excluded Women – CEPROMM

-
- Donations to Municipal Child and Adolescent Rights Councils
 - RGE, Unicef and You Program
 - Adjustments and improvements to the provision of healthcare services in regions affected by new hydroelectric projects

-
- Donations to Municipal Child and Adolescent Rights Councils

-
- Internal AIDS and other disease prevention campaigns
 - Influenza vaccination campaign for employees
 - Internal blood donation campaigns
 - "Santas Casas" Modernization Program

-
- Environmental Management System, programs for offsetting and mitigating social and environmental impacts
 - Environmental Programs in the distribution companies' concession areas, near small hydroelectric power plants and in new hydroelectric facilities currently in construction
 - CPFL Cultural Center Program

-
- Regional Citizens' Rights and Solidarity Forum
 - Commitment to the Global Compact and the Eight Millennium
 - Development Goals
 - The Aprender (Learning) Project
 - Knowledge and Growth Project
-

risk prevention and management systems

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CPFL Energia and its subsidiaries and affiliates have implemented financial and operating policies and strategies for protecting both their assets and employees, and for controlling the impact of their business activities on society, communities and the environment. The Company has procedures in place for monitoring its operations and transactions so as to forestall, track and mitigate the various types of risk to which it may be exposed.

The principal precautionary systems and procedures are as follows:

prevention of financial risk

Instruments Used

Financial risk management is centralized at CPFL Energia and uses the instruments most frequently found in financial markets, one of which is the Risk Maps system, also used by some of the largest banks in the Brazilian financial market. This model allows the management of financial risk using ALM – Asset and Liability Management, VAR – Value at Risk, Stress Test and Duration analyses of the asset and liability portfolios of the subsidiaries and holding companies of the CPFL

Group. These techniques establish the level of financial risk in each transaction and provide ways of neutralizing or protecting against such risks.

Exchange Rate and Interest Rate Risks on other Liabilities

Currency Risk in Electric Power Purchases – Companies that are obliged by law to acquire energy from Itaipu have the right to seek financial protection from currency losses through the CVA Part A Cost Tracking Account Mechanism (Aneel Resolution 90/2002), which compensates companies for foreign exchange rate losses on energy purchases through the adjustment of electricity tariffs.

Currency Risk on Financial Liabilities – The CPFL Group protects its earnings and cash against fluctuations in the US dollar exchange rate through hedge/swap transactions, which allow financial debt to be indexed to variations in purely domestic indices.

Interest Rates – The CPFL Group companies have entered into derivatives contracts to hedge against the risk of fluctuations in reference interest rates such as LIBOR, for example, making for predictability and stability of financial expenses on foreign currency debt.

Financial Covenants – CPFL Group companies' loan agreements, financing contracts and debentures include the restrictive financial covenants usual in this type of transaction, typically relating to certain economic financial ratios, cash generation, and others. All such covenants are strictly complied with and do not represent any kind of limitation on the companies' ability to conduct their normal business.

Credit – The risk of loss through inability to collect from clients is low given the absence of client concentration and the company policy on collection and disconnection in the event of non-payment. Measures are frequently taken to reduce the level of payment delinquency.

Planning for Energy Purchases – CPFL Energia's operating subsidiaries have also implemented extensive planning models and procedures, intended to generate solutions and strategies for reducing their exposure to risks and penalties and to discover new ways to add value to their business activities within the context of Brazil's New Electricity Sector Model. In order to limit the risk of over or under-contracting energy needs, resulting from the intrinsic uncertainties in making five-year market projections and to minimize the

total cost of energy purchases, CPFL Group distribution companies have constructed mathematical optimization models. These are used to help develop the best strategies for acquiring energy in regulated energy market auctions based on a range of projected demand scenarios constructed in such a way as to incorporate all sectoral and macroeconomic variables affecting electricity demand.

Private Pension Plan

The CPFL Group adopts specific tools to mitigate any deficits in its employee pension plans managed by the Cesp Foundation. In addition to the institution's own specialized team, equipped with the most advanced instruments for risk evaluation, the CPFL Group has also created the Pension Plan Asset Management Committee covering all Group subsidiaries. The Committee comprises staff from the Chief Financial Officer's office and other areas, plan members and beneficiaries.

The responsibility of the Committee is to evaluate and decide on investment policy for the plans' funds, to assess actuarial calculations, economic and financial statements, security, profitability and liquidity in line with guidelines approved by the Trustee Board of the CESP Foundation. The Committee also examines the manage-

ment of the plans and proposes adjustments when necessary. Results are analyzed monthly by the Committee and the asset management team of the Cesp Foundation. Meetings are held quarterly or whenever deemed necessary, to review strategies and limits.

Insurance – CPFL Energia has established formal insurance management guidelines for taking the necessary measures to protect its assets as well as to protect against the threat to profits from accidental losses, which might undermine returns. Strategies for eliminating this type of risk are developed in conjunction with world-renowned consultancies specializing in this segment.

prevention of operating risk

The Environmental Management System provides a control framework for activities and guidance for the operating processes of electric energy distribution and hydraulic energy generation processes. These processes adhere to the requirements of their Environmental Certifications in force (read more about this in Environmental Management).

Environment – Detailed and conservatively-based environmental

impact studies are prepared for each of CPFL's new projects and the Company closely monitors the execution of its environmental programs. This enables it to comply with the numerous and complex stages that precede the granting an Operating License, thus avoiding difficulties for the commercial operations of these projects.

Hydrological Risks – The power generated by CPFL Energia subsidiaries is essentially hydroelectric in origin. However, the revenue from the sale of power does not depend on the volume of power effectively generated, but on the amount of Assured Energy assigned to each plant, which is fixed in volume, determined by the Concession Authority and written into each concession contract. Any differences between power generated and Assured Energy are covered by the MRE – Energy Reallocation Mechanism. The MRE aims to mitigate hydrological risk. In short, the MRE is a mechanism for reallocating power from those generating above their Assured Energy allocations to those generating below. The amount of power actually generated is determined by the ONS (National Electricity System), based on the effective demand for power and the hydrological situation.

Wrongful Consumption – CPFL Energia has a system for managing wrongful or fraudulent consumption, which allows targeting of consumers for inspection, account payment in installments where fraudulent consumption is being regularized and careful management of these processes.

information technology security

CPFL Energia has permanent procedures in place for ensuring the security of its technological resources and systems. To mitigate the risks resulting from equipment failure, it has built-in redundancy in critical areas. The company's IT management procedures ensure absolute client confidentiality, as well as confidentiality of all information processed by, and stored in, corporate IT systems. To allay the risks resulting from information processing assets, all IT processes are documented and governed by established internal controls. Efficient and safe use of the Internet and its connections is guaranteed by permanently updated virus detection and protection programs.

regulatory Issues

The power distribution and generation concessions are required to adhere to a series of obligations

established in their concession contracts and by the sector's regulatory framework and are regularly subjected to inspection by the Brazilian National Electric Energy Agency – Aneel, and by official state agencies. The mitigation of regulatory risks is one of the CPFL Group's strategic directives. Regulatory risks are rigorously and systematically controlled at each of the concessions, using structured procedures at both the business units and head office and by support systems, such as the Regulatory Management System – SISGERE, for monitoring and controlling the entire regulatory process. The commercialization of electricity occurs mainly in the unregulated market and is not required to follow regulated market rules, except in cases of operations involving related companies, which must have the prior approval of Aneel, a rule which is rigorously observed. In view of the corporate structure of the CPFL Energia holding company and the regulatory requirements, effective control of this type of risk requires that the corporate area assume central coordination of the regulatory process. This ensures a full picture of all inter-company relations, especially those of an economic and financial nature, thus guaranteeing conformity of operations.



Information Technology resources are a means of guaranteeing client privacy. CPFL has no registered complaints concerning the violation of client privacy.



CPFL Energia has not been accused of or investigated for any violation of antitrust or monopoly control

Recognition and awards received in 2006

CPFL Energia

Model Company in Social Responsibility, with special mention for the CPFL Valuing Diversity Program, awarded by Exame magazine's Good Corporate Citizen Guide, in which the CPFL Group has been included every year since 2002

Coge Foundation Award, in the Social Responsibility category for the Aprender (Learning) Project, awarded by the Coge Foundation

Company of the Year in Corporate Communications and Best in Investor Relations, Distinction Brazil, awarded by Aberje – Brazilian Corporate Communication Association

Best Performance in Investor Relations by a CEO or CFO and Honorary Mention for Best Corporate Governance at the IR Magazine Awards

8th Best Company to Invest, in the Agência Estado Companies Ranking

For the second year running, one of eight Latin American companies included in "**Case Studies on Good Corporate Governance**", by the International Finance Corporation – IFC, the Organization for Economic Cooperation and Development – OCDE and the Companies Circle

CPFL Paulista

Best Energy Distributor in Brazil, awarded by Abradee – Brazilian Association of Electricity Distributors

Best Management Quality, awarded by Abradee – Brazilian Association of Electricity Distributors

Best Energy Distributor in Brazil, granted by Eletricidade Moderna magazine

Model Company at the Management Quality Awards for São Paulo State, awarded by the São Paulo State Institute for Management Excellence, of the São Paulo State Government

Management Quality Award for São Paulo State, repeat win of the State Governor's Trophy, for gaining the National Quality Award in the previous year. Granted by IPEG - São Paulo State Institute for Management Excellence

CPFL Piratininga

Best Distribution Company in the Southeast Region of Brazil in the “more than 400 thousand clients” category, as judged by the IASC – Aneel Consumer Satisfaction Index

Eloy Chaves Medal – Distinction for Occupational Safety and Hygiene – 2nd place in the “predominantly distribution companies” category, as judged by ABCE – Brazilian Association of Electricity Concessionaires

RGE

“Prevention is Practiced” certification, granted by the UN and SESI-RS

Best Community Relations, awarded by Aberje South

Best Commercial Management, awarded by Eletricidade Moderna magazine

Top Consumer, from Consumidor Teste magazine

Expressão de Ecologia in the Environmental Management category, awarded by Expressão magazine

CPFL Geração

Eloy Chaves Medal – Distinction for Occupational Safety and Hygiene – 1st place in the “predominantly generation companies” category, as judged by ABCE – Brazilian Association of Electricity Concessionaires

Occupational Health and Safety Management (silver category), awarded by ABS – Brazilian Safety Agency

CPFL Brasil

FGV Corporate Excellence Awards – **Best Brazilian Company for Return on Total Assets**, awarded by Conjuntura Econômica magazine of the Getúlio Vargas Foundation

2nd place in the Valor 1000 Award – **Best Performance in the Electricity Sector**, as judged by Valor Econômico newspaper

Semesa

Valor 1000 Award – **Best Performance in the Electricity Sector**, awarded by Valor Econômico newspaper.

social report – ibase model

CPFL Energia S.A.

1 - Basis for Calculation		2006 Value (R\$ thousands)			2005 Value (R\$ thousands)		
Net Revenues (NR)		8,914,012			7,738,912		
Operating Result (OR)		2,121,254			1,240,350		
Gross Payroll (GP)		351,814			298,145		
2 - Internal Social Indicators	Value (R\$ thousands)	% of GP	% of NR	Valor (R\$ thousands)	% sobre GP	% of NR	
Food	26,556	7.55%	0.30%	22,813	7.65%	0.29%	
Mandatory payroll taxes	95,344	27.10%	1.07%	82,914	27.81%	1.07%	
Private pension plan	19,234	5.47%	0.22%	19,367	6.50%	0.25%	
Health	20,901	5.94%	0.23%	15,814	5.30%	0.20%	
Occupational safety and health	466	0.13%	0.01%	1,229	0.41%	0.02%	
Education	1,515	0.43%	0.02%	1,003	0.34%	0.01%	
Culture	0	0.00%	0.00%	0	0.00%	0.00%	
Training and professional development	7,244	2.06%	0.08%	5,885	1.97%	0.08%	
Day-care/ allowance	493	0.14%	0.01%	477	0.16%	0.01%	
Profit/results sharing	32,622	9.27%	0.37%	20,252	6.79%	0.26%	
Others	2,483	0.71%	0.03%	2,877	0.96%	0.04%	
Total – Internal social indicators	206,858	58.80%	2.32%	172,631	57.90%	2.23%	
3 - External Social Indicators	Value (R\$ thousands)	% of OR	% of NR	Valor (R\$ thousands)	% of OR	% of NR	
Education	166	0.01%	0.00%	935	0.08%	0.01%	
Culture	11,298	0.53%	0.13%	7,883	0.64%	0.10%	
Health and sanitation	1,081	0.05%	0.01%	239	0.02%	0.00%	
Sport	11	0.00%	0.00%	0	0.00%	0.00%	
Combating hunger and malnutrition	0	0.00%	0.00%	0	0.00%	0.00%	
Others	19,882	0.94%	0.22%	5,016	0.40%	0.06%	
Total Contributions to Society	32,438	1.53%	0.36%	14,073	1.13%	0.18%	
Taxes (excluding payroll taxes)	4,554,544	214.71%	51.09%	3,839,965	309.59%	49.62%	
Total – External Social Indicators	4,586,982	216.24%	51.45%	3,854,038	310.72%	49.80%	
4 - Environmental Indicators	Value (R\$ thousands)	% of OR	% of NR	Valor (R\$ thousands)	% of OR	% of NR	
Investments related to Company production /operations	34,121	1.61%	0.38%	24,342	1.96%	0.31%	
Investment in external projects/programs	13,810	0.65%	0.15%	1,257	0.10%	0.02%	
Total Environmental Investment	47,931	2.26%	0.54%	25,599	2.06%	0.33%	

Regarding annual targets for reducing waste,

consumption in general in production/operation and increasing efficiency in the use of natural resources, the Company:

() has no targets	() fulfilled 51 to 75%	() has no targets	() fulfilled 51 to 75%
() fulfilled 0 to 50%	(X) fulfilled 76 to 100%	() fulfilled 0 to 50%	(X) fulfilled 76 to 100%

5 - Staff Indicators**2006****2005**

Employees at end of period	5,836	5,838
Employees hired during period	425	595
Outsourced employees	3,286	4,376
Interns	137	130
Employees over 45	1,324	1,213
Women working at the company	1,012	1,022
% management positions occupied by women	11.20%	9.95%
Afro-Brazilian employees working at the company	431	488
% management positions occupied by Afro-Brazilian employees	0.40%	1.59%
Employees with disabilities or special needs	179	159

6 - Information on Business Responsibility**2006****Targets 2007**

Ratio of highest to lowest compensation at the Company	73.54	73.54								
Total number of work-related accidents	66	17								
Company-sponsored social and environmental projects were decided upon by:	<input type="radio"/> executive officers	<input checked="" type="radio"/> executive officers and managers	<input type="radio"/> all employees	<input type="radio"/> executive officers	<input checked="" type="radio"/> executive officers and managers	<input type="radio"/> all employees				
Health and safety standards in the workplace were set by:	<input type="radio"/> executive officers and managers	<input type="radio"/> all employees	<input checked="" type="radio"/> all + Cipa	<input type="radio"/> executive officers and managers	<input type="radio"/> all employees	<input checked="" type="radio"/> all + Cipa				
With respect to labor union freedom, the right to collective bargaining and the internal employee representation, the Company:	<input type="radio"/> does not become involved	<input type="radio"/> adheres to ILO standards	<input checked="" type="radio"/> encourages and adheres to ILO standards	<input type="radio"/> does not become involved	<input type="radio"/> adheres to ILO standards	<input checked="" type="radio"/> encourages and adheres to ILO standards				
Company pension plan covers:	<input type="radio"/> executive officers	<input type="radio"/> executive officers and managers	<input checked="" type="radio"/> all employees	<input type="radio"/> executive officers	<input type="radio"/> executive officers and managers	<input checked="" type="radio"/> all employees				
Profit/results sharing program covers:	<input type="radio"/> executive officers	<input type="radio"/> executive officers and managers	<input checked="" type="radio"/> all employees	<input type="radio"/> executive officers	<input type="radio"/> executive officers and managers	<input checked="" type="radio"/> all employees				
In the selection of suppliers, the same ethical and social/environmental responsibility standards adopted by the Company are:	<input type="radio"/> not considered	<input type="radio"/> suggested	<input checked="" type="radio"/> required	<input type="radio"/> not considered	<input type="radio"/> suggested	<input checked="" type="radio"/> required				
In relation to volunteer work by employees, the Company:	<input type="radio"/> does not get involved	<input checked="" type="radio"/> supports it	<input type="radio"/> organizes and encourages it	<input type="radio"/> will not get involved	<input checked="" type="radio"/> will support it	<input type="radio"/> will organize and encourage it				
Total number of customer complaints/criticisms:	to the Company 764,413	to Procon 989	to the law courts 2,064	to the Company 726,182	to Procon 798	to the law courts 880				
% de reclamações e críticas atendidas ou solucionadas	to the Company 100%	to Procon 100%	to the law courts 67%	to the Company 100%	to Procon 100%	to the law courts 30%				
% total value-added to be distributed (R\$ 000s):	In 2006: 7,065,607			In 2005: 6,048,115						
Wealth generation and distribution (thousands R\$):	65.39% government	4.99% employees	64.54% government	6.40% employees	18.88% shareholders	9.74% third parties	1.00% retained	15.18% shareholders	12.17% third parties	1.71% retained

7 - Other Information

Consolidated information

In financial items percentages of corporate stakes have been used. In such cases as the number of employees and legal suits, the relevant data has been supplied in whole numbers.

Responsible for information: Antônio Carlos Bassalo, tel.: +55 19 3756.8018, bassalo@cpfl.com.br

This company does not use child labor or forced labor.

The GRI indicators with CPFL Energia information relating to compliance with the principles of the Global Compact are marked in their respective colors.

The 10 principles of the global compact

Human Rights

- ① **Principle 1:** Companies should support and respect the protection of internationally proclaimed human rights
- ② **Principle 2:** ensure that their own corporations are not complicit in human rights abuses

Labor

- ③ **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- ④ **Principle 4:** : the elimination of all forms of forced and compulsory labor
- ⑤ **Principle 5:** the effective abolition of child labor
- ⑥ **Principle 6:** the elimination of discrimination in respect of employment and occupation

Environment

- ⑦ **Principle 7:** Businesses should support a precautionary approach to environmental challenges
- ⑧ **Principle 8:** undertake initiatives to promote greater environmental responsibility
- ⑨ **Principle 9:** encourage the development and diffusion of environmentally friendly technologies

Corruption

- ⑩ **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

GRI – Global Reporting Initiative reference index

a) The GRI – Global Reporting Initiative brings together academics and companies from across the world with the self-declared aim of providing a reliable framework for sustainability reporting that can be used by organizations of all sizes, sectors and locations. Sustainability reporting, according to the GRI, is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance toward the goal of sustainable development. Achieving sustainable development is “to satisfy the needs of the present without compromising the ability of future generations to meet their own needs”.

b) This Reference Index covers all essential and additional GRI indicators

profile

Strategy and analysis

- 1.1** Statement from the most senior decisionmaker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.
Pgs. 3, 13
- 1.2** Description of key impacts, risks, and opportunities.
Pgs. 39, 42, 63-65, 76, 82, 98-147

Organizational profile

- 2.1** Name of the organization.
Cover e págs. 22, 162-164
- 2.2** Primary brands, products, and/or services.
Pgs. 22-24, 51-55, 66-67, 83
- 2.3** Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.
Pgs. 1, 22-25
- 2.4** Location of organization’s headquarters.
Pgs. 160-161. CPFL’s administrative head office is in Campinas (São Paulo state).
- 2.5** Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.
Pg. 1
- 2.6** Nature of ownership and legal form.
Pgs. 22-25
- 2.7** Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).
Pgs. 1, 22-25, 51-55, 66-67, 83

- 2.8** Scale of the reporting organization.
Flyleaf e pgs. 1, 22-25
- 2.9** Significant changes during the reporting period regarding size, structure, or ownership.
Pgs. 22-25
- 2.10** Awards received in the reporting period.
Pgs. 148-149

Report parameters

- 3.1** Reporting period (e.g., fiscal/calendar year) for information provided.
Cover
- 3.2** Date of most recent previous report (if any).
Pg. 2
- 3.3** Reporting cycle (annual, biennial, etc.).
Annual
- 3.4** Contact point for questions regarding the report or its contents.
Pg. 160
- 3.5** Process for defining report content.
Pgs. 2,3. The process included consultation with a number of suppliers during the monthly Value Network meeting and with clients taking part in the Tear Program.
- 3.6** Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).
Pgs. 2-3
- 3.7** State any specific limitations on the scope or boundary of the report.
Pgs. 2-3
- 3.8** Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.
Pgs. 22-25

- 3.9** Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.
The indicators on the flyleaf were used as the basis used for calculation and figures were measured according to Brazilian accepted standards (for rare exceptions, footnotes explain the methodology).
- 3.10** Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).
Not applicable
- 3.11** Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.
Not applicable
- 3.12** Table identifying the location of the Standard Disclosures in the report.
This Reference Index
- 3.13** Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s).
The CPFL Energia Annual Report has undergone numerous assessments and has received significant awards within Brazil. Every year since 2003, the annual English version of the Report has been sent for assessment by the Global Reporting Initiative. All editions (up to 2005) have been approved by the institution. These editions are available on the GRI website.
- Governance, commitments, and engagement**
- 4.1** Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.
Pgs. 26-28
- 4.2** Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement).
The Chairman of the Board of Directors is not the Executive Director of CPFL Energia.
- 4.3** For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.
There is one independent member among the seven members of the CPFL Energia Board of Directors. See section on Corporate Governance, pg. 27.
- 4.4** Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.
Pg. 30
- 4.5** Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).
Pg. 30
- 4.6** Processes in place for the highest governance body to ensure conflicts of interest are avoided.
Pg. 30
- 4.7** Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.
The resumés of the Board of Directors and Executive Officers are available on the Company website. www.cpfl.com.br/ir
- 4.8** Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.
Pgs. 32,99
- 4.9** Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.
Pgs. 30-31
- 4.10** Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.
Pg. 27

Commitments to external initiatives

- 4.11** Explanation of whether and how the precautionary approach or principle is addressed by the organization.
7 **Pgs. 144-147**
- 4.12** Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.
1 **Pgs. 138,142-143,152**
- 4.13** Memberships in associations (such as industry associations) and/or national/international advocacy organizations
Pg. 161
- 4.14** List of stakeholder groups engaged by the organization.
Pgs. 102-103
- 4.15** Basis for identification and selection of stakeholders with whom to engage.
Pg. 99 – Mission
- 4.16** Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.
Pgs. 60-62
- 4.17** Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.
7 **Pgs. 2,105-108**

economic performance indicators**Aspect: economic performance**

- EC1** Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.
Pgs. 94,150-151
- EC2** Financial implications and other risks and opportunities for the organization's activities due to climate change.
7 **Pgs. 109,113**
- EC3** Coverage of the organization's defined benefit plan obligations.
Pg. 134

- EC4** Significant financial assistance received from government.

Total subsidies from the Government for the Low Income Program, in R\$ thousands:

2006: 23,835
2005: 21,239
2004: 46,785

Aspect: market presence

- EC5** Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.
Pg. 130
- EC6** Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
Pgs. 104-107
- EC7** Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.
Performance assessments in CPFL Energia Group companies cover an employee's professional ability to carry out their role. The organization does not maintain specific policies and practices on local hirings.

Aspect: indirect economic impacts

- EC8** Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.
Pgs. 62,75,136,137
- EC9** Understanding and describing significant indirect economic impacts, including the extent of impacts.
Pgs. 75,107

environmental performance indicators**Aspect: materials**

- EN1** Materials used by weight or volume.
Pg. 119
- EN2** Percentage of materials used that are recycled input materials.
7 **Pg. 118**

Aspect: energy

- EN3** Direct energy consumption by primary energy source.
Pg. 114
- EN4** Indirect energy consumption by primary source.
Pg. 116
- EN5** Energy saved due to conservation and efficiency improvements.
Pg. 115

EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.

Pg. 115

EN7 Initiatives to reduce indirect energy consumption and reductions achieved.

Pg. 115

Aspect: water

EN8 Total water withdrawal by source.

Pg. 120

EN9 Water sources significantly affected by withdrawal of water.

Pg. 120

EN10 Percentage and total volume of water recycled and reused.

CPFL reuses 56m³ in the closed circuit cooling tower running the air conditioning at its Campinas headquarters (São Paulo state). This total is less than 1% of total water consumption.

Aspect: biodiversity

EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

Pgs. 62-63,79

EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.

Pgs. 63,80

EN13 Habitats protected or restored.

7

Pgs. 80-81

EN14 Strategies, current actions, and future plans for managing impacts on biodiversity.

7

Pgs. 62-64,79-80,122-123

EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

7

Pg. 81

Aspect: emissions, effluents, and waste

EN16 Total direct and indirect greenhouse gas emissions by weight.

Pg. 113

EN17 Other relevant indirect greenhouse gas emissions by weight.

CPFL Energia does not maintain precise measurements of its GHG emissions and is studying the implementation of a program for this purpose.

EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.

7 9

Pgs. 82,85,112,113

EN19 Emissions of ozone-depleting substances by weight.

CPFL Energia activities occur in a number of areas which are geographically separate and do not cause significant emissions of substances causing ozone layer depletion.

EN20 NO, SO, and other significant air emissions by type and weight.

CPFL Energia Group companies do not produce significant emissions of NOx and SOx.

EN21 Total water discharge by quality and destination.

All water consumed is returned after use to the sewage systems of the municipalities where its operations are based.

EN22 Total weight of waste by type and disposal method.

7

Pgs. 116-118

EN23 Total number and volume of significant spills.

Pgs. 121-122

EN24 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.

Not applicable

EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.

Not applicable

Aspect: products and services

EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.

7 8

Pgs. 63-65,79,108-111,118

EN27 Percentage of products sold and their packaging materials that are reclaimed by category.

Pg. 118

Aspect: compliance

EN28 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.

Pg. 121

Aspect: transport

EN29 Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.

Pg. 114

Aspect: overall

EN30 Total environmental protection expenditures and investments by type.

Pg. 108

social performance indicators

Labor practices and decent work performance indicators

Aspect: employment

LA1 Total workforce by employment type, employment contract, and region.

Pg. 126

LA2 Total number and rate of employee turnover by age group, gender, and region.

Pg. 127

LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.

Pg. 130

Aspect: labor/management relations

LA4 Percentage of employees covered by collective bargaining agreements.

Pg. 130

LA5 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.

Pg. 134

aspect: occupational health and safety

LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.

Pgs. 131-132

LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of workrelated fatalities by region.

Pg. 133

LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.

Pg. 131

LA9 Health and safety topics covered in formal agreements with trade unions.

Pg. 133

aspect: training and education

LA10 Average hours of training per year per employee by employee category.

Pg. 124

LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.

Pg. 125

LA12 Percentage of employees receiving regular performance and career development reviews.

Pg. 126

Aspect: diversity and equal opportunity

LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.

Pgs. 127-129

LA14 Ratio of basic salary of men to women by employee category.

Pg. 129: Average remuneration is also included with these indicators.

human rights performance indicators

aspect: investment and procurement practices

HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.

1 2

Pg. 105

HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.

1 2

Pg. 105

HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.

1 2

Pg. 135

aspect: non-discrimination

HR4 Total number of incidents of discrimination and actions taken.

6

Pg. 31

aspect: freedom of association and collective bargaining

HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.

3 5

CPFL has always supported the right to free association and collective bargaining. Its negotiations with 11 Unions attest to this.

aspect: child labor

HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.

1 2

All contracts in CPFL Group companies in São Paulo state (CPFL Paulista, CPFL Piratininga, CPFL Geração, CPFL Centrais Elétricas and CPFL Brasil), include clauses prohibiting child labor and forced labor.

aspect: forced and compulsory labor

HR7 Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.

1 2

4

All contracts in CPFL Group companies in São Paulo state (CPFL Paulista, CPFL Piratininga, CPFL Geração, CPFL Centrais Elétricas and CPFL Brasil), include clauses prohibiting forced labor.

aspect: security practices

HR8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.

1 2

All security personnel are given training on issues including, among others, ethics, discipline and the Penal Code.

aspect: indigenous rights

HR9 Total number of incidents of violations involving rights of indigenous people and actions taken.

1 2

Pg. 134

society performance indicators

aspect: community

S01 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.

Pgs. 75,102

aspect: corruption

S02 Percentage and total number of business units analyzed for risks related to corruption.

Pg. 32. CPFL has used a consultancy firm to map areas open to risk in the ethical field. This has formed the basis for a series of specially designed seminars for employees in these areas, planned for the second half of 2007 as part of the CPFL Ethics Management and Development System.

S03 Percentage of employees trained in organization's anti-corruption policies and procedures.

10

Pg. 32

S04 Actions taken in response to incidents of corruption.

10

Pg. 31

aspect: public policy

S05 Public policy positions and participation in public policy development and lobbying.

Pgs. 75,137

S06 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.

CPFL Energia Group companies do not make contributions to political parties. See also section on Code of Ethics.

aspect: anti-competitive behavior

S07 Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.

CPFL Energia has not been accused of or investigated for any violation of antitrust or monopoly control.

aspect: compliance

S08 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.

CPFL has not been accused of or investigated for any non-compliance with legislation.

product responsibility performance indicators**aspect: customer health and safety**

PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.

Pg. 104

PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.

No situations of non-conformity were registered.

aspect: product and service labeling

PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.

Not applicable

PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.

Not applicable

PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.

Pgs. 60-62

aspect: marketing communications

PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.

Among the main functions of the Social Responsibility and Corporate Ethics Committee is the evaluation of CPFL Energia's publicity campaigns.

PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.

CPFL does not contravene advertising regulations.

aspect: customer privacy

PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.

No complaints were registered concerning breaches of privacy or loss of client data.

aspect: compliance

PR9 Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.

There were no significant fines over the year.

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Leadership and social influence

CPFL Group companies affiliated institutions

CPFL Energia

Associations, Institutions and Trade Organizations

ABA – Brazilian Association of Advertisers
 ABDIB – Brazilian Infrastructure and Heavy Industry Association
 ABERJE – Brazilian Corporate Communication Association
 IRES – ADVB Social Responsibility Institute
 CBIEE – Brazilian Chamber of Investors in Electricity
 FNPQ – National Quality Prize Foundation
 ABRINQ – Abring Foundation for Children Association
 Ethos Institute for Corporate Social Responsibility
 Acende Brasil Institute

CPFL Geração

Association

APINE – Brazilian Association of Independent Electricity Producers
 ABRAGET – Brazilian Association of Thermoelectric Generators

CPFL Paulista

Associations and Trade Organizations

ABCE – Brazilian Association of Electricity Concessionaires
 ABRADEE – Brazilian Association of Electricity Distributors
 CIESP – Center of Industry for São Paulo State
 SIESP – São Paulo State Electricity Industry Union
 Brazilian National Electric Power Generation and Transmission Committee - CIGRÉ-Brasil
 COGE Foundation

CPFL Piratininga

Association and Trade Organizations

ABRADEE – Brazilian Association of Electricity Distributors
 CIESP – Center of Industry for São Paulo State
 SIESP – São Paulo State Electricity Industry Union

CPFL Brasil

Association

ABRACEEL – Brazilian Association of Electricity Trading Agents

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CNPJ: 02.016.439/0001-38
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electricity distribution

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**electricity
commercialization**

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On CD

Annual Reports 2003, 2004 and 2005 (pdf) – Portuguese and English
CPFL Energia Financial Statements – 2003, 2004, 2005 and 2006 (pdf) – Portuguese and English
Code of Ethics and Corporate Conduct – Portuguese and English
Chronicles by Ignácio de Loyola Brandão

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