

Local Conference Call
CPFL ENERGIA
Earnings results second quarter 2010
August 12, 2010

Operator: Good morning and thank you for waiting. Welcome to CPFL ENERGIA's Second Quarter 2010 Earnings Results Conference Call.

Present with us today is Wilson Ferreira Júnior, president of CPFL Energia and other company officers.

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Before continuing, we would like to clarify that any eventual statements that may be made during this conference call regarding the outlook of CPFL ENERGIA's businesses, projections and operating and financial targets, merely reflect the beliefs and assumptions of Management, along with information currently available to the Company. Future considerations are not guarantees of performance. They involve risk, uncertainties and assumptions because they refer to future events, and therefore depend upon circumstances that may or may not occur. Investors must understand that general economic and industrial conditions and other operational factors may affect CPFL ENERGIA's future performance and can lead to results that materially differ from those expressed in the forward-looking statements.

Now, we would like to turn over the microphone to Mr. Wilson Ferreira Junior. Mr. Wilson, please proceed.

Mr. Wilson Ferreira Junior: Ok. A very good morning to all of the investors and analysts who honor us by participating on this day with us so that we can share the highlights of the second quarter of 2010, the earnings results of the CPFL ENERGIA Group during the course of the quarter.

I would like to turn to page 2, referring to the main highlights. So we will begin by evaluating during this presentation the effects of growth over 10% in the concession areas of our distributors. We also are going to speak a bit about how they impacted as well, although very slightly, the rate adjustments granted Paulista and RGE, which are the amounts incorporated into our Parcel B – Paulista in April, and by RGE in June.

We are here talking about the distribution of dividends, and also highlights during this quarter including the funding operation we just concluded, with the funds already paid into the Company, totaling R\$ 500 million through rural credit lines – they will therefore serve to strengthen Capex funds and especially working capital of the group's distribution companies, an operation that was very positive with an average cost of 98.5% of the CDI.

We are going to speak about the continuity of the incorporation of networks, something that is important during the tariff review cycle, which is reinforcing the remuneration basis of our assets, and there is a detail regarding this. Evidently, they accompanied the appreciation of the Company's shares at a level higher than both the Ibovespa and the IEE.

We will also speak about some recognition the Company received, emphasizing here that we were named the Most Sustainable Energy Company in Latin America in a recent edition of *Management & Excellence* Magazine.

Now going right to results, and I'm going to make a disclaimer here. On the following page, we will observe some of the non-recurring effects, but so that things will be a bit clearer, we are comparing here results reported especially for analysts, and it is important to make a disclaimer regarding the non-recurring results, and only then the recurring amounts.

In terms of net revenues what we have here is a small decline both in what was reported as well as in recurring revenues, of between R\$ 2,640 million in the reported revenues and R\$ 2,613 million in the recurring result of the second quarter compared to same period of the previous year, when we had R\$ 2,648 million. Naturally, this is strongly impacted by the rate adjustments of the distribution companies that we will mention a bit further on.

I think that it is important to highlight that the result of EBITDA, the value reported, is 14.8% higher, reaching R\$ 793 million during this quarter. And the results of the non-recurring effects that we will provide details about in the next page, give us a result of R\$ 731 million, which represents a 4.6% increase over the year of 2009.

With regard to net income, we are reporting here income of R\$ 384 million for the quarter, up 33% over the same period of the previous year, when it was R\$ 289 million. In recurring values, we arrive at R\$ 337 million, which represents an increase of 9.8% over the recurring value of R\$ 307 million of the second quarter of last year.

Now let's go to the next page, page 3, to get an idea about the non-recurring events that took place both in the second quarter of this year as well as the second quarter of the previous year. So, beginning here, you can see below that we do not include here the IRT recalculations for RGE during this second quarter. RGE, because of guidance from the ANEEL, changed its base-date to June 19, instead of April, as it had been. This was agreed to between the agency and the distribution company and obviously, because of this effect of 15 months, there is a recalculation, and this recalculation had a R\$ 23 million

impact on the EBITDA and a R\$ 19 million impact on net income, which is a non-recurring effect. As of now, RGE's rate adjustments will occur in June and to a great extent this will be in alignment with the Company's other inputs, in particular the cooperatives in the state of Rio Grande do Sul.

On the other hand, we had here, the result of the recognition of the reversal of provisions of a preventive nature made in the past when there was no clear-cut criteria regarding the PIS/COFINS taxes on the part of the Agency, this criteria has now been clarified and more recently even confirmed by the income tax authorities, which led us to make a reversal in the amount of R\$ 40 million in EBITDA, which impacted net income in the amount of R\$ 29 million. These are the effects that are incorporated into the Company's results during the second quarter of 2010. The total effect on the EBITDA, therefore, was a positive R\$ 63 million and on net income of R\$ 48 million.

On the other hand again, it is important to reemphasize that last year, also during the second quarter, we allocated costs to periods prior to CPFL Serviços, the results of the establishment at that time of systems... of the base control system (SAP and ERP) where we finally recognized a group of things that were pending that impacted EBITDA by some R\$ 8 million and net income by R\$ 5 million. We also had during that quarter a fine related to RGE's DEC and FEC, with an effect on net income of R\$ 12 million. Therefore, we have here in the second quarter of this year (in the year 2009) a negative total effect on EBITDA of R\$ 8 million and net income of R\$ 18 million.

Obviously, it is with these results that we are comprising the Company's recurring results that, as I have already said, resulted in a decline of 1.3% in net revenues, reaching R\$ 2,613 million; with growth of 4.6% of EBITDA, reaching R\$ 731 million; and an increase of 9.8% in net income, totaling R\$ 337 million, therefore excluding these non-recurring expenses.

We therefore are going to offer details on page 4 regarding market performance, the Company's main results during this quarter. We can observe in the upper part of the slide on the left the sales in the concession areas of the distribution companies. We can see here in blue exactly the growth of the captive market, the distribution companies' billed consumer market, which was up 5.4%.

Furthermore, we see here an extraordinary recovery, mainly in the industrial segment, of those consumers who were serviced by only one distribution network — they are free consumers who then pay a tariff for the use of the distribution system. These large consumers have been quite heavily affected by the crisis, and therefore last year's base is a lower base, but we can see here that there was vigorous growth, on the order of 27%, which totals 3,290 GWh during this quarter.

The sum total of billed sales on the part of the concessionaires and the sales that occur through the resellers, plus that of the concessionaires' networks, represents growth in their concession areas of 10.1%, reaching an amount that is a little higher than 13,000 GWh during this quarter.

It is important to mention, and it is shown in the lower part of the page, how this growth came about in the main segments that the distribution company supplies. We continue to see that it was important growth in the residential segment consumption; then we are detailing some of the drivers that led to the 6.2% increase. In the commercial area, which is also heated up, and always remembering that both in the residential segment as well as the commercial segment last year's prices practically did not interfere, these segments at no time declined in terms of volume compared to the previous quarters. Therefore, they continue sustaining an important growth process, as I said before, of the commercial segment, of 7.4%.

And now, looking at the industrial segment, whether it is smaller sized industrial consumers and therefore not free, which receive service from the distribution company, or the large sized consumers (in the green part above), we had 16.3% growth. All of this is still part of the "others" segment — basically public lighting and governments — and that rose, as mentioned a little while ago, by 10.1%.

Now let's look at the upper part... in fact, let's go first to the lower part showing the behavior of the quarters compared also to the distribution company concession areas. Here we see growth of 6.6% when comparing the first quarter of 2008 with 2007. The first quarter of 2009 shows a decline, exactly during the moment of the crisis, in particular affected by the large industrial consumers, and now that there has been important recovery, has posted growth of 9.3%, to 25,841 GWh. Therefore, we are now at levels of power volumes higher than the pre-crisis values, using the first half of 2008 as the main baseline.

Let's now evaluate the total power sales of our Group. In blue are the billed sales of the distribution companies, and as we have discussed this has grown by 5.4%. In Orange, are the values of the free market, through our resellers, declining by 5%, with total sales of 2,420 GWh.

I think it is important here to highlight only the fact that last year, also a result of our important optimization strategy, including portfolios, that we participated in the Adjustment Auction, where we were one of the three largest players in the event, and obviously there has been no Adjustment Auction held yet this year. That is the reason why there is a decline, because last year we had a volume that was being sold through the Adjustment Auction and this year we do not have it. Therefore, the sum total of the performance of the captive and free market volumes in terms of the Group's total power sales was up for this period by 3.1%.

Now I would like to go to page 5, and offer a few details about the performance that led to the amounts, in order to begin as of here to discuss some prospects. The first point is a very interesting chart, we have been very closely following this in the Company now for some 10 years, which is daily power consumption by residential consumer. We can see in the month of June 2010 that we reached a value very close to the amount of the previous month before power

rationing. This recovery took place over a period of nine years, from a pronounced decline of 6.42 KWh to 5.16 KWh (at the time, more than 20%, nearly 25% of the decline in the daily consumption per consumer).

This recovery took place over these nine years, while consumers evidently maintained their new efficiency standards, whether in the use of more efficient equipment such as light bulbs, refrigerators and similar equipment, televisions themselves and, also, obviously the result of during this period important growth, especially in the consumer income and the incorporation of new home appliances. This was what led to the recovery. Today, consumption of 6.4 KWh gives us much more comfort, with many more pieces of equipment in our homes in each one of them more efficient than those that we used a decade ago.

Yet, there is room to grow even more and here we are able to invoke some values. Of the main drivers for growth of the use of power in the residential segment, the main one is linked to income. Here we are showing a comparison of the last 12 months between these two quarters, where we have here later generation of formal jobs positions. And there also is an important effect on the overall income, of 3.8%, seen also in the comparison between quarters, reaching now R\$ 31 billion. Therefore, they are the two vectors that are important here in order to determine continuous growth of power sales to the residential segment.

More than this, we believe in the subject of credit as perhaps being important over the last few years, as being mainly responsible for the increase in the use of home appliances by our consumers. You can see that we have here an 11.5% increase over this period in the granting of credit, in the last 12 months going from R\$ 28 billion to R\$ 31 billion. Moreover, there was an increase in the length of loan maturities from 29 to 37 months. Below, we show that this behavior is expected to continue over the next few years.

Next we can see below in the projection of the credit/GDP growth ratio that today we are at approximately 49.5%, highlighting here that 17% of this volume is linked to individuals and that this should expand over the course of the following years, reaching 70% in 2014. We are also emphasizing that more than a third of this further volume is linked to individuals. Evidently, this will lead to the consumption of more home appliances, more facilities, more comfort for operating in the homes and, evidently, more consumption of power by this segment.

Just to prove the compound effect of income and credit, we have put here that the sales of furniture and home appliances during the 12-month period rising 11.3%. This is a segment that has been, as we can see, one of solid growth and the outlook is for the continuation of the sustaining of this growth process.

On the other hand, on page 6, we also have an assessment of the industrial class, where there is vigorous growth, but what is the outlook? Here are some important subjects: first, in the chart to the left, the green part, is where we can see industrial production in a comparison of the two quarters (2010 compared

to 2009), with growth of 14% and already at the pre-crisis levels. It is important to emphasize that comparing this chart with the one to the right is the level of utilization of installed capacity.

The industry, when reaching values near to 80% of installed capacity, begins to consider levels of the expansion of its capacity, and this generates orders, particularly regarding capital goods. The effect of going beyond this level, that is we reached 82.3% of the use of installed capacity in the industry, can be seen clearly in the increase in the production of capital goods, by 36%. Therefore, this is very sustained growth, proving the all of the theses of the industry itself and verified here by this strong increase in capital goods.

Another important piece of information is with regard to exports. It should be remembered that in the past few quarters I have stated that the domestic market already has overcome the pre-crisis levels in terms of sales volumes, but we had not here yet a subject related to exports. When we observe the average of these quarters, one can see that the average of the first half of 2008, and therefore during the pre-crisis, is in the range of US\$ 745 million per quarter, and we have now arrived here the first half of last year with the decline of 24.5%, whose recovery was very slow.

One can see that during first half of this year the effect already is near to US\$ 723 million for the semester average, therefore a decline of 3%, representing strong recovery, especially in this last quarter, the second quarter, reaching US\$ 802 million. Therefore, these are values that demonstrate that Brazilian companies also have capacity for export, something that together with a strong domestic market has made it possible to sustain significant industrial rates of growth.

It is important also to highlight this trend. We can see here that between the years of 2000/2004 there was an investment/GDP ratio of about 16%, and that in the last four years this ratio rose to 17%. We have seen that the government plans at this rate will reach 20%, and here we are in the first quarter of this year at 18%. Therefore, there is still relatively quite a lot of room for growth, which should also increase the prospects for industrial consumption.

Now let's go to page 7, where we can discuss a little bit about the results of the second quarter. I plan to talk about EBITDA and I will talk about net income. Through our procedures, we have reported EBITDA at R\$ 691 million, and by excluding here non-recurring effects from the second quarter of 2009, we have a recurring EBITDA of R\$ 699 million for that quarter. It is basically affected by three components, in order to reach the R\$ 731 million of EBITDA for this quarter, with the recurring amount growing by 4.6%.

The first is precisely the reduction in net revenues, the amount in absolute terms is R\$ 36 million. It is first impacted on one hand by an increase in sales in the concession area. You have the details between the captive volume and the TUSD volume, which is expressed in this quarter; and on the other hand the negative amounts, whether from the reduction in free market sales, R\$ 60 million, or from tariff adjustments, from the consumer's viewpoint of 4.1%.

Therefore, the increase in sales in the distributors' areas taken away here leads to smaller sales for the free market, while on the other hand the negative tariffs applied to the "Parcel A" levels of this quarter, in particular in the effects the distribution companies — Paulista and RGE — in terms of their tariff adjustments, as I already said.

Obviously, these adjustments were negative because there also was a reduction in the cost of power and fees, which lead to a higher EBITDA. Therefore, the expressive 7% reduction, highlighting here both the reduction from Itaipu, and therefore the currency exchange effect, and also and especially, the reduction of the fees. It should be remembered that last year we had here payment for the fees, especially the dispatching of thermal energy, something that did not happen this year, and this effect is greater than R\$ 75 million.

Finally, what we see here is increase in our operating costs and expenses. It is important to note that, because the comparison base with last year at this point was in the midst of a very strict austerity program, and therefore the baseline from last year is very low, a quarter when our costs were among the lowest ever. Next, we have salary negotiations, at the time representing nearly 7%, which raised our expenses by some R\$ 7 million. The royalties due to the greater quantity of energy generated totaled R\$ 4 million. Then there was maintenance of assets and the installation of systems, highlighting here electricity billing processing systems, CCS charges, and adjustments on the order of R\$ 6 million.

And also a series of smaller expenses are detailed in our report, highlighting here legal expenses and costs for provisions. Next we see here an increase of 15% in our expenses, with personnel alone at R\$ 7 million. Obviously, we conducted a comparison of the total of the amounts reported, an increase of 14.8%, and it is possible also to see the effects for the first half of the year. We are here, with R\$ 1,602 million in the first half, compared to R\$ 1,349 million in the first half of last year.

Let's go now to page 8, with details about our net income. Our recurring net income of R\$ 307 million is affected by 4.6% of the increase of the EBITDA (which is R\$ 32 million). There is a reduction here of 11.6% in the financial income, basically due to the increase in financial revenues of 38% and an increase in financial expenses of 24.7%.

Financial expenses increased a bit more than financial revenues, and we should emphasize here principally the IGP-DI, which indexes our Pension Plan costs, and there is an increase, although a small one, of the financial income by R\$ 9 million during this quarter. And a reduction of 0.6% in depreciation and amortization. The Private Pension entity, with an effect from the previous quarter that we've already seen, the result of an actuarial reassessment, which will occur in the four quarters of the year, there was a value of R\$ 23 million.

To these positive effects of growth, whether as a result of the Pension effect or especially the EBITDA effect, corresponds an increase in income taxes and

social contributions, of about R\$ 17 million. Therefore, we have growth of our recurring profit near to 10% and reported profit rising by 33% and in the comparison of the first semesters, also important, we had a profit of R\$ 774 million in 2010 compared to R\$ 572 million the same period of the previous year, that is, more than R\$ 200 million, or nearly 35% growth.

I wanted to especially highlight on page 9, in the case of distribution, that we have finalized here all of the tariff review processes, and finally at RGE, and it should be emphasized that through sales to the captive market (that requires the distribution company to increase the TUSD volume), and the final positive adjustments to Parcel B of 1.93%, we have here recurring significant growth of 12.8%, and reported at 27.2%.

It also should be remembered that this also incorporates the results from the adjustments with the positive effects of the addendum to the contract with the Agency, and our distributors were the first... the first eight to sign them. Therefore, we have here the 12.8% in recurring effects, and as I said sales on the captive market, the TUSD and the annual adjustment. And for non-recurring, we had as I detailed already, the reversal of the PIS/Cofins tax provision, and the RGE recalculation, which was the result of the definitive tariff revision.

With this, and as of now, we have the recurring effect, and the EBITDA from the second quarter of 2010 is composed of 66%, or two thirds of our Group linked to distribution, 25% to generation, and 9% to power sales, leading to an EBITDA margin of 28%, and a net margin of 13%. It is true that with the start up of two plants... three plants along the second half of the year - Foz do Chapecó, Epasa and Baldin – we will have here an increase of our generation share in the next half year period.

Now going to page 10, the R\$ 774 million result proposed by the Board of Directors and the distribution of 100% of this amount in the form of dividends to be paid by September 30 of this year, normally in this period and on this day, represents a yield of 8.6% on an annualized basis) and about 3.9% on the half year basis, and the average share value is R\$ 36.41.

One thing I would like to emphasize, is that the Company has been paying good dividends ever since its IPO. And so we are paying out R\$ 1.61 per share during this first semester, which is the second highest dividend paid on the half-year basis of the last five years. Since the IPO, over these five years we have paid out in the form of dividends a total of R\$ 7.1 billion, which represents payment of practically 87% of the value of the share at the moment it was launched five years ago.

This comparison is important, especially on page 11, where for the first time we make an evaluation of this type, of the evolution of the Company's market cap since its IPO. We can see in this chart that CPFL Energia is the second largest company in terms of market cap in the Brazilian market, the largest private one, and this has been confirmed over the course of time. But it is important to also note behavior especially with regards to its main competitors, or those of the

largest Brazilian companies in terms of market cap, in terms of what happened to these companies over the same period of time.

We can see that the largest company is the government-owned player Eletrobrás, and naturally that is what we're talking about here, reported an increase of 35% in market cap, rising to R\$ 28 billion, and over this period of time distributed R\$ 4.4 billion in the form of dividends. During the same time, CPFL's market cap grew by 134%.

It should be remembered that we are here with a share value at R\$ 39, and today it is R\$ 41. However, here in order to reach the R\$ 19 billion the share value was R\$ 39, so today our market cap is over R\$ 20 billion, nearly R\$ 21 billion. However, at R\$ 39 it had grown 134%, which places its market cap, as I have already said, as the second-largest energy group in Brazil, and the largest private group. Furthermore, we distributed R\$ 6.5 billion during this period of time in the form of dividends, and we are once again proposing the distribution of about another R\$ 0.8 billion, which would reach approximately R\$ 7.3 billion.

Next, we can see two players, clearly identified by you all, and the government player that we have overtaken in the past few years grew by approximately 60%, with the distribution of R\$ 5.9 billion in the form of dividends. And one large private player in the generation area, whose growth was about 139%, with dividend distribution of R\$ 4.8 billion.

Therefore, overall, we can say that CPFL paid the most dividends during this period and one of those that grew the most in terms of market cap, without a doubt the result of a very successful strategy, diversified in generation, distribution and basically oriented by operating efficiency and financial discipline.

Now let's go to page 12, where we can observe some indicators in the distribution, which has been the subject of a number of questions to us recently, such as how are payment defaults going. In the middle of the chart, you can observe a chart showing the defaults in the state of São Paulo declined, but it is still high, at around 5.6%, this in all sectors.

On the left side, you will see the overall Group's default figures, mainly those of the distribution companies, because in fact in generation and reselling there is zero default rate. In the distribution companies it was about 1.5% for the quarter, stable for this period, a default rate that is low and stable and did not rise. In Brazil, defaults increased 5.3% over the same period. For us it was stable, and in the state of São Paulo it was a little bit better, declining by 2.1%, whereas for Brazil as a whole it got a little bit worse, with defaults rising by 5.3%.

Another important piece of information, the result of questions regarding quality etc., is to demonstrate what is the duration, the frequency, of our power interruptions, which are in line, practically no increase in duration, and a small reduction in the frequency of the interruptions, which as a group is lower than 6%. Obviously, it excludes the blackout effects.

On the other hand, non-technical losses, the so-called “commercial losses” that we had during the first half of the year incorporated into our results recovered revenues of R\$ 60 million, due to inspections in 227,000 consumer units, selected by an intelligent billing system in which we identified 33,000 irregularities that were quickly regularized.

Now we go to page 13, with a view here of the Foz do Chapecó power plant. All of the basic construction is now concluded, the plant is complete, the dam is at the height of the spillways. With the power plant ready, and 94% of the investment concluded. We are now awaiting for the final filling up of the reservoir, which is necessary according to the operating license. This takes between two and three weeks for the entire commissioning process with water already in the hydraulic system of the plant.

We already have done all of the dry commissioning, and we are waiting for this week the result of a joint filing on the part of the Company with the Ministry of Mines and Energy and the AGU, aimed at preparing a set of necessary actions. As you know, we had here a strike by IBAMA, which slowed down the process for the authorization of the final filling up of the power plant. We are now awaiting it for this week then we will naturally have the plant in operation in the month of September.

On the next slide, on page 14, we have Epasa, our thermoelectric plant, the two thermoelectric plants in the north of the country, in the state of Paraíba, where we also have 51% stakes. We have completed 72% of the investment, and we expect to put this plant into operation in the month of October, and we should have here annual fixed revenues of R\$ 85 million – with a total investment of R\$ 310 million total, of which we have already disbursed R\$ 242 million.

Finally, here, I would like to bring up with you on page 15 the investments in power plants fueled by sugarcane bagasse. They consist of five projects currently under construction, one of which – Baldin - is being completed now and will begin to generate next week. We will have here... including during CPFL Day... a guided visit to this plant. We have through these five projects an installed power rating of 230 MW, based on an overall investment of approximately R\$ 600 million for all of them.

You can observe the effects and the startup dates in the chart of each one of these plants and the investment... the growth curve of this investment through June 2012. We have an important pipeline, and in the next few months we should be announcing new investments in this area.

Finally, I would like to speak here on page 16 about CPFL's wind parks, the seven wind parks in the state of Rio Grande do Norte. We are highlighting that we obtained in the month of July the installation licenses and beginning in the month of August we are setting up construction sites to make the R\$ 768 million investment feasible in the state of Rio Grande do Norte, so that operations can begin in July 2012. Therefore, as of this month I will begin to share with you the wind energy investment status.

Now let's speak a little bit about sales... sales and services, and I want to highlight basically two initiatives. The first is the growth of the CPFL Total network, which posted an increase of 84% at the service points, involving practically 2,700 locations, the result of a strategy to build up this network, including with promotional actions aimed at consumers.

During this period, we had a 20% increase in transactions and 25% rise in gross revenues for this project. CPFL Atende is our telephone service platform, which saw 100% increase in service positions, 133% in number of calls and with gross revenues rising by practically 478%, reaching R\$ 3.3 million during the second quarter.

Finally, we're going to close this presentation on page 18, with a disclaimer regarding the Company's net debt, which reached R\$ 6.4 billion, with cash on hand of R\$ 1,375 million, and part of these funds were used to pay dividends. The capital structure remains the same, 44% of own capital and 56% of third party capital. And the debt /EBITDA ratio was 2.1x, declining somewhat compared to the end of last year.

Obviously, with the imminent startup of the three projects, when we will conduct an assessment excluding the projects' debts, given that the EBITDA of these projects are beginning to appear now, we will have a 1.7x ratio, pro-forma debt/EBITDA ratio, excluding the investments, which are being concluded.

Let's go to page 19. The highlights of the quarter consist of the fundings via these rural credit lines. This is a new type of financing, with five-year maturity, a coupon of 98.5% of the CDI. It is earmarked for working capital or for the elongation of the debt of the distribution companies, in view of the fact that as some of you will remember, two years ago... that is, excuse me, last year we issued two-year debentures. These funds are being used to finalize these debentures and to extend the maturities to five years.

The debt profile also continues to be similar, mainly the CDI at 62%, TJLP 31%, the IGP part at 6%, which also is responsible for the increase in our financial expenses, and precisely was used to index debt with the pension funds at the time of privatization. We also have a disclosure here of the cost of the debt, reaching 9.5%, slightly higher than the recent increase of the CDI, but in real terms continues to decline, hitting 4.4%.

I want to speak now, on page 20, about Capex and distribution... We are investing R\$1.8 billion, more than R\$ 1 billion in distribution, which is the main investment. It should be emphasized that in this first half of the year, 43% of the investments have been carried out, as you can see in this figure. And I wanted to emphasize, and this is an important piece of information, and we can evaluate this more precisely during CPFL Day in August, which is the importance of this work involving the incorporation of private networks.

There are many private networks in the hinterlands of the state of São Paulo. These networks belong to consumers and we have taken joint action with the

Agency in order to incorporate them and improve them, actually, and this has an important impact on the merging of them into our base and the remuneration of our assets.

Therefore, showing here that this is a scheduled investment of R\$ 340 million, which began this year, we have already concluded three and we are making important progress in particular with Companhia Paulista de Força e Luz, with the principal amount to begin, as I have said, in January.

We will begin this in August of this year, in this month here at RGE. In Santa Cruz and Sul Paulista (the other two concessionaires with private networks to be merged), with the work beginning in September and October. We will incorporate some R\$ 387 million into our remuneration base through the merging of more than 37,000 km of private networks, which is important work in strengthening our base, representing growth higher than the natural growth of these companies.

On page 21, there is information regarding performance of the capital markets. Our shares in Brazil outperformed the IEE and the Bovespa, and in the United States they also did better than the Dow Jones index and the Brazilian Titans, representing the main ADRs, besides the main indexes in which the Company participates - ISE, ITAG, IBX100 and etc.

The performance in the past 12 months also has been positive, growing 33% compared to 18% for the Bovespa, and in the United States up practically 50% against the 15% rise of the Dow Jones. And there is also a volume of transactions, mainly the number of trades, rising to 1,447 per day, with transaction volume of R\$ 31.5 million, R\$ 17 million in the Bovespa and R\$ 14 million in New York.

I wanted to end here with the following recognitions received, some of them for the first time. The highlight was *Trucost* (the British agency that evaluates the carbon intensity of power companies, in one of their projects), which studied 107 energy companies around the world, and CPFL was considered the company that was least carbon intensive in the power generation area, out of the 107 that were evaluated.

We maintained our first place position as the Most Sustainable Company in Latin America, a study conducted by Latin Finance together with Management & Excellence. And also another important highlight was that for the first time CPFL was considered the best energy company on Exame's list of the Best and Largest companies through CPFL Brasil, and in the list of distribution companies CPFL Paulista was the highest ranked. Thus some important recognition was earned during this quarter.

This was the information that my team and I have made available to you. Now let's go to the questions. Thank you very much.

Q&A Session

Operator: Ladies and gentlemen, we are now initiating the question and answer session. In order to ask a question, please dial asterisk (*) one (1). To withdraw your question from the list, dial asterisk (*) two (2).

Our first question is from Mr. Sergio Tamashiro, of Safra.

Mr. Sergio Tamashiro: Hello everybody, good morning Wilson. I have a series of questions, but I will limit them to two initially. The first is regarding the Capex program. Even in today's newspaper there is an article reporting that you will be seeking new generation opportunities, if you can adapt to the lower prices. Therefore, I wanted to understand this vision that you now have, how is it related to the previous TIR period. You were more or less speaking of a TIR higher than 12%, and today what would be your view of this in order to adapt to the new market?

And then, also about Capex, we see that in two year's time your Capex will practically fall by half, that is, today you are paying nearly 100% in dividends, you are already investing more than R\$ 1.8 bi, and you have an optimized capital structure. That is to say, in the future when you substantially reduce the Capex, your capital structure will begin to become un-optimized. What opportunity, outside of the generation area, will you be seeking? Is it only here in Brazil that you are beginning to look at other types of activities? That is the first.

And afterwards, the second is with regard to the M&A activity. What can you say about a possible merger that has been commented with Neoenergia, if there are other activities... then which will have greater priority, Elektro? Where else would you be looking with this M&A outlook?

Mr. Wilson Ferreira Junior: Very good, Sergio, thank you for your question. It's a pleasure to hear from you, it's been a while since you've participated in one of our meetings.

Mr. Sergio: That's true.

Mr. Wilson: Beginning with the Capex. I think the newspaper produced a headline, but the content is somewhat different. What I had indicated for the headline in the newspaper was that I continued to be surprised with projects whose rates of return were lower than their cost of capital. Therefore, being very frank and objective with you, I have no doubt and I recognize here that the rates of return... the cost of capital for this return, not the rate of return, has declined due to the solid improvement in the Brazilian macro-economic situation. Therefore it is natural that these rates...the cost of capital has declined.

I'm going to be very frank with you. I believe that these rates will continue to be in two digits, at least over 10, and no longer 12, for the large scale generation projects, especially resulting from the decline in the cost of own capital to be paid in, in an industry such as this one.

But I'm still going to insist, because we're talking about hydro generation, long-term generation, and investments of five years, 4 to 5 years, that we know is an investment that you carry on your balance sheet over this period of time, it still involves risks — environmental risks, accomplishment risks, geological risks, in fact there is a set of risks that must be mitigated during construction using a spread that must be applied above the cost of own capital. Therefore, I understand that even though they are close... they came down from 12%, but they are still near 10%, and possibly higher than this.

Obviously, for this there is also what I reported in the newspaper, that which I can do, which is to encourage the Group, particularly the engineering Group, to develop techniques for optimizing the projects in order for us to be competitive. The projects must have rates of return that make it possible for me to share with the market the creation of value. To the contrary, we will have effects similar to some of our competitors in which we can see that the market is penalizing. Therefore, the Company has great discipline with this regard.

I believe that the cost of capital in the industry is something that you have insistently to put into your evaluations, and the Company only recognizes this in long-term projects, where it does not dominate all of the variables, such as the environment, geological and water issues, etc. It is prudent and necessary to apply risk spreads that may naturally, with our capacity for engineering, be mitigated to create value over time, and if not we will only have a TIR on the cost of capital — there will be no creation of value.

On the other hand, you are right. When we look at the Group's Capex the following is important: I have a distribution Capex that is continuous, that is naturally the result of all the commitments that are made to the Agency and that we have incorporated, from the Capex point of view, in the so-called "Factor X" flow. It is the Company's main investment, of R\$ 1.8 billion, nearly R\$ 1.1 billion is related to the distribution activity.

These values are sustained over time, it is a long-term concession, their trend is to grow and I would say "naturally" in proportion to the two growth drivers: the first is the number of consumers, which is better behaved, where we have grown about 2.5% to 3%, depending on the concessionaires. And obviously to sustain market growth, which is the volume of energy, you also have investments associated with supporting the volumes, basically substations, re-conducting, transmission lines etc., and I do not expect any reduction in this.

Now, you can observe on the other hand, that what is determining this decline is the fact that, different than distribution, in the generation area we must have projects in order to signal investments. And the projects... we are including a major hydroelectric project, and the full future investment line, the pipeline of projects under construction, our projects that mature at a faster pace, basically wind, biomass, and where we expect that in less than two years they will be concluded.

Therefore, we expect that from here on out we will continue pursuing projects in this area. For this, I want to have a frequency with the capital market, sharing

on a practically quarterly basis these new projects whether in biomass or in the development of small hydroelectric projects.

This month we will be participating... at the end of the month, in a wind auction, in which we have six parks registered. Therefore, evidently, for us to increase Capex and not de-optimize our capital structure, we will also need to go after generation projects.

On one hand, there are these renewable fuel projects, through which the Company desires to be the renewable energy market leader, particularly wind and biomass, as well as small hydroelectric projects, which are already in operation. On the other hand, obviously we want to continue to improve our engineering area in order to be able to participate in the large generation projects, the largest opportunities are beginning now, especially with the Teles Pires at the end of the year.

With regard to the M&A activity, you very well know that it is very important to the Company, and I believe that we have made this clear, including in our organizational structure, when we created a vice presidency to evaluate and remain on top of the market opportunities, especially consolidation of distribution.

Unfortunately, newspapers speculate... I have no news regarding any objective action that has been taken by the Company in the sense of backing out and you cited the case of Neoenergia, for example, where naturally we have even expensive relationships to be preserved between two shareholders, etc...

Therefore, if I could give you a driver, the main driver of value in consolidation is scale, and any asset could resist, but I have no doubt, and our experience is a demonstration of this, that geography is very important. Therefore, the concessions that are near the already constituted platforms, which is the largest in Brazil, these eight distribution companies represent 14% of the market, in the south and southeast regions that will always be our priorities, because it is there where we have the best conditions for creating value — sharing good practices, efficiency, quality levels and obviously operating costs lower than the limits established by the Agency.

Therefore we are well aware of these opportunities. We also are waiting, we imagine that over the course of the next few years, there will be a definition of concession expiration dates. There are a number of concessionaires in our areas whose concessions will expire during this period of time. Therefore, we imagine, either through the growth in generation or as I have said pursuing the renewable and hydro sources, or through paying attention to M&A processes, and even the ending of some concessions, that we will be able to optimize or continue maintaining our capital structure on an optimized level, Sergio.

Mr. Sergio: Just one thing in your last comment, where you mention the expiration of concessions near your areas. I don't know if you couldn't be a little bit more direct, are you mentioning exactly the case of CESP, of CESP's power

plants? That is are you saying that the government will not automatically renew the concessions and is it this that you...

Mr. Wilson: No, I am not referring in particular to any one of the distribution companies.

Mr. Sergio: OK.

Mr. Wilson: We have a number of distribution companies, more than half of the distribution companies' concessions expire by 2015, and some of them are very small. I believe that one of the important signals for the government, even in light of the model that it intends to begin to eliminate, or to mitigate the effects of insufficient quality because the Company today does not have the best practices, or does not have the competence of developing or implementing larger technologies, precisely because of its lack of financial capacity — it is small — then, evidently, we are now merging the bases of our small companies that were purchased over the past few years (ERP 7.0 of SAP, we will expand the CCS of the SAP). These are investments that would be practically unfeasible to be made in companies at their original sizes. To share automation of substations we need a more effective level of service quality, better....

Mr. Sergio: Ok.

Mr. Wilson: Sharing intelligence systems in order to evaluate commercial losses and reduce them. These are investments that a large Group can share with smaller companies. Perhaps there is an opportunity here to be verified in a way that we could reduce the number of concessions as of the moment in which this renovation could be carried out, perhaps by merger, or some process that could be conducted in a manner to rationalize the areas, to permit their geography, and especially offer consumers greater quality and more efficiency.

Mr. Sergio: Ok,. Congratulations on your results.

Mr. Wilson: Thank you, Sergio.

Operator: Now, our next question comes from Mr. Vinicius Canheu, of Credit Suisse.

Mr. Vinicius Canheu: Hello, Wilson, good afternoon, thank you for your presentation. I have two questions, and my doubts are more related to the results of the quarter themselves. I would like to know if you or someone on your team would be able to quantify what would be the effect in the results regarding an addendum to the contract that CPFL signed regarding the effects of the fees in relation to... could be during the quarter or for the year? The second is, if you could detail the reasons leading to the change in the results for the Pension Fund, which was a small expense and now represents revenues close to R\$ 22 million, as you showed in the presentation? Thank you.

Mr. Wilson: Vinicius, I cannot give you a precise amount, but I am going to send it to you, I will put up this information on our site itself. We can evaluate

this, yes, the average effect is in the range of 2.8% of the EBITDA, but I can evaluate each one of the operations, and Bassalo who is here with me together with Gustavo will make it available in addition to the presentation.

With regard to the Pension Fund, I also am not a specialist in this, but Bassalo who is here with me, the head of accounting, will help us with this report. What I can tell you is the following: at the end of the year, we will make a provision for Pension Fund expenses, and at the beginning of the year we will have an actuarial evaluation.

With regard to the difference of these amounts, which permits the incorporation of these R\$ 23 million, possibly by evaluating the differences regarding what we are contributing and what is being required. However, I am going to turn over the microphone to him, so he may clarify this in more detail for you, Vinicius.

Mr. Antônio Carlos Bassalo: Hello everyone and good afternoon... the question of the Pension Plan is relatively complicated in order to do the math, but it is simple to understand. At the end of the fiscal period, just one correction, Wilson, the outside actuarial calculates the full future projection of the Pension Plan — its assets and liabilities. Then, the reality is that the result is expense or income, which becomes the projection of costs for the following year.

In the specific case of 2010, this opinion demonstrates the projection of income, and that is the reason we are showing R\$ 23 million, whereas last year we had a cost of approximately R\$ 3 million during the year. We're talking about R\$ 23 million during the quarter, and we are going to close the year with practically a R\$ 90 million gain in 2010.

For 2011, we'll have a new opinion issued at the end of the year and it is that which we will be adopting for 2011. This consists of projections of costs or earnings, depending a lot on the investments made by the Foundation (which is the Pension Fund) and the expected profitability and projections for these assets. I hope I have answered you.

Mr. Vinicius: But this effect, at least through the year of 2010, for this projection isn't it a non-cash effect for the moment?

Mr. Antônio Carlos: Exactly. Perfect.

Mr. Vinicius: That's fine, thank you.

Mr. Wilson: Thank you, Vinicius.

Operator: Our next question comes from Mr. Ricardo Cavanagh, of Raymond James.

Mr. Ricardo Cavanagh: Hello and thank you for the call. I have two questions. The first is related to a question I was already asked. Basically, what would be your view today with respect to the possibility of achieving your goals that were announced in the investment plan for a period of five years in terms of doubling

market share and also significantly expanding generation capacity at this time, already counting on Belo Monte?

And the second question, in parallel to what is happening to the generation industry, while still a little soon, but how you imagine the trend for WACC returns, tariffs and distribution during the next tariff review cycle? Thank you.

Mr. Wilson: That's fine, Ricardo. With regard to the possibilities of meeting the targets of the Company's strategic plan, I would say that the possibilities are quite substantial. I understand that it is our goal to reach 2014 with something near to 5,000 MW of installed capacity, which we already have in the pipeline just with the investments that have been announced and the conclusion of projects of about 3 MW. I would say that if we have or if we can put into place particularly in the next two years hydroelectric power, this possibility for 2014 will continue to be in play.

The most important piece of information, which I would like to highlight, is that the plan was prepared with a view towards creating value. That is, it has implicit differences between the cost of the own capital and the cost of third-party capital to comprise a given WACC, and obviously profitability, and an internal return rate that is higher than the WACC, that in fact it creates value for the company. Therefore, sometimes reaching the physical value is not more important; what is more important is to have, is to create value, if we can be more effective, to have higher rates of return, we will be able to create the same value with lower volume.

However, in principle, this is the baseline that makes it possible to maintain an outlook for the creation of value, and we always do this way. So I wanted to say that in the generation area, this depends more on us. I believe that we are in a good position with regard to renewable sources and we have a challenge here in the hydroelectric area, but we also can see that the Company's track record is favorable and we can adjust this.

With regard to distribution, I would like say, is it more difficult? I could say that if we are able to double the size of the Company, there is a lot of value to be created. And it is because of this, and in one of the previous questions as was brought up, I have spoken about the importance of scale, whether scale in geography or scale in value to be created.

The Company is not going after market share. It is going after opportunities that obviously will invoke market share, create value. I think that if we pay attention to the prospects and some players in particular (foreigners, etc.), I would say that... it is the subject I spoke about a little while ago, of the issue that some concessions are smaller, and even there are cooperatives at the end of their concession periods, and I continued to be optimistic, even though this is something that, different than generation, does not depend exclusively on us.

However, I understand that consolidation opportunities will exist and do exist. This is good for the country because it will permit large groups to use their Capex funds to sustain better rates of growth, to share good practices

permitting better quality, obviously sustaining this process for the creation of value, and sharing with consumers in the form of lower tariffs.

The logic of consolidation is a logic that, as in the developed countries, is present when we succeed in making a single country, including from the energy point of view, which is the first step in universalization. The second step is the sharing of good practices, so that on one hand we have good quality and service standards (service quality, system reliability) and on the other hand a variation of tariffs that are lower than we see today.

This then is the challenge that consolidation will have to address in the upcoming years. I believe that the Company, for what it already has been able to constitute regarding these subjects, is a strong candidate to be an agent of consolidation. And therefore I remain optimistic still regarding the subject of distribution, naturally through 2014.

With relation to WACC, I think there are two things involved. The first ... the WACC must have a... must have, and I am talking about a slight reduction, basically because the cost of capital and the cost of third parties have been slightly reduced.

I was speaking today with Gustavo himself and this is one of those topics that I would like to address on CPFL Day. I think it should be somewhat different than some of the expectations raised by the banks themselves, and why am I bringing this up?

Because the distribution company makes an investment, makes daily Capex investments. It is different somewhat than a transmission company, which makes a single investment to build a platform and that investment is stable for a long period of time. In the case of distribution, it makes continuous investments, and therefore is subject to different financing rates.

Just trying to make this more understandable for you: if you observe, and I believe it is an important proxy, the BNDES when, for example, it looks at a transmission and distribution service, what does it do? It gives a shorter deadline to the distribution company than to the transmission company. It gives a spread on the cost of the financing that is greater for the distribution company compared to the transmission company.

And also in the specific case of the comparison, it gives lower levels of financing to the distribution company in proportional terms to that which it finances for the transmission company. These are elements made by an investment bank, which is the biggest financing agent of Brazilian infrastructure, and also one of the largest power distribution financing agents.

I have mentioned this, and particularly this last point. The bank finances the Finem of the distributor's Capex, it finances a maximum of 60%, in order to speak about the following: what do you do with the rest of Capex if you are going to make it feasible using third-party funds? You will have to issue a debenture. And I shared with you today a very good operation at 98.5% of the

CDI coupon, and through an all-in operation it is in the range of 106% of the CDI.

In the last quarter, we also demonstrated this with indivisible debentures at 107.5% of the CDI. These are extraordinarily positive amounts for the distribution company and for the industry, but they are higher than the CDI. Last year, for example, we issued at 111% the CDI, had notes at 118% of the CDI. Therefore, one must comprise third-party capital, and not only through the BNDES even because the BNDES does not finance everything, and we had to comprise with debentures and we had to comprise with own capital.

Therefore, these amounts one way or another must be recognized at the moment when the Agency establishes a new WACC. It has already done this, but I would say there are externalities, and that the crisis itself increased the costs of the distribution companies, particularly with regard to funding, just as happened to everybody else, it also happened to the distribution companies.

And thus, my expectation is, without advancing any number because I have no way of putting a number to it, but that I expected to be small because there is an improved macro-economic situation. I would say that it is indubitable, there is no doubt regarding this — the cost of third-party funding is declining along with the cost of own capital.

However, on the other hand, one must not forget that we are trying to make feasible a capital structure for a tariff cycle. And this also depends not only upon the BNDES' benchmarks, as I have said, but also on supplementing the funding that you obtain through the capital market, even because there is no full own financing from the BNDES for the distribution companies

It is my view that it will decline somewhat, that the reasons for this decline are those that are already known, in the reason for it not to decline sharply is that in this tariff cycle we have these accidentalities — that in some way have to be recognized in this process. That is my view, Ricardo.

Mr. Ricardo: Excellent, thank you very much.

Mr. Wilson: Thank you, Ricardo.

Operator: Our next question comes from Ms. Tatiana Reis, of Citigroup.

Ms. Tatiana Reis: Hello to everybody, thank you for this conference call. My question is with regard to the generation and reselling segments. We saw the decline in sales volumes, and we are asking ourselves if this is in any way related to a seasonal strategy that is more aimed at the second half of the year, when Spot prices should be much higher. Thank you.

Mr. Wilson: No, Tatiana, that's not it. In truth, in the specific case of reselling, you have an effect, let's call it "non-recurring" in the comparison between these quarters which corresponds to last year, as a result of the crisis. You had this

so-called “adjustment auction” where we were one of the main players to supply this volume.

Evidently, at that moment we took advantage to renegotiate large contracts with free consumers, which for clear reasons had reduced their production and, thus, were able to negotiate an amount that we would deliver to them in a more positive manner for them, who would theoretically have more volume than they were going to use. And it was positive for us because we were able to place these volumes in the so-called “adjustment” auction, where we were the third largest participant.

Therefore, last year’s strategy demonstrated this characteristic, because this auction occurred during the period of the second quarter, correct? The adjustment auction this year should be put on a little bit further into the year, and there we should return with this type of strategy. That is the main justification.

I wanted to mention here for you that only in terms of the future, why has the Company been dedicating itself so strongly to the question of, for example, biomass? It is because the Company could enter into a partnership that is very interesting to a sugarcane miller, that could make its project feasible because it would put obtain a PPA.

It is the largest biomass power operator in Brazil, with something like 30% of the production purchased by the Company. And therefore it has a reasonably good level of specialization in operating this market, in particular with the consumers — the medium sized consumers, the so-called A4, between 500-3 MW – where, evidently, besides the portfolio that we have in the distribution companies, we also know this field throughout Brazil, that’s the reason.

Now, what is important in this? Upon making a PPA, you block off the plant and make it feasible, adjust it financially (we’re talking about PPA from a traditional Company in the industry, the most efficient one, which won this recognition from Exame itself) and has the challenge of making this portfolio profitable.

As a result, the volumes tend to grow because up until today CPFL Brasil and its subsidiaries have never operated with generation ballast from the Group itself. All of its power plants, as you know, have their own PPAs with the distribution companies, this is related to the old model. As of now, with these new projects, especially those of biomass, the so-called “decontracting of small hydroelectric power plants” etc. will all become ballast, a portfolio to be sold by CPFL Brasil. Therefore, in this way it could increase its volumes in the future. This is the strategy.

Sra. Tatiana: Perfect, Thank You.

Mr. Wilson: You’re Welcome.

Operator: Our next question comes from Mr. Antonio Junqueira, of BTG Pactual.

Mr. Antonio Junqueira: Good afternoon, Wilson. A simple question, in fact. In the quarterly comparison we can see an important decline in Piratininga's EBITDA and revenues, in spite of an increase in volume. In your opinion, what led to this decline? Thank you.

Mr. Wilson: Antonio Junqueira, this is quite a momentary thing I'm not going to be able to answer here and that's it. Just remember the following: the core business of the distribution companies, which makes up their revenues, is precisely the platform of assets that make up the company. The smaller the company (the case of Piratininga is typical, it is a company with something like 9,000 km²) the contribution itself that you have in terms of more efficient performance is smaller.

I would not know how to tell you, I can confess to you I have not had any curiosity about looking into this variation, but it is something that I will do and I will share with you all. There is nothing in Piratininga that is atypical, because it was reviewed at the end of last year and it is performing up to the original projections, there is not much upside in the company.

Mr. Antonio: Great, thanks.

Operator: Our next question comes from Ms. Mariana Coelho, of Itaú Securities.

Mr. Marcos Severine: Hello to everyone. In fact, it is Marcos Severine from Itaú. Wilson, what I have in reality is a question that is much more related to the ability to finance projects. Speaking about infrastructure in a general manner, we can see that there is a need for annual investments on the order of R\$ 200 billion, infrastructure related to electricity on the order of R\$ 30 billion/year.

My doubt is with regard to the BNDES. In the past projects, we have observed a quite significant change regarding the financing conditions, especially for Belo Monte, with an increase in amortization maturities from 20 to 30 years, 20 already taking into consideration the increase that was established for Jirau and Santo Antonio. The special PSI line financing the portion of machinery and equipment at a fixed nominal cost of 5.5% for 30 years.

On the other hand, we also see, given this gigantic need for investment in the forthcoming years in infrastructure in a general manner, that the BNDES' balance is quite tight. Therefore, my question is: first, do you see any other source of financing outside of the BNDES, how could this sector be seeking this out?

And second: do you believe that, as a result of this change, this seeking out new sources of financing, there would be some need to increase the ceiling prices, principally for generation, in order to sustain an eventual reduction in the amortization maturities, an eventual increase in the cost of this new source of financing simply in order to guarantee the same internal rate of return that we

have observed in the last auctions, and in our calculations were in the 10%, 9% bracket, depending on the discounts at the auctions? That is a question.

And third, also related to the BNDES, given the need for the capitalization of the BNDES, do you believe in the possibility of the selloff of assets, that is to say for going from Brasiliana through to BNDESPar's own portfolio? These are my questions. Thank you, Wilson.

Mr. Wilson: Thank you very much, Severine. With regard to another source, I believe that the candidates themselves, even Minister Dilma (who has over the past few years sought to make infrastructure feasible) have been clear about this.

I believe that we have here an extraordinary source, which is the BNDES, which in every sense has been a partner for infrastructure – financing over time, with adequate maturities. I believe that the BNDES has evolved a lot whether in the question of maturities or the question of spread. I think that this is an important contribution now, as the economy is growing in a vigorous manner. You must go after other sources and this has been put on the table, especially by Minister Dilma herself.

Yes, I believe that we must go after sources in the domestic private market. And, yes, we are also going to begin now, again, to go abroad with commissions in reais etc., because of the very quality of the investments that you are going to be able to offer to the world. And I believe that the world already is financing in rates and especially longer maturities than we had been accustomed to here.

With regard to the internal market, I believe that the government itself, and Minister Guido Mantega, have brought up the need to create some type of instrument or to reduce income taxes for those who are investing, etc., that makes it possible for you to increase the maturities and lower the costs. I think that that is where the government can in some manner stimulate, either by the elimination of some taxes... and that is what it has done with cars, with home appliances, etc., I mean it needs investments in infrastructure, it does not have the financial capacity, and I believe that there should be an instrument to reduce the cost of the investments to permit greater financing opportunities through private organisms.

I do see the need to go after other sources. I think that in the international market the comparative improvement of Brazil compared to the other economies and these opportunities will be able to be placed as long-term, well-backed problems, and will also make it possible to make long-term issues in reais.

And I think that the question will remain, and you addressed this well, for the subject of cost. Evidently, there is a cost to pay as we are making a number of different investments... When I say "we," I mean the industry as a whole, where these amounts will be perceived. If they were greater, they tend to be a bit more

than the BNDES [can handle]. Then I think that this will certainly be incorporated here as part of the cost outlook for these projects.

This is an important amount, especially in the generation area, where one normally uses a structure of 30% own capital, 70% third-party capital. And it is obvious that an increase in the cost of third-party capital, unless that there is a possibility of lowering the return, it will certainly imply an increase in the ceiling price.

I don't believe this is significant, I want to say this, why? Because we already have very low values. And as I answered the first question, I believe that we must have... what is most important to society, to the industry, is that these projects be concluded... that they be well carried out and delivered on time. Then, we cannot ignore the so-called "risk" of doing this, and if there is a risk, if risk exists, there is a spread to be incorporated into the cost of capital.

If the cost of capital does not change and the risk does not change, if the cost of third-party capital is increasing, then you naturally must have profitability that is a little bit higher than the cost of capital and, without a doubt, the impact will be an increase in the prices.

Regarding your last question, concerning the capitalization of the BNDES. I must confess, I agree with your diagnosis. However, I don't have any capacity to make an opinion if it will do this... it will make such selloffs. I believe that the BNDES has been quite disciplined with regard to the origin of its capital and the management of its assets, and in some of them certainly it could achieve good profitability, without doubt it has the possibility. But I believe that it is a decision that is taken at the technical level and goes to the political level. I am not capable of addressing this. I think that there are possibilities, yes, but the decision is not exclusively technical, in my opinion.

Mr. Marcos: Ok, answered Wilson. Thanks.

Operator: Our next question is from Mr. Pedro Manfredini, do JP Morgan.

Mr. Pedro Manfredini: Good afternoon, Wilson. My question is quite simple. You commented a lot about biomass, about government incentivated sources in general. I wanted to know that with the cost, mainly of Capex, falling in the coming years, if you think in this manner when you see these incentivated sources migrating from special auctions to, suddenly, an A-3? Do you see this happening over the short-term? How are you viewing this? When will they be competitive with other sources? Thank you.

Mr. Wilson: I'm going to ask my colleague Roberto Castro to answer, it is a question that is more specific and I think he can clarify this better.

Mr. Pedro: That's ok.

Mr. Roberto Castro: Thank you Wilson, thank you Pedro. Our expectation is really that there will be a trend over the medium term for these sources to

become competitive. If you observe, for example, this year's alternative source auction, you will see biomass competing directly with wind energy. Therefore, there is a prospect that this will really be achieved over the medium term. We do not believe this is a short-term trend, but for the medium term, it is.

Mr. Pedro: Ok. Do you see that there is suddenly any room also to dispute efficiently with other sources? Not I would say between biomass and wind energy, but with other sources — even hydroelectric sources themselves — do you see any room for this in the future, what is your view?

Mr. Roberto: There is a tendency that this will necessarily occur, but this is for the long-term. Therefore, in the short term we expect that these competitive sources will compete between themselves, as is expected for this upcoming auction. However, obviously for one to achieve parity with hydroelectric sources, mainly at the prices that we now are seeing, this is something that is much longer-term, it should not happen over the medium term, which we estimate is something that represents 3 to 4 years.

Mr. Pedro: What is missing... regarding my last question, what is lacking most is the issue of Capex technology... technology and influence in the Capex... for you to reduce Capex you have the EPC project managers in Brazil, as is the case of wind energy, now you have the presence of these EPC builders...wind turbine consultants now in Brazil. Is it this that has blocked competitiveness? Do you see migrating [leads to] a decline in Capex itself, is that it?

Mr. Wilson: What we saw, even in the first auction, was a break in the paradigm. I think that there are two important elements here. The first is because the government very wisely was able to take advantage here of the prospect of the installation of a group of factories in Brazil (wind turbine plants), the result of the volume that it had contracted, that it established very strong competition, some of them involving the vendors becoming partners, and in our case it was similar.

I believe that there obviously is a long-term outlook for installing wind turbines, the trend is that these amounts... I don't say they will fall, but they should stabilize at a lower price, the results of scale that they could have and long-term prospects, especially.

It is important to emphasize that we have had substantial talks with the vendors. Brazil still has a number of disadvantages with regard to the raw material, in the cost of specialized manpower, which does not permit us here the best wind turbine price. Perhaps one thing that is important to check during this upcoming auction: you know that the last time the major portion of the wind generators that were sold was equipment produced in Brazil because of the financing characteristics — it was greater for the platforms that would consume wind turbines manufactured or assembled in Brazil, to the detriment of those that would be imported.

However, if we observe that in the past six months there was a significant depreciation of the Euro compared to the Real, the main wind turbine

manufacturers are European — then the question of the crisis in Europe and perhaps the lower value could have... could imply a difference at some level during this coming auction, but this is something to be followed at the time.

Now I wanted to take advantage of and inform you of the following: the neutrality of Parcel A. Here, Bassalo thought that the effect on our Group was R\$ 19 million during the quarter, which is 3.4% of the EBITDA calculated by the Company [this is contained in Note 3, is that right? Of the balance sheet itself]. Nota 3 of the balance sheet, therefore the question that one of you asked, Vinicius has done it, it is addressed with R\$19 million, look at Note 3, you have a disclosure for this.

Mr. Pedro: Thank you for the answer.

Operator: We are now closing the question-and-answer session. I would like to turn over the microphone to Mr. Wilson Ferreira Junior for some final comments.

Mr. Wilson Ferreira Junior: Once again I would like to thank you for your attention to this conference call. To say how satisfied we are to be able to share growing results, with the creation of value. Once again, I believe that the numbers that we have shown here in terms of market outlook, in terms of energy consumption, are quite challenging numbers for the future, whether to stimulate the investment in the growth of the generation, transmission and distribution platform or naturally due to the opportunities that emerge from them.

I believe that it is up to CPFL, in the light of its strategy, to pay attention to — and it is this that we are assuming is a commitment — to financial discipline and the intelligence needed to take advantage of it in the best manner possible. This is what I expect to be able to share with you in the upcoming quarters together with my team. I would like to thank you once again for your presence, the participation of each one of you in this conference call. Thank you and good afternoon to all.

Operator: CPFL Energia conference call is now ended. We would like to thank all of you for your participation and may you all have a good afternoon.
