

Conference Call
CPFL Energia S/A
4Q15 | 2015 Results
March 21, 2016

Operator

Good morning and thank you for waiting. Welcome to CPFL Energia's Fourth Quarter of 2015 Earnings Conference Call.

Today with us we have Mr. Wilson Ferreira Junior, CEO of CPFL Energia; and other officers of the company.

This call is being broadcast simultaneously on the Internet at the Investor Relations website of CPFL Energia, www.cpfl.com.br/ir, where you can also find the banners for download.

We would like to inform you that all participants will be in listen-only mode during the company's presentation. Afterwards there will be a question-and-answer session, when further instructions will be given. (Operator Instructions) I would like to remind you that this call is being recorded.

Before proceeding, we would like to mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CPFL Energia's management and on information currently available to the company.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and the other operating factors, they will also affect the future results of CPFL Energia and may cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to **Mr. Wilson Ferreira Junior. Mr. Ferreira**, you may proceed.

Wilson Ferreira Junior, Chief Executive Officer: Thank you very much. Good morning. Welcome everybody, investors and analysts that accompany us in this fourth quarter of 2015 earnings conference call. In addition, we will present a few data about the whole year as well.

I would like to start by page number three, when we make an introduction of where we were in the beginning of this year. I understand that 2015 was a very

positive year from the regulatory viewpoint and 2016, regarding the rainfall perspective, we believe that the worst of the crisis of the electric sector and hydrology risk is over.

So I would like to start on the hydrologic scenario. On page number four, you see a demonstration of this improvement. We have the data of last Friday. We reached 55% of NIPS reservoir levels and we are forecasting to end this month in 60%.

The figure below clearly demonstrates the reasons we are in good conditions. I mean, if we consider the last three summers, we have had always below the LTA. So, from 2012 to 2013 was 10% below the LTA in the wet season. From 2013 to 2014, it reached 36% below the LTA in the wet season. Last summer, it was 32% below LTA. However, this year, as you can see on the chart, we are already 6% above the LTA.

So this is very satisfactory. This is fundamental for us to have a final solution, including the thermal dispatch theme. Here, we are talking especially of the Southeast and Midwest system, the largest one. That is, we had 127% in January, 86% in February and 100% in March, 2016.

This is a comfortable situation! So, we can well imagine that at the end of April or the wet season, we will be very closed to these curves of the last 20 years, which give us a very comfortable outlook from the viewpoint, especially to the Electric sector in 2016.

On page number five, we have the perspective for 2016. We are considering a National Inflow Energy (ENA) of 90% of the LTA - we are higher than that - and 40% of thermal dispatch. The outlook for November 2016 is that the reservoir levels will be in line with the period of 1997 to 2015.

This is very important information. You can see that we get close to 61% near April. If the same level of storage of the last three months is maintained on that – so this way looking at the scenario of load which is practically stable, 0.9% higher in fact and the thermal dispatch 61% of the thermal situation - in the worst scenario, we would have a 50% dispatch and we would get to 31%. In the current scenario estimated by the Brazilian National Operator System (ONS) that would be close to 49%.

So you can see that we will be turning the page on the problems that we have faced in the last three years.

Now page number six, another key subject was solved at the end of 2015 - in our case and for most companies at the beginning of 2016 - regarding the GSF, which was another big concern that was addressed. On page number seven, you have been specific case of CPFL.

We have 41 plans, seven HPPs and 34 SHPPs and the exposure level was 760 MW-avg. Keep in mind that Serra da Mesa HPP is not exposed to the GSF risk,

because of its contractual right. These 760MW-avg, we had 65% regulated market and 35% free market.

Of these 65%, 459 MW-avg that you can see below, they were all renegotiated. The product we chose was SP-100, which is the maximum protection to the GSF risk. The GSF estimated by ANEEL in 2015 was R\$ 43.05/MWh. The risk premium adopted by the choices we made was R\$ 9.5/MWh. So we are entitled to a reimbursement of R\$ 33.55 per megawatt hour with a positive effect in our adjusted EBITDA of 2015, of R\$ 134 million with full coverage to all contracts of CPFL, involved with this market.

Another page that we turn on the problem that was relevant in the last couple of years to the sector and mainly to generators.

Now we go to the third key subject, which was another concern in 2015. We will show the perspective regarding the pressure on distributor companies cash flows.

We carried out many important actions in the past -- in last year mainly regarding the Tariff Realism - ETR (Extraordinary Tariff Review) and the methodology changes in Tariff Flags. Nevertheless, the distributor companies has already started 2015 with cash imbalances and by the end of the year, the situation got worse, increasing the deterioration. On page number nine, we already show you a very positive perspective for the next few months.

So, the reference that I had made regarding the Tariff Realism actions that meant an increase of 53.3% on our tariff, being 39% regarding ETR and Annual Tariff Adjustments and 14% regarding the Tariff Flags.

You can see on the right that the third quarter of the last year was the one where we had the peak of the use of cash by means of CVA. We reached R\$ 1.9 billion of credits. The situation already improved in the last quarter due to the reduction of the tariff banners, reaching R\$ 1.7 billion. As you can see on the lower part of the chart, this effect is consequence of the lower prices, lower Itaipu costs and lower CDE quota. Besides the hydrology outlook we introduced before and the lower thermal dispatch, our expectation is that by September this year, we will have these funds totally coming back to the distributed cash.

So this was a big financial problem to most of the discourse and the situation will change by September this year at least as far as our Group is concerned.

So, now we will talk about the new problems in 2016. Starting on page number 10, we show the oversupply in distributor companies as a subject. On page 11, we have a little bit of this moment and the perspectives for the solution to these things that will occur to most Discos in Brazil.

Given that in the last two years, there was a reduction in consumption in the previous year or practically maintaining stable. The outlook for this year, the perspective is flat. However, the contracts that was signed in the past in order to

cope with the perspective that we suffer consumption at the time, we determine this over contracted position higher than the regulatory limit of 105%.

Because of that ANEEL submitted to discussions two measures. The first one, the Public Hearing (AP) 004, and ended the contributions period about 10 days ago, should be voted next week by the agency themselves.

Because of the AP004, we have a methodology to recognize involuntary surplus coming from the contracts that were quoted. From 2012 to now, the volume of the quotes were included in distributor companies. In addition, we have to consider the energy purchases through the Energy Auctions (A-5, A-3, A-1). Both effects is cooperating to the oversupply scenario. We expect this to be voted tomorrow, however, it is not in the agenda. So due to the need or emergence of the decision we expect this to be voted by next week.

This proposal alone is enough to solve the problem in the short run for CPFL. The reduction that comes from this AP004 represents 4% of its oversupply and in the short run, this affects the whole sequence of contracting by Disco's within the short run. I mean, there is a 4% reduction, placing all the CPFL dispatch Disco's within the range of 100% and 105%.

So this is very important for all the companies and specifically for CPFL because it -- by itself solved the short-term problem.

It is also true that we are dealing with something that is already underway with a big migration of customers. Because of that, there is another Public Hearing (AP) underway and the contributions end today. This AP refers to the postponement or suspension of contracts for new energy. There is a good potential of plans that are delayed, so a methodology is being created to reduce bureaucracy, so that this can be done quickly.

It is important to highlight that there is a reasonable potential here to do this kind of job. We know there is a large number of plants that are delayed. Therefore, there is an advantage to stimulate this renegotiation.

Remember that this action alone and together with one on the right referring to migration of customers which has a higher volume today increasing this over contracted position, there is no regulation to deal with this migration of special customers. So, in 2013 there was Public Hearing (AP) 085 to discuss the rule to adjust disco's contracted position due to migration of special customers, so that we could have the proportion or restitution of contract, as we have the exit of the special customers.

This is being discussed by ANEEL and I believe that the three proposals taken together will make the theme of the oversupply positions to be solve in a very transparent and fair manner. Because of the moment that we are living today it is true that we might have an important solution for the sector in the next few days regarding the conclusion of Public Hearing (AP) 004, and this is very important because of the needs of discussed for future auctions. Finally, on the page 12, the challenge that we will be facing is the macroeconomic scenario

that everybody will be facing because of all the turbulence and volatility that the country has been living. On page 13, we have the scenario that is used by CPFL as a reference or its forecast.

For a long time we have been using IBGE data and LCA, and you can see our main figures here. Figures that are being debated for our future planning process. In the GDP theme, we had a drop of 3.8 and we believe there will be 3% drop this year. Recovery only in 2017.

The results came from variation in industrial production, on the right, that dropped 8.3% last year and we expected to drop an additional 4.7% this year to rebound in 2017. Hence, total payroll that affects mainly residential dropped 5% last year. This year we expected to drop an additional 3.1% rebounding in 2017. I would like to remind you that we have an expectation because of the statements of contracts, inflation was 10.7 last year. We believe it will be 7.2 this year. So higher than the limit and going back to the center of the target are higher than the center of target in 2017 with 5.3%. This means that we have to be very careful in terms of developing activities in the energy sector. Just one on this point, I would like to mention that I think it's important to have these themes of 2015 solved in. As you can see we are addressing all the possibilities for 2016.

On page 14, we have the highlights. The first one is negative. Sales dropped by 5.3% in the concession area. Residential, minus 2%, commercial minus 2.2%, industrial minus 9.6%, aggravating the scenario of industrial consumption. On the lower part, we have the results of 2015 the reduction of 4% and the sales in the concession area of distributors.

The same 2% residential, same-store have reached the bottom, commercial minus 1%, industrial minus 6.9%. In spite of all these reductions, we continued our investments. We invested almost BRL0.5 billion in the fourth quarter closing the year with 1.428 million, 30% higher than our investments in 2014. We've renegotiated the hydrological risk. As I said to 458.8 average. We had the issue of the company's rating S&P, AA-, which AA maintained this is recent, it was a week ago, there is a recognition on the part of rating agencies mainly regarding the liquidity of the Group contributing to the maintenance of the rating perspective, and the entry of CPFL Energia's shares in the IBrX-50 and becoming a components stock of the ICO2, Carbon Efficient Index, in January 2016. So this is very good news.

There were maintained in the ISE index for the 11th consecutive year and CPFL was classified as a member of the sustainability Yearbook 2015, prepared by RobecoSAM responsible for the review of the DJSI. So, these are the main highlights of the fourth quarter. Now just to talk about sales in the fourth quarter and afterwards, we will tell you about the year. On page 15, we see a drop in the captive market of 4.1%, as I have already mentioned in the green area. You see the free customers especially, industrial a drop of 8.5% and the total in the concession area is 5.3% minus, as I said and the negative highlight here is the industrial sector with a 9.6% drop, on a year-on-year comparison, reaching 5.3% negative.

The positive outlook occurs in our valuation of contracted demand, over the same month of 2014. Since June, we kept a contracted demand higher positives on a year-on-year comparison mainly in the off period and off-peak, end of peak, slight reduction of 0.8% June, 0.9% September. In December the behavior was different, so peak going up and off-peak continued to grow at 1.6%. The participation of industrial that was once upon a time 40%, and now it's 39%, you can see that this breakdown is more or less kept. You can see that in this specific area of the concession area, growth in the concession area, mainly in the south-east and south. The group had -- the performance that was lower than Brazil, Brazil dropped 3.3%, and we dropped 5.3% in our concession area. And volume in the southeast, 4.3% and our disco's 4.9% and in the south we had a slightly better performance vis-a-vis the rest of Brazil. The south going down 8% and we are going down 7.1%.

On the next page, sales in 2016 a drop of 4.3%, and 3.3% in the captive market, very close to what we had said to the market at the beginning of the year 3.3% and TUSD dropping by 5.8%. We had already said that the biggest contribution was the drop of 6.9% in industrial. I had said 40% in industry for the whole year. But as you saw due to the drop at the end of the year, there was a loss of relative share to 39% and the figures in the comparison between the regions with CPFL, you can see 4% drop and here 2%, 3%. Last year, we had an increase of 0.1% in our generation installed capacity in renewables from 915 to 930. You can see renewable and conventional. Page 17, delinquencies, which is a cause of concern to many analysts and investors. On the upper part of the slide we see the evolution of the number of total gross. Well, we have delinquency up to D90, up to non-verification of payments. The good news is that we had a reduction in December and we expected to drop as we see the dropping down of tariff banners. And you can see that in terms of billing from 90 in the last 12 months is stable. 0.83, 0.84 and this figure is relatively stable and what we've been establishing, this is the accounts of the group beside the increase in the account and the decrease in salaries and increase in employment as you may remember last year we had the removal of some customers, the lower income customers that had incentives.

So in number of those, it's practically half in the B Group 116,000 and that has not stopped dropping even in December 2015, in spite of the same billing rate in D-90 on the turnover of the last 12 months has remained almost constant. It's important to highlight that all the action and we made many reports to you about that between 30% and 50% of cards and all the instruments available to the company, you can see this in the evolution of the provision for doubtful accounts, you can see 50% here on our tariff, 50% in allowance for doubtful accounts, as you can see on the slide. This reinforcement is important because if we look at the percentage of recoverable revenue over billings in the last 12 months, we expected 2.9 in the fourth quarter of '14 and 4.25% in the fourth quarter of '15 keeping the steam of allowance of doubtful accounts, 50% higher than we expected, around BRL30 million, BRL35 million.

Finally on page 18, we bring the results of the fourth quarter. The first line brings the reported results IFRS, the second line what we always have, incorporating the proportionate consolidation of our assets, different from the

IFRS and our consideration as regard with sectorial financial assets and liabilities and non-recurring items. Well, starting with IFRS. On the fourth quarter of 2015, we have a drop of 8.7% on net revenue reaching 4.507 billion and this is related to that consolidation of assets and liabilities we had on the last quarter of 2014. So looking at the recurring value which is approximately 0.3% reaching an increase of 3 million. This revenue increase which affected throughout out the year especially due to the tariff increases although on the fourth quarter, we had a non-recurring item from the last quarter of '14.

EBITDA and IFRS further decrease of 35%, a drop of BRL237 million and the proportionate and recurrence values, we're talking about a decrease of 7.7%, 70 million reaching BRL844 million. The EBITDA is main guide in the last line of the net profit, net income with a drop of 22.8%, which is 363 million in the last quarter, decrease of 10.7% at BRL255 million.

At the bottom of the slide, we have the variation of the item either on the consolidation or sectorial financial assets and liabilities for that quarter. And our non-recurring items, sectorial financial assets and liabilities of the year of '14. In GSF and Energy purchase that is verified here both in '14 and last in '15 both for Geracao and Renovaveis. The effect of the renegotiation of the GSF, the risk of premium, the insurance reimbursement for the Bio Pedra plant. As an addition in the fourth quarter and in terms of the two assets, an accounting procedure recommended by our auditor and the non-recurring effects of CPFL Renovaveis that occurred in the last or fourth quarter of 2014. So, due to these effects, when we adjust the EBITDA we have said 700 million in last quarter of '15 and the difference if we considering the sectorial financial assets on the previous year there is an effect of 428.

So the recurring value of '14 is in the range of 428 from 1,005 of the fourth quarter of '15. Removing 161.

As we go through -- move on to page 19, adjusting the evaluation of the main item. So we are not discussing the comparison of this 25%, but the drop of 7.7% right now, as you can see on this chart, there is an important negative effect on distribution, first the currency variation and the dollar was very volatile last year and in the last quarter. The increase of 10.9 in the adjusted PMSO – here we are comparing the 10.7 of IPCA or 10.5 of IGPM, it's an important variation, we'll talk about the results of our manageable cost in a minute, but in the last quarter we have a very close value to that of the inflation.

The drop of the market in the distribution area was 33 million. Decrease in the results, the adjustment of ETR and CDE Santo Antonio highlighted in our release regarding a procedure obtained by CPFL Piratininga and applied to all companies. The allowance for doubtful accounts of an additional 12 million and the cost of the collection actions that we implemented to maintain this allowance of doubtful accounts.

The sale of assets in the fourth quarter are small amounts legal and judicial than the BRL17 million, the positive results, the tax through of PIS/Cofins of R\$ 15 million is a procedure to avoid the volatility on the pass-through of PIS/Cofins

another item amounting to R\$ 12 million. So this distribution is clearly what is responsible in the last quarter for the negative variation of our business. Conventional generation reports 10.4% positive results, the seasonality strategy contributed with R\$ 9 million, the better performance of TPP Epasa and R\$ 20 million since September of 2012 and other smaller amounts of R\$ 3 million while, renewable generation and important highlights of an increase of the growth of 57% or R\$ 64 million.

On one side because of the lower energy purchase of SHPPs/biomass plants of R\$ 15 million, lower fine in Bio Formosa R\$ 11 million, asset write-off of R\$ 5 million and the commercial start-up of Morro dos Ventos II contributing R\$ 33 million in results. CPFL Renovaveis for the first time is using an EBITDA as a company higher than R\$ 1 billion and an important growth space delivering the project that we will have this year.

For commercialization, services and holding the results was 6 % higher or BRL 2 million, in the previous year we were working with much higher PLD and the company had great results. We are very pleased with the results on commercialization we had in this last quarter – in the bottom line, the conventional and renewable generation activities were positive, commercialization also positive and distribution was negative result mostly due to the volatility of the exchange rate and the type of markets that are the main elements to determine this variation.

On slide 20, we have the PMSO adjusted. Based on our cost or expense management program and I think this is the main results, if we look since the Zero Base Budget implementation and the current value, on the right side there is a decrease of 18%, equivalent to R\$ 326 million at this time, reaching R\$ 1,430 billion, we would have better one for that. Actually, but it was an expressive result and significant result and this reduction occurs both on MSO, and the contracts and also in Personnel in real term.

And on the year from 2014 to 2015, the actions throughout the crisis got decreased in real terms of 6% when compare to the IGPM of the period. If you see the comparison of nominal values, in the last year we had an increase of 3.8% and inflation of around 10%, so 6% life as reported and in the whole period we are maintaining the level of R\$ 1,350 billion and R\$ 1,400 billion over the last five years. The company has been growing and their nominal costs are being maintained stable and this is very important, especially at this period of crisis.

Now on slide 21, on the results considering the 10% decrease on this last quarter, wich is resulted from the reduction of 7.7% in EBITDA, with better financial result of 54.7% decrease in negative net financial result. Contribution of 150 million positive, the Variation of discos' concession financial asset in R\$ 96 million, the restatement of sectorial financial assets and liabilities and the resources that we have at CVA, indexed to Selic of R\$ 59 million. The Itaipu currency variation that was positive in this negative EBITDA of R\$ 50 million which is neutral in terms of results. We have the arrears of interest and fines, installment payment, so that's the work that we've developed to manage

delinquency, offset by the arrears and the net financial expenses in R\$ 59 million as you can see the company's result from the fourth quarter, in 2014, the CDI on average was a 11.7% and in fourth quarter of 2015, 14.4%. PIS/Cofins over financial revenue, a new charge that we did not have in 2014 and the others at R\$ 17 million.

We had an increase of 2.2% in depreciation and amortization due to CPFL Renovaveis assets portfolio that went into operation and increase of income tax and social contribution of R\$ 65 million.

So, we then refer to recurring and adjusted profits of R\$ 255 million,.

On page 22, as an overview of the comparison of 2014 and 2015, and we can see an increase of 17% in IFRS Net Revenue, reaching R\$ 19.159 billion in the year. The EBITDA was practically unchanged, decreasing R\$ 11 million, amounting to R\$ 3,750 and net income reducing 1.3% or BRL11 million reaching R\$ 875 million.

I believe that you analysts have a preference of looking at these results under adjusted figures, that considers similar holdings in each of the assets in which CPFL Energia has a stake, the company has an increase of 20% on revenue, basically tariff adjustments have an important effect in the year since from March and April amounting to R\$ 18.915 billion.

The EBITDA was an increase of 1.2% amounting to R\$ 3.948 billion, R\$ 4 million, so the recurring EBITDA of the Group. And then also with the impact of financial cost, higher CDI (main indexer of the debt), reached the net income amounted to R\$ 1.124 billion, a decrease of 3.2%.

Differences between IFRS and adjusted results are treatment given to GSF in 2015, estimated GSF minus risk premium of R\$ 128 million and the total expenses of the R\$ 365 million. On the previous year as you remember, we had the CVA sectorial assets and liabilities amounted to R\$ 831 million and the expenses for GSF in the year of 2014 amounted to R\$ 333 million. So these are the main differences determining these variations in the IFRS results and adjusted results.

But considering the crisis and the regulatory challenges given, the drop in consumption, the GSF, this means, if you look at company recurrent results, our result was slightly positive and considering the scenario, we can say it is significantly positive.

So on the slide 23, as we did last year, recognizing the volatility of the results for the markets, the executive board recommended the constitution of statutory reserves, strengthening of working capital in the amount of R\$ 393 million and we also proposed, the reversal of this statutory reserve through this stock dividend. And you can see at the bottom of this presentation, so the attributed cost to each of the bonus shares of R\$ 15.78 per share for the average of the closure of the thirty last auctions, and considering it as a whole the stock dividend is equivalent to R\$ 0.39 per share.

We should note that the subsequent proposals of 2.507570448% in the ratio of 0.02507570448 new shares at the same type for each share. The total number of shares that make up the company, the capital stock will go from 993,014,215 to 1,017,914,746 with the issuance of 24,900,531 shares to be distributed to shareholders under Article 169 of Law 6,404/76. Subscribed and paid capital stock will go from R\$ 5.348 billion to R\$ 5.741. On the right, we have the breakdown of these results. The net income of the fiscal year individually R\$ 865 million, execution of comprehensive results of R\$ 26 million, prescribed dividend R\$ 6 million, amounting a net income base for destination of R\$ 897 million (and we talk about IFRS), Legal Reserve constitution of 5%, R\$ 43 million of statutory reserve of the concession financial assets as a results of cash to BRL255 million, that is a non-cash results, and statutory reserve from this proposal of strengthening of working capital of R\$ 393 million.

We also recommend the payment of the minimum mandatory dividend of R\$ 205 million corresponding to 25% of net income of the fiscal year equivalent to R\$ 0.206868475 per share.

The momentum of this results for the period of 2015, the company proposes the minimum payment of R\$ 205 million and the statutory reserve for working capital and stock dividend proposal of another R\$ 393 million.

Now we are on slide 24, another source of concern from analysts and investors the company reports the results where the adjusted net debt over adjusted EBITDA is 3.41x and as we had in the previous quarters, considering the relevance of the CDA as we have a reconciliation, if we have, ...or if we don't have that disbursements of the CVA throughout the last year, we would then have our indexes slightly below 3.00x or at 2.94x

The chart at the bottom illustrates this movement with the amounts in 2014 and the expansion in 2015 since the first quarter. Growing from R\$ 1.18 billion in the 1Q15 to the conclusion of the 3Q15 at R\$ 1.907 billion and in the 4Q15 was R\$ 1.682 billion.

In our understanding, considering the effects of the tariff process treatment that will occur in the next two or three months, and tomorrow we will have here for the five small distributors, in April we'll have CPFL Paulista, which is the largest distributor and in June we'll have for the RGE. We understand that these volumes will become positive for the company as of September.

On page 25, reporting the increase in the nominal cost of the debt and decrease in the real cost of the debt. That's amazing, because in this series we have the higher nominal cost and lower real cost in whole historic series. Remembering, here we have with an important index, the CDI and we have here others funding, mainly BNDES, 18% linked to TJLP rate, 6% that are PSI (prefixed) and 3% that are pension fund.

The situation, in terms of liquidity, is comfortable. So with a cash at the end of the year R\$ 5.400 million, it's enough to cover an almost 2.4 times the

amortization of the last 12 months. The company has debts, which average tenor is 3.5% and the short-term debt is only of 13.3% of the total, so it is a comfortable scenario considering the perspective. With that acquisition is just the Group's perspective an increase.

On Page 26, with the future investment perspective, IFRS on the top, consolidating with the petitions recognized by IFRS, but I think it will be better to analyze it on the bottom with the pro forma investments of 1,200 million last year with an important challenge now.

The regulatory remuneration for police man RJE over the next two years, increasing the distribution investments to approximately BRL1.2 million, BRL1.4 million for the next two years, and approved the cost for (inaudible) on generation and the project for the consolidation and services. This year, and we will show invest closer to 2.1 million, and there is a decrease because of the closure of Renovaveis projects, once the new project are included this will increase but this is in the company's perspective for the five year investment plan, the pro forma of around BRL8.700 billion.

But this commitment should grow the company both on distribution and generation and generation of renewable on 27th reporting the capital markets indicators, IBrX-50 is an important reference for investors one of the main stock indexes of local markets and most trades shares in terms of liquidity CPFL joined in January 2016 sensing with the BNDES with a carbon efficient index and same on IBrX-50 and we remain among the 35 companies the market share of this index of approximately BRL1 trillion, market cap.

On page 28, the share performance with an increase of 2.1 compared to the decrease of 3.8 on the New York from this smaller job compared to Dow Jones and this is mostly related to the currency, there is also an average increase from trading volume, and the company is included in the main indexes over the last year. These were my main remarks, with our Vice President and officers to answer your questions.

Q&A Session

Operator: Ladies and gentlemen we'll start the questions-and-answers session. (Operator instructions)

Our first question is from Vinicius Canheu from Credit Suisse.

Vinicius Canheu, Analyst: Hello Wilson, good morning. I have two questions. The first one is just a confirmation of some data you've provided and the second one will be a question that I asked on the previous calls about overcontracting, you said that with current ANEEL's proposal you would be able to reduce contracts in 4%. So just to understand: Today when we look at CPFL, the distributors, the average level of overcontracting is 109%, is it? Putting that you already falls within the 100% range and there will be no loss resulted from it? I just want to confirm this.

Wilson Ferreira Junior, Chief Executive Officer: Yes, the figures are below 109% and they will be below 105% especially within the next two years.

Vinicius Canheu, Analyst: So that gives you some room for the next years?

Wilson Ferreira Junior, Chief Executive Officer: Yes.

Vinicius Canheu, Analyst: Okay, that's clear. And the second thing, for us to see, so I think that an environment improves more from the issue of CVA monetization, a more controlled debt - and we're following on the press and other conference calls too - you have a reasonable amount of assets available in the market for sale.

If I'm not mistaken, in the last 2 last conference calls I asked you this, if it was time now to take a little more risk for acquisition, for growth, or be more conservative and you had been constantly saying that the economic scenario, so it was time to become more conservative and let these opportunities later on the risk issue of business and the risk issue of balance sheet.

I was wondering if this has changed or if this position of more conservatism is still on and that is a position that should be for the rest of the year or if you see a greater appetite now with the highest share price also, if it gives a mood to take any initiative to acquire this year.

Wilson Ferreira Junior, Chief Executive Officer: Look, it's not a matter of being conservative. It's a matter of being disciplined. It is a mark of the group here being financially disciplined.

I think we rather have a scenario of improvement, we still ... you know, we have a vice president focused on the theme of evaluating opportunities. Obviously, I mean, we have a better condition, but we will not compromise the discipline.

The attitude that we are demonstrating here paying the minimum dividend, the stock dividend, realize what is a priority for the group today, which is back to have a capital structure, I would say, more robust, healthier.

We are leveraged and this is a value creation strategy on account of income tax benefits, etc., and we are a company focused on growth. Now, I would say so, the time is also, I would say so, favorable to the buyer in the sense that the prices of assets should decrease.

Obviously we will be aware of this opportunity. If it can be verified we continue with appetite, but still more so with discipline. We think important this moment you do not have absolute clarity of what will be the market and we have here a great replacement operation, you know, we understand that this kind of measure is crucial.

We feel confident with the decision that we took with the dividend position or the last movement of the agency as regards Itaipu and CDE the eventually determined this perspective of higher liquidity, of course we will use these results of our work with the M&A and Greenfields with the necessary discipline, with the time it requires.

Vinicius Canheu, Analyst: Excellent, thank you. That was very clear.

Operator: Miguel Rodrigues, Morgan Stanley.

Miguel Rodrigues, Analyst: Good morning, everyone. Wilson, could you talk about your debt rollover plan. As you indicated in your presentation, you have R\$ 2.3 billion maturing in the short term, so what would be the refinancing cost that you estimate and to which extent you could consider amortizing part of this debt?

And another point is if you have some visibility about infrastructure debentures for the distribution segment, which was a point under discussion as well?

Wilson Ferreira Junior, Chief Executive Officer: I will ask Gustavo Estrella to answer your question because he is very much involved in both things.

Gustavo Estrella, Chief Financial and Investor Relations Officer: Come on then, Miguel. The debt rollover plan I think that this is an important issue that the company has focused much, especially at the beginning of last year, so we already have imagined a very challenging year, as indeed was the year 2015.

So, we anticipated this scenario and we practically rolled all debt needs that the company had in the short-term, before, in fact, the scenario materializes.

So I would say the following: I think our situation from the point of liquidity it is extremely comfortable, we are closing here the year with a slightly higher cash of R\$ 5.4 billion, that is, all my refinancing needs until the end of 2017 are fully addressed.

I mean, we have no exposure from the point of view of liquidity to the credit market in Brazil today and, you know, actually is a market now much narrower in the point of view of volume and obviously with much higher costs, CDI is at the level it is, whether the spreads that we face today in the market.

So, today we are monitoring the market, looking for some alternative, some solutions thinking in 2018 maturities, okay. Then, in 2016 and 2017 the company's debt is fully equated. So I think that here gives us this comfort, this tranquility, we look at the market and, if any there is a good funding opportunity, we will do. If there isn't, we simply have to monitor and then look at 2018.

And I think perhaps one of the great challenges that we have in the market today is to seek new sources of funding. So I think, now entering in the second theme, no doubt the company is very involved in this issue of infrastructure debentures, so we have had here meetings, via ABRADÉE, in the Ministry of

Mines, and with ANEEL in order to find a way to extend the benefit of the infrastructure debentures also for the distribution sector.

Thus, it has no definition yet coming here from the Ministry, but, well, I think the outlook here is positive, I think that the Ministry therefore considers the challenge that we have here today to finance very long-term investments of a 20-year/30-year concession, and the sector today, I would say so, today most companies are financing their Capex with short-term financing.

So I think this here touched the Government, I think that the Ministry understood that here is a challenge in sustainability investments, which is the creation of long-term funding mechanism. This here certainly goes there for funding through infrastructure debentures.

So, we are optimistic that we will have this source of funding for the distribution sector, but has so far still no definition by the government.

Miguel Rodrigues, Analyst: Okay great, of course. Thank you very much. I have a second question, perhaps this is for Wilson, we saw a comment in the press recently about the valuation of CELG with the statement that the suggested price looks expensive; which naturally reduces the attractiveness of the auction.

At the same time it is clear that many expiring concessions will have difficulties in achieving financial quality metrics required by ANEEL.

So I would like you to comment a bit how you expect this consolidation process in distribution to take place in the country, if you expect the players, those players that will difficult to achieve the goals they seek potential buyers relatively early, already earlier this year, before they have problems with the achievement of financial and quality goals.

So I think this. That you comment a little bit how do you expect this process of consolidation in distribution will happen.

Wilson Ferreira Junior, Chief Executive Officer: Well, I think that consolidation is necessary and will occur. I think ... I do not have much doubt, I think this last fourth cycle and the situation of the renewal of concessions, either of the financial situation of some concessions that are not under renewal, so this is absolutely desirable.

What does not make much sense is 63 distributors. So this here will also be accompanied by a process of grouping proposal process, so to rationalize the number of concessions.

You should be seeing in the company's balance sheets the number of pages you need to report a very small concession. So this is the first thing. The second thing, related to the issue of CELG actually I just use here a vision that has been set up for you analysts.

When you analyze the CELG - and just leaving it clear, CELG is a company that has a very positive market, is a company that is in a market that grows a lot and is a company that has lower operating performance than most companies, by example, as our companies here - one of the references that you use to evaluate the company is ... the implied value here in the multiplication of the regulatory asset base. So, if you like, for many years there has been, in view of you, the one to be most efficient has a perceived evaluation, the multiple implied is larger than the market.

It turns out that in the specific case of Celg this number to be almost 30% larger than the CPFL. So when we talk of a price that is assigned ... see, there if we ... you will evaluate the companies that participate in it here, if acquisition is accretive, and it will be accretive as long as you buy it in lower price than yours so you can put your technology, your processes, your systems and obviously achieve a level of performance "x" by CSV (which is the measure that ANEEL places) to a performance "y" greater than "x".

What we check - and we do not know why and apparently analysts also do not know - why the price is set. So I think it has a rally here in the beginning to have a greater understanding of this price in order to subsequently determine the processes that must happen with other companies, in the public case here linked to Eletrobrás.

In the other, as you had put, I think it was a good thing of the process put for renewal, the period in such a way that even those operators who have difficulty, but have challenges, whether in the area of quality, and in the financial area, they have time to evaluate and obviously I have no doubt, in being deprived of that will anticipate; they will not expect to have any problems with the agency.

Examples of the past were not good for those who owned the companies, so I believe that to have time and to realize an appropriate timeframe that will not be able to perform on the agency's parameters, the most appropriate attitude, more preserver of value, even if residual value of the companies, is you go to the sales process, and being deprived I know that this approach is easier, is sometimes by geographical proximity in some cases, the ease in terms of systems. So I believe it will be so this type of movement.

Miguel Rodrigues, Analyst: Thank you very much Wilson and Gustavo.

Operator: Lilyanna Yang, UBS.

Lilyanna Yang, Analyst: Thank you for the opportunity. I have one question regarding M&A. Do you believe companies like AES Sul and CEEE selling assets in 2016? And a broader question, would you be interested in participating in transmission, a defensive sector, because regulatory returns are better than distribution even more so when the traditional players in transmission are facing financial difficulties and not showing the discipline you have? Okay, my two questions.

Wilson Ferreira Junior, Chief Executive Officer: Thank you for the question. Yes, we believe that states such as Rio Grande do Sul will have... today is an important day for them today and tomorrow when they will be holding meetings to refinance with the government. But another alternative and even in order to be able to do something in the state would be to sell off, or privatize some of the concessions and I think this will be considered more seriously now, these are assets that are facing a good moment vis-a-vis prices, the concessions have just been renewed. I'm talking about the state concessions... So I have no doubt that this kind of moves has a potential. In the specific case of AES Sul, that you mentioned, the last move that they made regarding separating or spinning off Brasiliana and based on some declarations made by their executives are going into the direction that you had just referred to and, obviously, CPFL is well placed and already have a concession in Rio Grande do Sul and we are the most efficient concession there. So of course if these things occur we will be assessing both perspectives and of course they are assets that would make a lot of sense in our growth process, since provided financial discipline is maintained and current prices.

Lilyanna Yang, Analyst: Okay, and what about transmission?

Wilson Ferreira Junior, Chief Executive Officer: Maybe you have not noticed that we have been getting into this segment. We chose as criteria to participate especially to make feasible facilities that are -- where we may have been interested in terms of usage. For example, our first project was the Piracicaba substation, it was an important substation for the need of the CPFL Paulista and we did not see other players involved in it. It was an excellent investment that we made, a major investment. By the end of last year, we participated in the auction and we were the winners of a second asset, Morro Agudo. And I agree with you that the outlook for investments in transmission have improved quite dramatically, so the prices established to attract more players, they have already reached quite good level and we are paying a lot of attention to it and always thinking about financial discipline, you have a maturation that is of one or two years and you have financing from the BNDES and you can issue infrastructure debentures. So we have been analyzing these opportunities very thoroughly.

Lilyanna Yang, Analyst: If you allow me another question about distribution segment, the EBITDA was weaker than we expected, weaker than the recurring level, the delinquency has increased slightly, losses are a little bit higher than regulatory levels. So what would be guidance for the current level of EBITDA? And would this be possible to be reached this year, when the GDP is expected to decrease?

Wilson Ferreira Junior, Chief Executive Officer: I'll ask Gustavo to give you an answer.

Gustavo Estrella, Chief Financial and Investor Relations Officer: I think some of the topics here are important to mention, first is that in this quarter, unlike the year results, we have an important impact of the currency exchange variation and that affects negatively our EBITDA, but it returns in the bottom line

and this shall be adjusted first to be able to analyze the distribution EBITDA in a more recurring way. Another thing as you mentioned about delinquency, Wilson has shown the data and I think we do have a nominal increase in delinquency in absolute terms considering the moment of high tariffs. But on the other hand, there is some stability in the percentage level vis-a-vis our revenue. And when we consider our delinquency, the increase up to this point has been offset by the increase in revenues from arrears of interest and fines, accounted in financial result. There has been a slightly positive effect even when we also consider the increase on expenses that we have with the greater control of delinquency, now talking about the amounts of the cuts and I think we have to be a little bit careful with the EBITDA of the discos because there is a non-recurring effect, the currency variation, and the other effect is being offset by the other line in financial result and therefore it doesn't affect our net income line.

So when we consider the perspective of course there is an impact of the market, especially in the whole market and the residential market. On the industrial market, we still have preserved margins with the demand contracts but of course we suffer with the decrease in the residential consumption. Analyzing 2016, the scenario is slightly different; we already see the perspective of increase in energy consumption in residences when compared to 2015. We have an organic growth between 2% and 2.5%, bringing the perspective of market increase for 2016 and with the tariff on the opposite side from last year. If last year we had an almost 60% increase on tariff for this year the perspective is very different because of the decrease of the tariff flag; we already are on yellow and we will evolve to the green flag in the next months, there is also an expectation of a decrease in the tariff rates throughout 2016.

Considering our Discos, especially RGE in June, and especially Piratininga in October we've see an expectation of a tariff decrease. In Piratininga's case, that would amount more than 25% of tariff decrease not including the Tariff Flag. Now that should also bring a more positive perspective in terms of our consumption in our concession areas. So the main messages are, first, reading the results carefully when considering distribution segment in fourth quarter 2015 because it is different from what is expected for 2016. We now have a more positive outlook for distribution as of this year either because of a recovery, still timid, but a small recovery of the market. And the expectation of this tariff reduction throughout the year, and the impact of the tariff revision. For Piratininga we had a tariff review at the end of last year and it will be consolidating the entire results as of 2016. The small distribution companies now are also undergoing the tariff review process in March, with the prospectus of regaining larger or higher margin. And this is the scenario that we have for distribution.

Lilyanna Yang, Analyst: Thank you.

Operator: We'll now close the questions-and-answers session. I would like to turn the floor to Mr. Wilson Ferreira Junior for his final remark.

Wilson Ferreira Junior, Chief Executive Officer: I think with this last question, what Gustavo said is very important. As I said, I think the year of 2015 was, without a doubt, the worst year during this crisis. The year of 2016 tends to be better due to a number of variables. The decrease that we verified in

consumption and that we detailed to you, our expectation and what we have verified already especially in February, it's more about a flat growth added to the organic growth. So, the negative effects of delinquency we believe that either with the exclusion of tariff flag or with the reduction resulting from CDE and Itaipu will benefit consumers. So we understand that this is a positive perspective.

As regards generation, the main problems were definitely solved and the financial aspect that, for a disciplined group like we are it was always a concern, now has a real possibility for resolution. So the conditions established for 2016 are clearly better for the Group than the conditions we had in 2015, and I think that now we have the inspiration of our corporate governance, our shareholders and our business culture. Yes, there will be a series of opportunities, they will be analyzed with our discipline and on the other hand, we have the internal opportunities of businesses that we have already formed, for example CPFL Eficiência, that has a remarkable set of opportunities for profit being materialized. In the free market area, you've seen an important migration in this moment of excess or surplus. The company has this competence and the stability to make a position and of course all processes of rationalizing costs and the productivity processes implemented in the company. So, I understand that the year of 2016 is a challenge for all Brazilians and for the whole country and it will be for us as well, but as we always say, it is also a year of great opportunities for those who have prepared for this moment and CPFL has prepared. So we are confident in the performance of our operations due to the preparation throughout the last two years, we thank you for your attention to our conference call.

Operator: CPFL Energia's conference call is now closed. We thank you all for your participation. Have a good day.