Local Conference Call

CPFL ENERGIA

Second Quarter 2013 Earnings

August 15, 2013

Operator: Good afternoon and thank you for waiting. Welcome to CPFL Energia's Second Quarter 2013 Earnings Conference Call.

Today with us, we have Mr. Wilson Ferreira Junior, CPFL Energia's CEO, and other executives of the Company.

This conference call is broadcast live on the internet at CPFL Energia's Investor Relations website at www.cpfl.com.br/ri where this presentation is available for download. (Operator Instructions)

We inform that all participants will be in a “listen only” mode during the Companies presentation, after which we will begin a questions and answers period, when further instructions will be provided. If you need assistance during the call, please, press star zero to reach the operator.

This call is being recorded.

Before proceeding, let us mention that forward-looking statements made during this conference call regarding the CPFL Energia's business perspectives, forecasts, operating and financial targets are the based on the beliefs and assumptions of the Company's management as well as on information currently available. Forward-looking statements are not a guarantee of performance and involve risks, uncertainties and assumptions as they refer to future events that depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors can also affect the future performance of CPFL Energia and lead to results that may differ materially from those expressed in such forward-looking statements.

Now, I'll give the floor over to Mr. Wilson Ferreira Junior. You may begin.

Mr. Wilson Ferreira Jr.: Thank you. Good afternoon, everyone; analysts, investors, all of you with us in this Second Quarter Results Conference Call. We have a presentation. Let me begin on page number three with the highlights in the second quarter. We still have growing energy sales outside the group in all activities; conventional generation, renewable generation and distribution; we are growing, and we will be talking more about this.

Energy sales were up 2.6% in the concession area. We've had some important events which have had an impact in the second quarter and they correspond to the conclusion of the third cycle of tariff review of the group. Let me remind you, the two largest distributors, CPFL Paulista and RGE that have five-year cycles of tariff review. They have concluded the cycle now in the second quarter which has impacted our results.

We've had the IPO of CPFL Renováveis on the last July 19, the acquisition which was already disclosed during the IPO of Rosa Dos Ventos wind farms, 13.7 megawatts, using part of the inflows from the IPO already; also disbursement from the second sector fund CDE BRL125 million which was disbursed in the second quarter.

Also important to highlight the CDE resources we received to face all appointments in distribution of BRL125 million in this quarter. We continue very strong in our investments; CapEx was BRL498 million, according to our growth plan and because of the results we are reporting, we declared interim dividends related to the first half of 2013 in the amount of BRL363 million.

Also we've maintained our rating AA-plus on national scale, with a stable outlook by Standard and Poor's for CPFL Energia. This is relevant information at this time.

And also we have received a few awards. One was from EXAME magazine, the Largest and Best Companies; then also Abradee Awards which recognized the best companies in Brazil and ISTOE Dinheiro magazine where we were considered one of the 50 Good deeds' companies, in the management category.

Now, opening the call, I'd like talk about energy sales first because it is something very relevant to evaluate the performance of our companies beginning from sales in the concession area by our distributors. As you can see on the top left, we've grown 2.6%. This is the growth we are reporting. This is the stabilization of the captive market, but also great migration of consumers from the captive to the free market. So if you look at this behavior, measured by the energy consumption in the use tariff, we've had a growth of 11.1%.

It's also relevant to talk about sales by consumption segment. We will further elaborate on that during our presentation, referring to the improvement in the evolution of the industrial segment. It was growing approximately 1% per quarter, but in the last quarter it's grown 2.7%. So it's one of the highlights in terms of additional volume in our concession area. Let me also remind you, we've had important growth in the residential area, 4.2%.

Now in the lower left chart, total energy sales, not only captive which we've already reported but also commercialization and conventional generation outside the group growing 25.4% quarter on quarter; and highlight to the behavior of CPFL Renováveis. Now a few projects have already started their operations; we will further elaborate on that. We've had a growth of 63.4%.

On the right-hand side we have the performance in the concession area; CPFL is slightly below the growth of Brazil. Brazil is growing very fast in the Northeast but we can see that in the Southeast, where the regional growth was 1.2%, our seven distributors have grown 2.3%. Actually it is showing how vibrant our Company is in the South where we have a more industrialized region with exports to Argentina right now a bit restricted, but still we've had a growth of 4.4% at RGE compared to a growth of 5% in the South of Brazil.

Now slide number five is quite important. As we usually do, we make a comparison between the IFRS reported value on the first column, and next our management results. It makes it easier for our analysts to conduct their analysis. You can use this incorporating because it incorporates a few effects that I will now explain.

Well, first because of the new IFRS 11 as of January 2013, the proportional consolidation is no longer allowed when you have shared control, so of course it affects our generators Baesa, Enercan, Foz do Chapecó and Epasa because they are now being accounted for using the equity method. So we've had this adjustment and we still show the proportional consolidation. So the adjustment would be BRL85 million in the second quarter.

Also we have our regulatory assets and liabilities. They show the difference in time between the tariff paid by users and the items of consumption that composed this portion. They are passed on to the consumers on the right date and they've represented a net value of BRL26 million in EBITDA and BRL19 million in net income for the second quarter.

We've also had an impact in the update of the concession financial assets now in the conclusion of the third cycle of tariff review. It impacted all of our distributors, so we've had an adjustment of BRL130 million posted as finance expenses; it's related to the conclusion of Paulista and RGE. Now this is only an accounting record. It is not considered for dividends and it is against the reserve which had a balance of BRL327 million. The impact of this posting on the net income was BRL86 million.

In this quarter we've also had a posting of BRL230 million in legal judicial expenses and indemnities mainly due to provisions, considering the risk classification of civil and labor lawsuits of our mass litigation. Now this was provision considering the recommendations of our legal counselors and they're also based on our internal monetary mechanisms. In this case, we're talking about provisions, so they do not actually affect our cash position.

Another important record here is Paulista and Piratininga; they adhered to the special program of special installment tax payment program related to fuel and lubricants. In addition, Piratininga was discussing the ICMS calculation methodology in Santos. In these cases, the amounts that were being questioned added to the fines and interest came up to BRL231 million. Now considering that we could have unfavorable court decisions, we decided in the quarter to accept this special installment tax payment program, so BRL105 million was the total amount instead of BRL231 million; that is, we've been able to reduce fines and interest rates by 75% and 60% so that we've had an overall reduction of almost 55% of the amounts discussed; the BRL47 million they affected the EBITDA for the group, and in terms of fines and interest rates, BRL59 million they affected our financial expenses. With that, the total impact on the net income was BRL72 million.

Another record here was the provision for system service charges related to Resolution CNPE No. 3, that shares with generators and traders 50% of the cost of thermal dispatch out of merit order. It is worth noting that there is a not a final decision about this, but we decided to have the provisions. The impact is BRL13 million on EBITDA and BRL11 million on net income.

We've also had assets maintenance at Epasa. Epasa has been dispatching full loads since November 2012. Now we've had a maintenance that amounted to BRL9 million on EBITDA and BRL6 million on net income.

We've also had other minor records here, exposure to MRE and GSF, accounting adjustments and depreciation of some distribution assets, taxes which actually affected the EBITDA and net income as you can see here; BRL20 million and BRL41 million, respectively.

Now analyzing all of these impacts, we can see that the consolidated recurring EBITDA in 2Q was BRL946 million, a reduction of BRL108 million compared to the amount reported in the second quarter last year. BRL253 million was the net income, which is again a reduction compared to the second quarter of 2012. As I said, the difference is approximately BRL430 million in EBITDA and BRL387 million if you look at net income.

Very good, now, slide six; you can see these EBITDA variations in more detail. As we usually do, on the outside we've had the management EBITDA, because some analysts prefer to use that for their analysis. And right in the middle of the chart we've had the variation of EBITDA from 2012 to 2013, but already incorporating, so that you have a fair comparison, already incorporating the portion of proportional consolidation related to generation assets.

Let us now explain this variation, the BRL921 million compared to BRL601 million which was the EBITDA reported after the effects of consolidation in the second quarter 2013.

Now the first important event is a 5.6% increase in net revenues; approximately BRL180 million; basically because of higher revenue from commercialization and services- BRL165 million, conventional generation BRL42 million, large generators and renewable energy BRL34 million.

Now this is the first effect on the distribution; a drop of BRL7 million. And you can see in the lower line that we've had an increase in the cost of energy, so this is the net effect after the tariff review, especially at Paulista which is our largest distributor; with that we've had a BRL77 million captive market drop as we've shown, and in addition of BRL70 million the free market.

Now we've had the special installment tax payment program in the amount of BRL32 million. Remember it was BRL47 million, BRL32 million in net revenues plus BRL15 million which was posted as expense.

And a few other effects, BRL6 million.

Now next, the second bullet; BRL150 million additional in terms of an increase of energy cost and charges; that is already including the disbursement of CDE BRL64 million and BRL243 million would be net of the BRL64 million that has already been disbursed. We've had a net decrease in sector charges of 37.1% because of the tariff reduction program we had early this year. For that we've had resources of BRL61 million, so the tariff review totals BRL128 million.

Now next we talk about manageable expenses; personnel, materials, services and other of BRL384 million; now the legal and judicial expenses, the provisions for that, they add up to BRL245 million. It's BRL230 million plus BRL15 million related to fuel.

Next, we've had in June the thermal dispatch from Epasa (BRL63 million). It was-- it stopped being dispatched at the end of the month. Then we've had the effect of the growth in activities of CPFL Renováveis and Services, BRL15 million, and write-off of distribution assets, BRL15 million. Let me also highlight an increase of expenses with private pension funds of BRL12 million, according to the new regulation of the Brazilian Securities Exchange Commission. This is compared to the last year's second quarter BRL12 million, and as we said before, maintenance of Epasa's assets totaling BRL9 million.

It's important to highlight here, just to give you some color on this more difficult scenario in the energy industry. We've had a variation of PLD average; in the second quarter, it was BRL250 and also the foreign exchange variation, from BRL2 reais per U.S. dollar last year to 2.22 in this second quarter.

Now on slide seven it's important to talk about operating expenses. On the left-hand side we have the nominal PMSO, net of thermal dispatch and also net of our growth, so only in the activities on a comparable basis, nominal PMSO had a reduction in the first half of 2011 compared to the first half of 2013 from BRL660 million down to BRL644 million. That is BRL16 million was the reduction.

It is worth noting that a significant part of our costs of personnel and material services are indexed by inflation, so if we compare these values on the same basis, we would be reporting a reduction of BRL93 million or 13% comparing the first half of 2011 to the first half of 2013 when we started the program to reduce expenses and increase productivity which has not been concluded yet.

But in these two years, we've had a reduction of 415 headcount and we've been able to reduce the cost of personnel by 7% and on the other hand, because of our zero-based budget, we've had a 17% decrease in material, services and other or BRL70 million. That is the program has actually produced important effects on the results and this is very important now after we've concluded the tariff review, the level of revenues have changed and so costs also had to be reduced.

Now on page eight BRL134 million loss compared to the profit we had in the same period last year BRL246 million. And then we had BRL356 million recurring second-quarter 2012 net income, coming now to BRL253 as a recurring net income for the second quarter 2013.

I will now give you details about this drop in net income. So the main effect was a 34.8% decrease in EBITDA, BRL320 million; we have just given you details about that. We've had an increase in negative net financial results, not only because of the update in the distribution financial assets; it had to be deducted for us to calculate dividends, also the ICMS fine, part of that was posted as financial expense (BRL59 million). Then the consolidation of CPFL Renovaveis, another BRL27 million, and other minor effects BRL3 million.

Then we had a small decrease in depreciation and amortization because of the new depreciation rate of our distribution assets after the conclusion of the third cycle of tariff review. Also smaller depreciation in generation projects, but we've had the start of operations of new assets belonging to CPFL Renovaveis, so we've had more depreciation as we've included these new operations.

The tax base was reduced, so in this comparison to the same period last year, we've had BRL182 million less tax. Same thing; we make a comparison of interest rates; 7.3% this year compared to 8.6% last year and long-term interest rate 5% a year compared to 6% a year last year.

Now slide nine; this is just an update about our CapEx investments. I will give you further details about CPFL Renovaveis but we've attained 40% of the investment planned in distribution, especially rushing to conclude Paulista and RGE, closing this third cycle of tariff review. Regarding generation, we're slightly above our plan, 53%. So far, most of the investment was in renewable generation with a conclusion of a few projects and investments in CPFL Renovaveis projects and in commercialization and services or C&S, because of lower economic activity and less operations in the free market because of the discussions of CNPE3. We've 11% of the investment planned. So overall, we've invested BRL1.030 billion, 44% of the plan of an overall BRL2.325 billion planned for the year.

Now on the following page, the final phase of conclusion of our cogenerators for biomass Coopcana and Alvorada; Coopcana is under commissioning right now. It will have its startup at the end of August, most probably. So, we have 95% of Coopcana at the end of June, 92% for Alvorada. And then the wind farms Campo dos Ventos II, Atlântica (at Rio Grande do Sul) and the Macacos wind farms. All of them, especially Campos dos Ventos and Atlântica wind farms, are on their final phase. We will possibly have these two large wind farms - 150 megawatts coming in until the end of the third quarter and the Macacos one wind farm will start operations in the fourth quarter; 61% has already been concluded.

It's important to talk about that because as these projects begin to operate, only the revenue that has already been contracted represents BRL180 million that is we already have the funding, but we still have not been able to obtain a return from these activities, but this will begin to happen as soon as they start operations.

Now talking about leverage, let us now go on to page 11 where we have our net debt. It remains at the same level we had in the last quarter; a slight increase from BRL12.5 billion to BRL12.6 billion. But this is because of the EBITDA reduction, because of tariff review and the extraordinary postings; our adjusted EBITDA is BRL3.7 million, an increase in our index to 3.42 times.

On the other side, it is important to note the improvement in our financial capacity and also our funding strategy. They have led to the lowest cost of debt of all time; 1.2% in real terms, 8% in nominal terms, full hedge to foreign exchange risk.

65% of the debt is pegged to the CDI, and 26% long-term interest rate, also fixed rate 6% with the PSI programs, and the remaining 3%, IGP; these are the contracts with our pension fund.

So it's important to highlight on the following page, on page 12, that we have a very robust net cash. We've closed this half year with BRL5.4 billion, enough to cover 2 times the short-term amortization we need. Our debt today has an average tenor of 4 years and short term debt represents 16% of the total debt; that is, our cash position is very comfortable.

Now on page 13 I'd like to talk about these results. I want investors and analysts to understand a few prospects in terms of productivity growth and also we have a discussion about our capital structure.

First of all, productivity growth, as I've mentioned, it's important to highlight that the 328 megawatts that will begin operation this year, this will expand our generation capacity at CPFL Renovaveis in 30%; that is compared to its current capacity. Let me remind you that of the 328, 250 will happen already next month and so it will incorporate BRL180 million in terms of new revenue. And since we're talking about generation companies, our EBITDA margin is quite significant.

Now a recovery signal can already be seen in the Brazilian manufacturing industry. This has already been made clear in terms of energy consumption in the industry of our concession areas. Actually we could see that in the newspapers today... we have the BNDES loans theme. So this is a moment where we are increasing the country's industrial capacity and this will bring impact because manufacturing industry accounts for 45% of our distributors' sales.

Let me also make a point about productivity gains. First, because this is our focus after the tariff review, ideally all of our options for cost reduction had to be implemented immediately in our activities and so we remain focusing on the reduction and cost optimization. We still have some more to do in the zero-based budget, also the shared-service center or corporate service center. And we have the Tauron project which is an automation project or smart grid so that we will gain more productivity and not only that, we will be able to lower cost and provide more quality to consumers.

On this set, either on zero based budget or Tauron theme, as we have shared with some of you, it has an additional value beyond the BRL100 million that we already achieved in reduction of recurring costs, with another BRL100 million. We would have great focus on the second half of the year on these activities.

Another relevant point that I hadn't mentioned but I will mention today is that the fact that we expanded our productivity with fewer employees in the distribution and generation activities, that opened room for us to optimize our facilities, especially the administrative facilities. And with that we will, in the second half of the year - this is ongoing work with public bids - to sell buildings that are now too big for the company and are now being sold. We imagine that with real estate, with the sale of these, we expect to achieve around BRL100 million.

There's another important discussion, on the other hand. The industry was impacted this year in terms of leverage. Many companies had to negotiate - not CPFL's case - but it's important to point that the Company has had a strategy since 2010, it has being analyzing and evaluating the macroeconomic scenario and we have strategy to prolong our debt lengthening of the debt and quick funding, with excellent results.

First just a comparison, I'm giving you a reference of the 4T09 to say that this strategy was implemented in 2010, but with this reference we're comparing that the debt lengthening that at the time was at 3.2 years now is 4. But especially with an extraordinary result in terms of the real cost of the debt that went down from 4.9 to 1.2; so it's a reduction of more than 70% in the nominal cost of debt.

On the other side, the recognition of this strategy in the maintenance of our ratings the brAA from Standard and Poor's since the second quarter of '08 or in the case of Fitch, since the third quarter of '10. This maintenance is greatly related to the robust cash that the Company has, the liquidity policy that we seek to maintain minimum cash at least twice as our short-term commitments; and on the other hand, of course, because the Company has a stable operational cash generation. We have the average here for the last three years of around BRL2.3 billion, noting that over the last 12 months it's around BRL2.6 billion. So of course, rather it is a comfortable cash situation or the stable cash generation and the growth - as we are entering with the set developments in renewable generation - that gives us this comfort of the rating we achieved.

That doesn't mean that we're not trying to maximize the benefits of the optimum capital structure. So it's important to note that even considering our covenants, with the group's base, we work within the strategy in a range of 3 to 3.5 but tending more towards 3. And that brings advantages in terms of cost reduction of the average weight cost reduction and this can be seen in the reduction of our debt costs, but it's also a result of the deductible of financial expenses and this optimum capital structure creates value to shareholders with a greater deductibility of the debt for tax effects.

So I thought it was important to raise your attention to this perspective, the continuation of our activities increasing productivity; we can expect good results in the second half. And on the other hand, we are completely focused and attentive to the capital structure. We've been promising good result from the strategy we've implemented.

I would now like to bring some examples of some clear signals that we have of the improvement in the industrial power consumption. Taking an industry that has been especially successful; which is the construction industry. So we have that on slide 14. First with the report of approvals on disbursement of BNDES for this activity until May of this year; we have more than BRL3 billion.

But let's be clear of the importance of the construction industry. First, it responds to almost one fourth of the Brazilian industrial GDP, responding to 45% of the investment, which is the government's objective at this point.

A sign of this vitality is the increase in the number of companies over the past five years, around 75%. There is also the forecast for the production in the construction industry for 2013 which would be growth of 3%. And with the stimuli; the most well-known is the Minha Casa Minha Vida program that is 75% contracted, approximately BRL178 billion.

But we have to remember the side of sporting events that have already started with the Confederation's Cup, the FIFA World Cup next year and the Olympic games in 2016. So the construction industry is big and it's especially important, so it's important to follow this industry.

When we consider that this industry is also a vehicle, a stimulus to trade because of the development of employment and revenue, we have 2.8 million employees in the construction industry, so that's about a third of the total industry. And adding to the Minha Casa Minha Vida program, there's the Minha Casa Melhor program where we have BRL19 billion in credit for the purchase of appliances, furniture, etc for all people who own houses that were acquired through the Minha Casa Minha Vida.

The forecast for retail sales for the beginning of this year was up 4.5% and there is also an impact in the residential segment as an important expansion, especially in the interior of the state or the country; the expansion of the housing developments; in our case there are 632 new development in the state of Sao Paulo alone to meet a big housing deficit, as 3.4 million residences in Brazil was around 5%, a smaller percentage in Brazil 2.8%; around 400,000 houses; and the state of Rio Grande do Sul approximately 151,000.

Note that in the next page, page 15, we show this dynamic. In the state of Sao Paulo we have residential growth of around 4%, CPFL Energia in Sao Paulo is 6.3% and in the regions that we call that are further from major centers and those we are highlighting here in the Northwest area in the municipalities of Aracatuba, Bauru, Botucatu; or in the Northeast of Paulista, there are a number of developments. I talk about 632 new developments and in all these cities we see this growth in the number of housing developments with a much better quality of life for the population.

On slide 16 I also bring for the first time the breakdown of the industrial consumption in the concession area. We have the values accumulated until June where we see the importance of the food industry and the chemicals. There's steel works, textile and pulp and paper and the three green ones on the Brazilian production; we can see how these sectors have evolved over this year.

Last year, these three segments were stalled, with a decrease of around 4%. And you can see that this year, we're talking about the steel works industry increasing 2.9%, 2.5% and 5.3% for vehicles. And the total of the whole picture; noting this charge on the right side, we see that the industrial production in Brazil which is green and the state of Sao Paulo in blue; over the last 12 months Sao Paulo is bigger than Brazil. And in this year, it's the same behavior, the same performance. So this gives us a perspective or makes us believe on a better perspective of industry recovery.

On page 17 just to have another look at the automobile industry; which reaches 25% of the overall industry, from vehicles and auto makers. We see metal products, rubber and plastic and electrical materials, electronic materials, steel works, machinery and equipment; we have growing and increasing vehicle production over the last 12 months. So this is a very clear consequence. The thermometer we use to measure is the inventory level.

Then we see, on the right side, the load of the consumers within the distributors in Sao Paulo where we have Hyundai, Honda, Toyota; we have General Motors in Rio Grande do Sul. So we see the blue curve is last year and the green curve is this year. And we can see an increase of consumption in terms of loads of 6.6%.

Also beginning the conclusion of our presentation, let's go to page 18. I know that the energetic condition was a topic of concern to investors in the electrical sector. But this is just to provide follow up. We've closed the month of July with 60.6% of our capacity in the reservoirs full, already blending with the typical curves of past years. And as we can see on the right, that has allowed us to have a reduction of thermal dispatch, the more expensive thermal dispatch. And wind farms are also stalled, a reduction of 2.5 thousand megawatts but it has a high associated cost, so it's good for the system. It causes less stress and of course we have the responsibility within the industry to manage this storage.

Important evidence of this favorable situation is the fact that we have the spot prices at already BRL182, so that's a more tolerable price range and the measurements that we follow (the rationing risk that is measured by PSR) for this year is zero naturally, as we started the year with a very high price for the year; it's zero and for next year the forecast is 2.5%. The savings we have by not dispatching with the more expensive thermal plants is BRL1.4 billion per month.

Moving on to page 19; we heard the highlights of these points at the beginning of the presentation. So we're declaring here BRL363 million in dividends for this first half; of around BRL0.38 per share. Noting that the Company is a great distributor of dividends, it has paid more than BRL10 billion since the Company's IPO.

Finally on page 20, we have a comparison of the share performance. The industry has suffered since last year and we've been noting in the case of CPFL our behavior is slightly better than IEE. It went down 1% this first half. IEE went down around 11.8% and IBOVESPA around 22%. When we read this in comparison with the United States, Dow Jones went up 13.8%, then of course not only because of the electrical segment but also with the exchange rate segment; and then we have a decrease of nearly 10% of our ADR and almost 17% of the top-20 ADRs. There's an increase in our trading volume. There's a slight decrease in the daily average number of around 40 million; and the Company is present in the main indexes of this sector in IBOVESPA, sustainability, and governance.

I would like to close the presentation highlighting the awards we've received. CPFL Brazil is the best company at EXAME guide for the Best and Largest Companies. Reminding you that the Company won over generators, distributors, transmitters and other players in the electric sector throughout Brazil, it's the third time we've received this recognition from that publication. We also received the Abradee Award as the best electric energy distribution company under 500,000 customers and above 500,000 customers with CPFL Leste Paulista and RGE and complimentary prizes such as clients' appraisals, social responsibility and operational management; and finally, the publication of ISTOE Dinheiro, the magazine where CPFL Energia was recognized as one of the best 50 companies that accomplish good deeds.

I have my team here and we will now be answering your questions.

Question and Answer Session

Operator

Excuse me ladies and gentleman, we will now open the question and answers session. In order to ask a question, please, dial star one. If you wish to remove your questions from the list, please, dial star two.

Excuse me again, if there are any question, please, dial star one.

The first question is from Vinicius Canheu, from Credit Suisse

Vinicius Canheu - Credit Suisse - Analyst

Good afternoon. Thank you for the call. I have a question. I think the most important one is to try and understand the results, especially the EBITDA of the commercialization and services. You mentioned the main impact… if you could detail the ones that have impacted these results the most because it was a negative EBITDA. And if you give us an idea of a normalized situation; what is the EBITDA level that we can ask in the half year or annual, so that we can have an idea? It will not recur in this quarter but what is the effect of that?

Wilson Ferreira Junior - CPFL Energia S.A. - CEO

Thank you, Vinicius, for your question. I will share the answers between myself and Fabio, the new President of CPFL Brasil. And I'd first say that this first half, we have some important facts. We already had in our portfolio, self-dealing operations that are decreasing and they will be finalized next year, so there was 25% value with a prefix margin of 10% that we're losing. We've changed our strategy for the consumer market.

Fabio will be able to give you more details of this performance, very positive. But this is a segment that because of competition has lower margins.

So we're competing there. It's a transition period from a moment where the Company had possibilities to operate at larger margins, with an operation where we have to compete with a number of players working with smaller margins.

The other topic is the fact that the Company in this competition process has also been focusing the special customers market, special in the term of biomasses which is an important portfolio for the group, versus practically 25% to 30% of the volume of cogeneration of Brazilian biomass. These volumes are traded as of the second half. And of course it's hard to give you a stable perspective in terms of values for the Company. We've been working in values of around BRL200 million to BRL250 million operating EBITDA, but in terms of services I would say that the recurrent value of this market, and our commercialization position especially was around BRL200 million. So maybe due to this competition process it will go down to about half of that or slightly above that. It will depend on the time as far as prices that will be introduced here after this reformulation of the PLD.

I'll give the phone to Fabio so he can add to what I said.

Mr. Fábio Zanfelice: So Vinicius, just adding, aside from the structural issues you mentioned, we also have the year of 2013 being atypical as you followed in terms of rainfall, but that made this year slightly more challenging; and the regulatory aspects as well have also impacted the operations on the short term with the delta PLD and ESS.

So aside from the structural aspects, we have an atypical year and this really has caused an impact in the second quarter for CPFL Brasil. Our expectation for the second half is that it will be better than what has been presented, especially due to the operations with incentive sources which is one of the main focuses of CPFL Brasil that's to grow in this type of market.

Mr. Vinícius: Okay, so just trying to put numbers on top of what you said; what we could expect is that instead of BRL200 million to BRL250 million we saw before, maybe it will be around BRL100 million to BRL150 million from now on per year?

Mr. Wilson: Yes, I would say so; but again, subject to this competition process. The services activity has had a slight impact of this decrease in this first quarter of the year in the industrial activity and we imagine that this will recover and a whole potential for new connections and consumer, special consumers, should become free in the free market. I would say that I don't like guidance in terms of value, but we know the volumes we used to have of self-dealing will no longer occur. They will decrease over time. So it will have an impact of BRL50 million to BRL100 million reduction. That will be something that we will experience. But we are very consistent. We have increased the number of consumers this quarter to approximately 280 free-market consumers, so that opens a very positive perspective for the second quarter, the second half.

Mr. Vinícius: Excellent, thank you.

Operator:

Excuse me ladies and gentleman, if you have a question please dial star one.

(Operator Instructions) Excuse me, the question-and-answer period has now concluded. I would like to invite Mr. Wilson Ferreira for his final remarks.

Mr. Wilson: Okay, one more time; I would like to thank you all for participating in the CPFL Energia Second Quarter Earnings Conference Call. Let me one more time emphasize our belief in the resumption of economic activities, especially industrial operations which will positively affect our distribution companies.

It is important to highlight it is always difficult when we conclude another cycle of tariff review, but we have overcome this moment, 70% of our distribution result comes from Paulista and RGE, so now we will only have tariff reviews in 2018 for these two companies, which will allow for us to have enough time to build an efficient strategy to gain productivity and reduce cost, now with the Tauron program ongoing; This automation program. We have a very favorable outlook in the distribution activities now that we have concluded the tariff review process.

One more time, let me talk about our commitment to expand the shared-service center which also helps us gain productivity together with the zero-based budget. At this time, we are building our zero-based budget for next year. It will be discussed by the Board in October.

Let me also remind you about the possibility; and this is public information; where we will open up a process to sell real estate already this year because we've had a headcount reduction and more efficient office layouts. This is actually very much in line with this new phase of management in Brazil. Brazil has to evolve. Brazil has to advance in management. CPFL Energia is a good example for the market. We want our employees to be innovative, to be collaborative so that we have a meritocracy in the Company to attract and retain the best talent.

This month, we are about to conclude our trainee program in the Company. This is something that has proven to be very important for us to be prepared for the future.

Now back to CPFL Renovaveis; and the topic of concern for investors which is leverage. I think it is relevant to say that CPFL Renovaveis, which is our great growth driver; in addition to the distributors, it accounts for 20% of our net adjusted debt. However, right now because of the new investments, CPFL Renovaveis has contributed with 9.8% of the adjusted EBITDA. So we are growing and we will have important growth in the next quarter with additional 250 megawatts and up until year end 328 megawatts; adding BRL180 million more in terms of revenue.

So it's a very good prospect in addition to those that we are obviously focused, sector: or by order of tariff reviews, incorporating a new level of efficiency to be followed by distributors; or, for example, generation, and in particular renewables, we have many players where the process has become highly competitive, consolidation is expected.

Our Company is prepared for that and we are highly disciplined so we want to grow, but we want to grow by adding value and distributing value to our shareholders and to all of our stakeholders. This is our commitment and we're very optimistic for the second half of the year.

Thank you very much for participating in this call.

Operator: Today's conference call, CPFL Energia is now concluded. Thank you for participating and have a good afternoon.
