



**Local Conference Call
CPFL Energia S/A
Third Quarter 2019 Results
November 13, 2019**

Operator: Good morning and thank you for waiting. Welcome to CPFL ENERGIA's earnings conference call for the third quarter of 2019.

With us today is Mr. Gustavo Estrella, CEO of CPFL Energia, Mr. Pan, Chief Financial and Investor Relations Officer, as well as other executives from the company.

The presentation is available for download on the Investor Relations website of CPFL Energia, at: www.cpfl.com.br/ri. We inform you that during the company's presentation all participants will be in listen-only mode and that immediately afterwards we will start the question and answer session, when further instructions will be given.

If you need any assistance during the conference call, please dial star zero to request assistance from the operator.

Note that this conference call is being recorded. The conference call will be conducted in Portuguese by Mr. Gustavo Estrella with simultaneous translation into English, with the participation of Mr. Pan, who will speak English to all listeners.

Before proceeding, we would like to clarify that any statement made during this conference call regarding the business prospects of CPFL Energia and its operating and financial projections and targets represent the beliefs and assumptions of the Company's management and are based on the information currently available. Forward-looking statements are not guarantees of future performance. Such statements involve risks, uncertainties and assumptions since they refer to future events and, therefore, depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors could affect the future performance of CPFL Energia and cause its results to differ materially from those expressed in such forward-looking statements.

We will now pass the call over to Mr. Gustavo Estrella. Mr. Estrella, you may proceed.

Mr. Gustavo Estrella: Good morning everyone. Thank you for participating in our conference call for the third quarter results.



Let's go straight to slide 3, which shows the highlights of the quarter. The first two refer to our results, with EBITDA growing 4.5% to R\$1,618 million, and net income growing 19.4% to R\$748 million. A bit later you will see how the quarter was challenging from the standpoint of consumption, with a recovery in energy consumption still failing to materialize. Nevertheless, we delivered growth in both EBITDA and net income.

Gross debt ended the quarter at R\$16.8 billion, with a net debt/EBITDA ratio of 2.68 times, which already considers the acquisition of the shares in CPFL Renováveis at the end of the quarter, with CPFL Renováveis already 99.94% already consolidated in the CPFL group.

An important highlight that also is related to investments is the investment of R\$616 million in the quarter, which is 17% higher than in the same quarter last year, on track to deliver on our investment plan of R\$2.2 billion for the whole of 2019.

Another positive development was the tariff revision process at CPF Piratininga, which we will go over in more detail later, but the final effect was a decrease of 7.8% for our final consumer, with an increase in the B portion of 6.2. The major impact came from the end of the transfer of the loan with CCEE, which had an important effect on reducing the tariff, and for us it also is important to reduce the tariff in the final account for our customers.

So, like I said, we concluded the transfer of the shares in CPFL Renováveis, with payment of R\$4.1 billion and a price per share of R\$16.85, which means that Renováveis is now practically 100% integrated into the CPFL group.

As a result, our installed generation capacity increased to 4.3 GW already considering the new interest in CPFL Renováveis.

We also received important recognition from the Exame Sustainability Guide 2019 as the most sustainable company in the energy sector. The highlight was the CPFL program in hospitals, where, through an energy efficiency program, the Company plans to invest R\$150 million over the next three years to install solar panels on public hospitals in our concession area. So the program led to our recognition from the Exame Guide. Another highlight was our relationship with local communities through the projects of the CPFL Institute.

Let's go to slide 4 for details on the tariff revision at CPFL Piratininga. As you can see, we have a gross remuneration base of R\$3.8 billion, a net base of R\$2.5 billion, a portion B corresponding to R\$921 million, and regulatory EBITDA of R\$460 million. At the bottom of the slide, you can see the growth in relation to the fourth tariff revision cycle of 34%, or R\$117 million, in our regulatory EBITDA, to R\$460 million.



Compared to the adjusted EBITDA of the fourth cycle, considering the effects from the asset write-offs, depreciation and inflation adjustment, this growth was even stronger, of 47%. Obviously, we expect our regulatory EBITDA to grow over the coming years.

Going into even more detail, as I commented, I think that the positive effect from the growth in portion B of 6.17% was mainly due to the company's higher investment in the Regulatory Remuneration Base (BRR), which increased incrementally by R\$109 million, and to the higher average depreciation rate.

In terms of the reduction in portion A, the main factor was the end of the CCEE loans, which caused a reduction of nearly R\$300 million, which leads to an important reduction in the final rate paid by consumers.

Let's move on to Slide 5, which shows the performance of our sales. Like I mentioned, the quarter was challenging, without any clear signs of a recovery in consumption in our concession areas. The load in our concession area fell by 0.3%, while sales in our concession area fell by 1.8%.

Large differences in load and sales are due to a recovery in the market late in the quarter that is not captured by our meter reading calendar, and therefore does not affect our sales, but affects our load.

And, in fact, that is what we are seeing for the fourth quarter, especially in October, which is a recovery in consumption, especially due to the temperature effect. We captured a bit of this effect at the end of the third quarter, and we could see this reflected in our sales in the fourth quarter.

Broken down by consumption class, the highlight was the industrial class, which registered a decline of 4%. In the table on the right, you can see how we tried to break down the data to understand the cause of this decline, and what we identified as a calendar effect, which is not a real effect, the migration of certain clients that today are connected to the basic grid, which also does not represent a real decline in energy consumption, and an effect from distributed generation (GD) of 0.1.

After isolating the effects, practically the entire effect macroeconomic, with the performance of the industrial class declining by 2.4%, less than the 4%, but still representing a significant negative effect in industrial consumption.

Once again, just briefly on our latest expectations for consumption, we see some signs, albeit very tepid, of a recovery in consumption in the fourth quarter, with performance a little better than in the third quarter, but still practically in line with 2018.

Let's go to slide 6, which shows our delinquency and losses. Delinquency improved in relation to the second quarter of this year, basically continuing the



trend observed over the course of 2019, after a significant increase at the end of last year. In the first half of 2019, our allowance for doubtful accounts (ADA) was R\$68 million, fell to R\$64 million and now stands at R\$61 million, confirming the positive trend in our delinquency, but which is still higher than in the third quarter of 2018.

We have, in fact, been working intensely on combatting delinquency. On the bottom left, you can see our collections actions, with a 10.8% increase in the number of disconnections, which reached 589,000. In the whole of the year, we should reach around 2.2 million disconnections in our concession area.

Losses ended the quarter at 9.31%, up from the level in June. Note that the calculation of the indicator was affected by the revenue calendar. As such, we do not expect any real increase in losses, given that the increase basically reflects a calendar effect that should be offset in the fourth quarter.

Moving on to Slide 7, you can see our hydrologic scenario, with significant declines in reservoir levels in the National Interconnected system, with the indicator expected to end November at 21.4, which is one of the lowest level in the historical series, which creates a high level of dependency on the expectations for rainy season that has just started in terms of rebuilding reservoir levels over the coming months.

Obviously, this has affected and will continue to affect the level of our ADA, which this year has been consistently higher than in 2018, and which we expect to remain pressured over the coming months.

Now on slide 8, you can see the performance of our generation of renewable power from the three energy sources used by CPFL Renováveis, with biomass generation practically flat, at 8 GW/h and SHPP generation down 35 GW/h due to the deterioration in inflows in the South region and in the states of Minas Gerais and São Paulo. However, the main effect came from wind power generation, which decreased by 179 GW/h, basically due to the weaker wind performance compared to 2018.

In the chart, you can see the decline of 10 percentage points compared to 2018. You also can see somewhat of a recovery starting in October, but still below the levels of the P50 curve.

Now I will pass the call over to Pan, our CFO, who will comment on the group's financial results in the quarter.

Mr. Pan: Good morning everyone. Moving on, Slide 9 shows our EBITDA in the quarter of R\$1.6 billion, up 4.5%. Distribution EBITDA grew by 17.8%, with the main effects a market effect of R\$187 million largely due to the tariff increases in the last revision based on the load in our concession area, and the R\$42 million gain due to the valuation report of the regulatory asset base (RAB) of



CPFL Piratininga. The concession's financial assets decreased by R\$78 million due to the lower IPCA inflation this year; and PMSO increased by R\$23 million, led by the higher expenses with assets write-offs and capex of R\$17 million and the expenses with pension funds of R\$6 million.

The trading, services and other segment declined by 24.8%, given the lower margin at CPFL Brasil due to lower energy prices.

The next slide shows the conventional generation segment, whose EBITDA grew by 0.5%. The main effects were: the passthrough of inflation of in contracts of R\$32 million; the reduction in hydropower and thermal power generation of R\$17 million; and the atypical effect from a tax incentive in 2018 of R\$11 million.

At CPFL Renováveis, EBITDA fell 10%, reflecting the effects from lower wind power generation of R\$66 million; from the write-off of assets of R\$9 million; and from the expiration of the grace period for the payment of O&M services of R\$6 million. On the other hand, seasonal effects on contracts generated a gain of R\$45 million due to the higher allocation of energy in the period. Bear in mind that this effect will be offset in the next quarter.

On Slide 11, you can see the performance of net income, which came to R\$748 million in the quarter, up 19.4% from the same period last year. In addition to the R\$70 million variation in EBITDA, the main effects were: the financial gain of R\$147 million due to the R\$56 million in additional income generated by the cash position of CPFL due to the IPO proceeds; the R\$53 million reduction in interest expenses; and the R\$32 million effect from the mark-to-market adjustment. Depreciation increased by R\$30 million, while income tax and social contribution increased by R\$65 million due to the growth in net income.

Moving on, the next slides shows the results in the year to September. In comparison with the prior-year period, EBITDA grew by 8.6% to R\$370 million, while net income advanced 26.5% to R\$396 million. A key factor driving EBITDA growth was distribution, which benefitted from the tariff revisions in 2018.

In the other segments, the weaker wind conditions at the wind farms of CPFL Renováveis were offset by the good result of the other segments. Meanwhile, net income benefitted from the stronger EBITDA and by the improvement of R\$268 million in the financial result due to the lower debt and lower debt cost, combined with the higher financial income due to the IPO proceeds.

Moving on, the next slide is on debt, with the first chart showing the evolution in the net debt/EBITDA ratio. With net debt of R\$16.9 billion and EBITDA in the last 12 months of R\$6.3 billion, the ratio stood at 2.68 times. The increase reflects the increase in our stake in CPFL Renováveis in the period.



At the bottom, you can see the evolution in the nominal and real debt cost. The nominal cost reflects the change in the debt profile as of end-2018, while the real cost also was affected by annual IPCA inflation, which stood at 2.89% in the third quarter. Note that 64% of debt is linked to the CDI rate.

Slide 14 shows our capex. We invested R\$616 million in the quarter, or 17% more than last year. By segment, distribution accounted for R\$550 million, with investments in expanding and improving the system. In the year to date, capex came to R\$1.4 billion.

In generation and transmission, R\$45 million was went to Renováveis, R\$8 million to transmission and R\$2 million to conventional generation. In the transmission segment, the highlight was the start of the projects Maracanaú, Sul I and Sul II, which were awarded in auctions in 2018. Lastly, in the services segment, R\$10 million was invested.

That concludes the presentation. Thank you.

Question & Answer Session

Operator: Ladies and gentlemen, we will now begin the question and answer session, which will be conducted in Portuguese with simultaneous translation into English. To ask a question, please press star, one. To remove your question from the list, please press star, two.

Our first question comes from Thiago Silva from Banco Santander.

Mr. Thiago Silva: Good morning everyone, thank you for the call. I have two questions. First, you commented at the start of the presentation on the recovery in consumption in October due to a temperature effect. Could you give us a bit more color on what you are seeing and what you expect in your concession area, what you are seeing in volume in terms of whether this is a more timid recovery or if you are seeing more strength that even has an effect on the industrial segment?

And my second question is related to growth. As we know, the distributor CEEE is up for sale and that there are other distributors on the market, and I would like to know if you are analyzing an acquisition. And also if, in the next transmission auction in December, if you are looking at any lots. Thank you.

Mr. Gustavo Estrella: Thank you, Thiago. Starting with your first question about the recovery in volume, we have in fact observed in October and also in November signs of a recovery in consumption in the residential class due to the weather. Temperatures in October were above average, which supported an important recovery in consumption in both the residential and commercial segment.



In the industrial segment, consumption in the third quarter fell by 2.4%, which we refer to as macroeconomic and microeconomic. Starting in October, we observed a marginal recovery in consumption, which had been flat in relation to 2018, so a margin recovery compared to the third quarter.

We expect to end the year with consumption on average 1.5% higher than in 2018, concentrated much more in the low voltage segments than in the industrial segment. That's the breakdown. I think that the temperature effect was an important factor, since we still see few signs of a real recovery in consumption in the industrial segment.

For your second question on growth, we do see some good opportunities in the short and medium term. For the very near term, perhaps there are a few lots in the transmission auction that are aligned with our so-called niche strategy. So we do plan to participate in this auction in December in a few lots that match our strategy.

Looking further ahead to the medium and long term, as you said, some of the assets in the distribution segment are very interesting. Considering our strategy for region, location, etc., I think that it makes sense for us to analyze the assets that come onto the market. You mentioned CEEE, and any others that go onto the market we will definitely analyze at the right time.

But, given CPFL's size and relevance in this market, we definitely see ourselves as a consolidation player in the distribution segment. And, also in the distribution market, with the conclusion of acquisition of shares in CPFL Renováveis, we also become an important player in the investment of new generation projects, analyzing opportunities in this market too.

Mr. Thiago Silva: That's great. And just to follow up on the second part with regard to State Grid acquiring certain assets of Semptra in Chile recently, were you involved in any way in that acquisition or provided support? Could you comment briefly on that?

Mr. Gustavo Estrella: No, we were not involved. I think that our strategy today, which is highly focused on the Brazilian market, which in fact is where we have a major competitive advantage because of our presence and given all of what I said earlier about potentially investing in new assets, we plan to maintain our focus on the Brazilian market. Meanwhile, State Grid has a strategy of growing worldwide and in the region, which they conduct themselves without our involvement.

Mr. Thiago Silva: Excellent, thank you.

Operator: Our next questions is from Gustavo Mieli, from Itaú BBA.



Mr. Gustavo Mieli: Good morning Estrella, Good morning Pan. Thank you for the presentation. My question is about CPFL Renováveis being the subsidiary that most stood out in terms of its results.

In fact, from a broader perspective, I wonder if you could comment on what will be the trigger for CPFL Renováveis's results over the coming quarters. Is there some factor such as lower costs that you are expecting because of the integration with CPFL Energia after the follow-on? Is there some factor that we should expect such as some acceleration in the startup of the operations that are currently under construction?

And I also have another question of a more regulatory nature. I would like to know if you already have conducted a study of the potential impact of the implementation of hourly rates on the business of Renováveis?

We have been talking with some players in wind power whose views were slightly different on that point. Some expect to benefit with the implementation of this factor, while others see a more negative impact, which depends on the wind profile of each of their portfolios.

Have you conducted a study of this? Could you give us some numbers on this? So, basically those are my two questions. Thank you.

Mr. Fernando Mano: Gustavo, thank you for your questions, this is Fernando Mano from CPFL Renováveis.

On your first questions, on results, as you said, we are integrating the processes of CPFL Renováveis and CPFL Energia, adopting best practices. As you noted, we expect to capture synergies in PMSO as well as tax gains, given the accumulated tax loss carryforwards at Renováveis of around R\$2.4 billion.

We also expect to reduce borrowing costs at CPFL Renováveis, which we already have observed over the past few months.

On results, I think it is important to note that wind conditions were weaker than expected in 2019, but, as you know, wind projections are based on P50, which has a 20 year horizon. When we look at our older wind farms in operations for ten years, such as in Ceará, generation has been very close to 100% of P50. So, it is normal for any given year to have below-normal natural resources and generation and then to see a recovery in the next year, with the trend being of recovery in the following years.

On your question about hourly rates, we have studied the issue at the company. The factor depends significantly on where the wind farm is located. Most of our wind farms are in the states of Rio Grande do Norte and Ceará, where wind conditions are stronger during all day and the afternoon, with the strongest



winds in these regions occurring in the mid-afternoon, which tends to produce a positive effect with the implementation of hourly rates.

Other regions of Brazil have a slightly different wind regime, but in general our wind farms are located in regions where winds predominate during the day.

Mr. Gustavo Mieli: Great Fernando, thank you. That was very clear.

Operator: Just to remind you that to ask a question, please press star one.

Our next question is from Luiza Kraus, from Banco Safra.

Ms. Luiza Kraus: Good morning. I have two questions. First, I would like to know how the companies in the distribution segment are performing in relation to regulatory EBITDA, especially Piratininga, and if this increase as from the fifth cycle will be captured in the coming months.

And my second question is if the distributors are incurring any losses from subcontracting, and what measures are being taken to combat the migration of clients to the free market with regard to long-term power agreements.

Mr. Luis Henrique Ferreira Pinto: Hello, this is Luís Henrique from distribution. On your question about regulatory EBITDA, our results is in line with the regulatory limit, so there is no significant distortion, it is well in line. With regard to Piratininga, we should begin to see this effect already next month and over the coming years. So the effect will be gradual and should begin in October, November and so on.

With regard to subcontracting, we do not have any problems. All migrations to the free market are considered involuntary. We have been monitoring this and been using exchange and sales mechanisms to effectively manage this issue of subcontracting. So this has not been a problem and we have been managing this well over the years.

The correlation with possible discussions in the past we have been discussing with ANEEL, within what is established in the regulatory framework. So everything is under control.

Mr. Gustavo Estrella: Luiza, just to add to what Luís said on subcontracting, some companies, using Piratininga as an example, do have some relevant surpluses, but basically due to the allocation of the quota and with the migration of clients to the free market, which is an involuntary exposure.

So, this is not something that worries us. In other words, all of the surplus is involuntary, which means no impact on our results.

Ms. Luiza Kraus: Great, thank you.



So, in terms of regulatory EBITDA, your performance is above or compatible with the regulatory EBITDA of the others, of Paulista, RGE?

Mr. Luis Henrique Ferreira Pinto: Right, we are performing in line with, slightly above the regulatory limit, but just slightly, basically in line with the regulatory limit.

Ms. Luiza Kraus: Okay. And your regulatory WACC was penalized in this fifth cycle?

Mr. Gustavo Estrella: No. Let me explain. Remember that when ANEEL determined the WACC of 8.09, the figure was validated for the end of this year. So, all of the tariff revisions of our group in 2018 or of Piratininga in 2019 maintained a WACC of 8.09 through the end of the cycle, which is four years in the case of Piratininga and five years in the case of the other companies, of Paulista and RGE.

Ms. Luiza Kraus: And have they determined a lower regulatory WACC for the next cycle, or is that still under discussion?

Mr. Gustavo Estrella: Not yet. The matter is currently being discussed in the public hearing phase. Of course, we are closely following the matter, but no final decision has been made.

Ms. Luiza Kraus: Great, thank you. Thank you very much.

Mr. Gustavo Estrella: You're welcome.

Operator: Once again, to ask a question, please press start one.

That concludes the question and answer session. I will now pass the call back over to Mr. Gustavo Estrella for his closing remarks.

Mr. Gustavo Estrella: Once again, thank you for participating in our earnings conference call.

I want to conclude by going over some of the key points of our company. So we have concluded the CPFL Renováveis share acquisition process. As we mentioned in June, this process to consolidate the business into the CPFL group will bring important benefits, some of which we already are beginning to see. We are finalizing the process of integrating the team of Renováveis with that of CPFL Energia, which should lead to cost reductions, especially in 2020.

We should also see an important reduction in financing costs, with a large program for swapping debt at Renováveis that should reduce these expenses.



We also are in the process of an even larger merger between Renováveis and CPFL Geração, whose benefits also should be felt over the course of 2020.

So this is a process that we already have begun and should be completed by the end of next year that we expect to produce good results for our group.

Also in 2020, with prospects of an economic recovery, the pension reform and more progress on government reforms, although incipient, we are beginning to see some signs of a recovery in consumption, especially in the industrial sector. So, the outlook is for a slightly stronger recovery in the economy driving energy consumption, and also with positive repercussions for the level of our delinquency and commercial losses.

In terms of opportunities, the group is looking at new investments and should participate in the auction now in December, and is closely monitoring opportunities in the renewable generation segment, especially now with the integration of CPFL Renováveis, and also in the distribution segment in select assets that emerge over the coming year.

That is overview of how we are ending 2019 and our prospects for 2020.

Once again, thank you for participating and have a good day.

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