



**Local Conference Call
CPFL Energia S/A
Fourth Quarter 2016 Earnings
March 24, 2017**

Operator: Good morning and thank you for waiting. Welcome to CPFL ENERGIA'S fourth quarter 2016 earnings conference call.

Today we have with us Andre Dorf, CEO of CPFL Energia, Gustavo Estrella, Chief Financial and Investor Relations Officer, and other company executives.

This conference call is being simultaneously streamed over the Internet, available on the Investors Relations site of CPFL ENERGIA at: www.cpfl.com.br/ri, where the respective presentation is available for download. We inform you that during the company presentation all participants will be on listen-only mode and, soon afterwards, the question and answer session will be held, when more instructions will be given. If you need any assistance during the conference call, please dial star zero to request assistance from an operator. Note that this conference call is being recorded.

Before proceeding, we would like to clarify that any statement made during this conference call regarding the business prospects of CPFL ENERGIA and its operating and financial projections and goals, are beliefs and assumptions of the Company's management and based on currently available information. Forward-looking statements are not guarantee of future performance. They involve risks, uncertainties and assumptions as they refer to future events and depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions, and other operating factors may affect the future performance of CPFL ENERGIA and lead its results to differ materially from those expressed in such forward-looking statements.

Now we would like to turn the presentation over to Mr. Andre Dorf. Mr. Dorf, you may proceed.

Andre Dorf: Thank you, good morning everyone, and welcome to another earnings conference call of CPFL Energia. Today we will discuss the results of the fourth quarter of 2016 and a little of the year as a whole.

As usual, we'll conduct a brief presentation and then make ourselves available for the Questions and Answers session.

Starting on page 3, we have some highlights of the full year, it was a very busy year for the CPFL Group.



Starting with the market, we had a decrease in total load measured in our concession area over the year of 3.3%, so, a decline of 3.3% in the load. Our contracted demand (some good news here) was virtually flat compared to the same period a year ago, which shows our high voltage clients did not reduce their load, did not reduce their contracted demand, but the load.

In terms of revenue, we saw a decrease of 7.2% in the year, and EBITDA was stable. The decline in revenue actually translates the reduction in charges and a lower cost of energy purchases passed through to consumers, so this is good news for consumers and not necessarily bad news for CPFL, despite the pass-through of energy to consumers.

We remain confident about Brazil, in the fourth quarter alone we invested nearly R\$700 million, of around R\$2.3 billion invested in the year. These were investments in energy distribution and generation mainly.

Our net debt at the end of the year stood at R\$13.2 billion, but our leverage ratio decreased, despite these investments and the measures we adopted to face the crisis. We were able to reduce our leverage to 3.2 times our EBITDA in the period, therefore an improvement compared to previous years.

We also had the startup of the wind farms Campo dos Ventos and São Benedito, adding total installed power of 231 MW.

Additionally, we started to consolidate and integrate RGE Sul, the transaction was announced at the end of the first half of last year and was concluded in November of last year. This integration is advancing, several processes were mapped, integration of teams... so we're conducting this consolidation and integration of RGE Sul very comfortably and calmly in the group.

Another very important factor for the Company, the sale of its control to State Grid, so it was sold... the ownership interests of Camargo, Previ and Bonaire were sold, as announce in July of last year, and it was concluded on January 23, 2017.

Additionally, for the twelfth consecutive year, we were able to include CPFL Energia in the Business Sustainability Index (ISE) of the São Paulo Stock Exchange (BM&FBovespa). So, another positive highlight for the group this year.

Very well. On the next page, we have the breakdown of EBITDA, or cash generation measured by EBITDA in 2016. EBITDA came to 4.126 billion in 2016, and the breakdown among the businesses is shown in the pie chart on the left-hand side.

You can see here that the distribution business accounted for 45% in 2016, generation (both renewable and conventional combined) for 51% and other



businesses, which are growing in the group, accounted for 4% of the total EBITDA of CPFL. Therefore, a balance between distribution and generation.

If we analyze it by business, starting with distribution on the upper right-hand corner, we can notice a 14% decline in EBITDA in the year, mainly explained by a reclassification of accounts in the financial statements. We reclassified the concession financial asset. This reclassification helped a lot the comparison base of 2015, and therefore a difference here of a little over 200 million year-on-year.

In conventional generation, an important increase of nearly 25%, which is very closely related to contractual adjustments in our generation, power supply, contracts.

In renewable generation, EBITDA was virtually stable between the years, negatively impacted by certain asset write-offs and discontinued projects, by more or less R\$75 million. But, despite this impact, EBITDA was stable.

And the positive highlight, on the bottom left-hand side of the page, our increase of nearly 40% in commercialization and services in the Group, positively influenced by a contract indemnification of around R\$57 million.

On the next page, page 5, we have information on energy sales in the quarter. Here, I'll start commenting on the results for the quarter. We registered an increase in sales in the concession area of almost 7%. Not that the areas increased consumption or that there's no crisis, but this number reflects the addition of RGE Sul in the months of November and December.

If we exclude RGE Sul, power fell 3.3% in our concession area and our sales fell by 3.3% too, so the market contracted by 3.3% in the fourth quarter compared to the same period last year.

Contracted demand, as I've already mentioned, was stable and our losses increased slightly here, from 8.37% in the fourth quarter of 2015 to 8.84% in the third quarter of 2016, to 9.08% this quarter. This is very closely related to the mix of the portfolio, since industrial, or high voltage, decreased the most, therefore the share of low voltage – which has higher rates of technical and commercial losses – increased, and also the number of disconnections increased due to the crisis, along with initiatives to combat delinquency, and of course activities to steal energy from the network and others also increased. So, these were the main factors of this slight increase in losses.

If we look at the upper right-hand corner, we have here the total load in the concession area. We mentioned the 3.3% contraction in the fourth quarter, but we should note here the migration of captive market clients to the free market. So, we have here a decline of 8.4% in the captive market and an increase of over 11% of the load in the free market in our concession areas.



Now discussing the middle chart at the bottom, which excludes RGE Sul for comparison purposes, we have the same 3% in line with the variation in load (we're talking about sales here) and the same behavior observed between the captive and free markets.

The bottom right-hand chart shows the distribution by consumer profile. You can see here that residential consumers, the residential portion of our consumers fell almost 2%, the negative highlights here were industrial and commercial clients, decreasing around 6%, and others (municipalities and others) increasing 4%, but representing a smaller share of the mix.

On the next page, we have similar information but for fiscal year 2016, not for the quarter. Starting with the chart on the upper left-hand corner, we have 3.3% again, a decrease of 3.3% and more significantly in the captive market, similarly to the impact on the quarter.

The pizza chart in the middle shows the distribution by consumer profile in our market, of whom almost 40% are industrial consumers, followed by 29% of residential and 17% of commercial in our market.

The charts... the table on the right shows the maps comparing the market, sales in our concessions areas with the performance in other regions. For instance, where we see the map of Brazil, Brazil decreased on average 1.2%, and CPFL decreased 3.5%, which is closely related to our mix of industrial and commercial consumers, which has a relevant weight in our market distribution.

In the Southeast region, we observed a similar behavior, the region as a whole declined 2% and CPFL fell 4.4%. Again, this is a more industrialized region. However, in the South region we have the opposite: the South region declined 0.7% and RGE... CPFL increased 0.7%.

So that was the behavior in our areas of operation in relation to their regions.

The middle chart at the bottom shows sales in the concession area (and this excludes RGE Sul for comparison purposes), with a decrease of 3.5% in the year. The impacts of the political and economic crisis were significant here and influenced the regions where we operate.

On the right-hand side, the same chart breaks down sales by consumption segment, and once again the negative highlights were the industrial and commercial segments, the industrial segment falling nearly 8% throughout the year. So, a very significant decrease for such an important segment in the economy.

On the next page, page 7, we present some data on delinquency. The chart on the upper left-hand corner shows the evolution in ADA (allowance for doubtful accounts) as a percentage of gross revenue. We closed the year with 0.7% in the last quarter, but note that we have a historical average of 0.58%, but that since



2015, the second quarter of 2015, we start seeing more points above the average compared to points below the average prior to 2015. Since 2015, we noticed an increase, a change in the level from 0.50% to 0.60-0.65% due to the economic crisis.

The same effect can be noticed in the bottom left-hand chart, where we show total bills overdue more than 90 days. Here we can really see the slope of the curve. The good news is that it seems to have stabilized, we see in the most recent quarters at around 1.05-1.09% of gross sales, but it stabilized at a higher level than the ones we observed in the quarters prior to the beginning of the crisis.

What do we do with this information? We are intensifying our collection efforts. If we take the chart on the upper right-hand side, we had a substantial increase in disconnections here as a result of collection efforts.

If we compare the first quarter of 2015, when the crisis began or when we started to realize the crisis becoming worse, we had 140,000 disconnections per quarter, and now we've stabilized at something around 340,000 per quarter. So, it's a very significant number of disconnections.

On the next page, on page 8, we talk about the highlights in energy generation, our energy generation business and here the highlights in the fourth quarter.

We are once again facing a challenging and unfavorable hydrological scenario, especially in the Northeast, and indicators are already indicating some level of concern. In relation to CPFL, we had the commercial startup, as I've already mentioned, of the Campo dos Ventos and São Benedito complexes, 231 MW, a significant capacity for both CPFL Renováveis and the group.

We had good news here, which was the significant decrease in expenses related to what we call GSF, so in the fourth quarter of 2016 we had 16 million with GSF, versus 86 million in the same period a year ago, and for the year also a significant decrease from 149 to 55 million in 2016.

Let me remind you that we renegotiated most of our exposure to GSF, and today only 12% of our hydro capacity is exposed to this cost, this expense.

It is worth noting here the volatility of PLD. Here, we show the fourth quarter of 2016 versus the third quarter versus the fourth quarter of 2015, but if we compare it to the third quarter of 2016, a lower value here of 116 compared to the current value of around R\$220.00. So, a significant change over time here.

On the upper right-hand side, we show the increase of our installed capacity by 4%, due to the startup of the wind power complexes I've just mentioned.

The charts at the bottom show the levels of the reservoirs, both of the Interconnected System, and of the Northeast on the right, which shows some risk

– not of shortage, we don't see any immediate risk of shortage – but some risk of prices here, due to the possible commissioning of thermal plants in the future, due to the lower level of reservoirs compared to historical averages or to previous years.

The chart on the left shows a forecast to close with 40% in the Interconnected System, compared to the historical average of around 70%, so significantly below the average. And on the right the same information for the Northeast sub-market. So, closing March with 21% of reservoir levels. Here, also significantly below the historical average.

I'll now turn the call over to Gustavo Estrella, CFO of the Group, for his comments on the financial results in the quarter.

Gustavo Estrella: Going here to slide 9, we have the results in the fourth quarter of 2016. We present here results in accordance with IFRS and in accordance with IFRS excluding the results of RGE Sul for better comparison of results in the same comparison base.

In accordance with IFRS, we have an increase in net revenue of 11.8%, a decline in EBITDA of 12.6% or R\$145 million, and a decrease of 62% in net income, or R\$225 million compared to 2015.

When we break down the main factors, starting with EBITDA, in the distribution segment we can see a negative variation here of 117 million. It's important to highlight here that the biggest factor on the lower EBITDA from the distribution segment was the recognition of a concession financial asset, so in 2016 we reclassified the remuneration of the financial asset, it was previously recorded under financial results, and now it's impacting our operating results, so our EBITDA.

A change here of R\$160 million. This is basically due to inflation, we had significantly lower inflation compared to 2015, virtually half of the rate of 2015, and this obviously leads to lower revenue.

Just a reminder, this is a non-cash impact, the assets are remunerated for after the end of the concession period, so they have an impact on the result, but no cash impact. This alone would cause the result of the distribution business to increase to more than R\$40 million.

The main impacts here, in addition to this one, the effect of our Opex, a change in Opex, whether due to inflation, but Opex is still influenced and impacted by our recent collection efforts, not just the impact of ADA with the increase in delinquency or a stabilization of delinquency at still-high levels, as Andre mentioned, and also the Group's collection efforts to combat delinquency. A highlight here was the maintenance of a high number of disconnections in the quarter.



There's also a positive impact here, a contribution from the results of RGE Sul, basically in the months of November and December of 2016, with a positive impact of R\$36 million on the results.

A positive variation in the quarter of R\$34 million on legal and judicial expenses, basically non-recurring items from 2015 that did not repeat this year and caused a positive impact of R\$34 million in the comparison, also due to the positive impact of the exchange variation of Itaipu in the quarter on our operating result. Remember that an equal opposite impact will be observed in our financial results.

Going now into renewable generation, the total variation here of R\$103 million with basically two impacts on our result: first, a series of asset write-offs we made in the fourth quarter of 2016, amounting to R\$75 million; these were also non-cash impacts, basically the write-off of assets and write-off of provision for goodwill upon the merger of the company's assets in 2011, but with no cash impact for the company; and here also some non-recurring impacts from 2015, which positively impacted 2015 and did not repeat in 2016, and which contributed to the result this quarter.

Excluding these two effects, we actually have a positive impact of result, whether due to the pass-through of inflation to contracts pegged to the long-term IPCA, whether to the startup of new projects in the second half of 2016.

Still regarding EBITDA, under commercialization, here also basically a non-recurring impact from 2015 also due to asset write-offs in our businesses. The write-off did not occur this year, leading to a difference of R\$31 million in the comparison.

In conventional generation, this is basically due to the transfer of inflation in our generation contracts, these are all long-term contracts adjusted by inflation rates, whether IGP-M or IPCA, which has a positive impact of R\$29 million in the comparison.

When we look at the effects of the change in net income in addition to EBITDA, a variation of the financial result by R\$195 million, the main impact here is the impact from debt charges, plus our mark-to-market, a negative variation here of R\$87 million, which is basically explained by an increase in the debt balance, we had an important acquisition for the group at the end of last year and also due to the increase in the interest rate of more or less 1% in 2016 compared to 2015.

Moreover, we also started to book and consolidate the financial results of RGE Sul, we have a gross debt there of R\$1.1 billion, this obviously carries some financial expenses to our consolidated results, which this quarter came to R\$33 million. Also, the exchange variation in Itaipu, like I said, a positive impact on EBITDA, which is offset by the financial result.

Going now into the results of the year, we followed here the same logic for presenting the effects under IFRS and the effects under IFRS excluding the



results of RGE Sul. So, we have in the comparison base excluding RGE Sul, net revenue decreasing 9.8%, or R\$2 billion. This already reflects the decrease in tariffs throughout 2016, which led to a reduction in net revenue. EBITDA fell 1.3%, or R\$53 million, and net income increased R\$31 million.

Once again, breaking down the EBITDA by business, we can see distribution decreased by R\$299 million. It's important to mention here that, if we exclude the change in the financial asset of R\$212 million and exchange variation at Itaipu, which also offset each other on the bottom line, we would have a positive result from distribution and this is basically due to the pass-through of prices over the course of 2016, basically reflecting the tariff increase over Parcel B. This is basically the pass-through of inflation, which averaged 10% in 2016, a significant impact from inflation, which we see here as market and price variation with R\$210 million.

When we saw in the previous slides, market variation was almost insignificant, when we look at the low voltage segment, residential fell only 0.7, and with the maintenance of demand contracts in industrial consumption, we have a limited impact of market variation in the result of 2016. So, this basically reflects the pass-through of prices to our tariffs throughout the year.

There's also an important variation in our Opex of 9%, or R\$168 million. I mean, the effect of inflation here doesn't impact only revenue, but also expenses under a series of contracts that we have here of a pass-through of inflation also to our contracts. So, an important effect here in our Opex too.

Note here that, in addition to this pass-through of inflation, we also had an increase of R\$17 million due to collection efforts, we also saw the company maintain here intense collection efforts to combat delinquency and also the increase of our ADA by R\$42 million in 2016.

Going into renewable generation, I think the main impact this year was the provision for write-off of R\$75 million. Like I said, a provision for write-off that does not affect the company's cash flow, so it is non-cash. An impact from the contractual indemnification of ACL contracts by R\$57 million, here also an intragroup contract, we'll see the same impact on the commercialization segment and, really, what we had throughout 2016 was a reflex of the increase in wind power generation, basically due to the recovery in wind rates in 2016 compared to 2015.

We should also note an important effect of GSF throughout the year. GSF also contributed R\$56 million to the result of our renewable generation business compared to 2015.

In conventional generation, here I think it's after the impacts of GSF, we have a much more stable business, here basically the effect - in addition to GSF with R\$38 million - is the effect of pass-through of prices, which adds R\$163 million to the result.



In the commercialization segment, like I said, the main effect here is the effect of the agreement with CPFL Renováveis, which has a positive impact of R\$57 million, and we also have an increase in our service business throughout 2016, which also contributed to the positive result in the year.

So, considering the variation of net income, this is a variation of the financial result, a total variation here of R\$46 million. What we have basically, in addition to the effect of exchange variation at Itaipu, which was negative in EBITDA and positive in the financial result, we have a variation in debt charges of R\$232 million, which is primarily an increase in our debt balance, mainly due to an increase in the volume of Capex and also to the acquisition we concluded at the end of last year, and also to the increase in the interest rate, here with an increase in the rate of more or less 1% compared to 2015.

Going now to slide 11, I think this is perhaps the key positive highlight of our earnings today, which is the decrease in our leverage ratios. So, we are showing here our ratio closing at 3.21 debt-to-EBITDA, which is an important number for the company, it shows some of the recovery in the results, an increase in investments at CPFL Renováveis and also considering the investment we made in RGE Sul. So, this is an expectation, a positive expectation for evolution of the Company's debt from 2016 to the coming years.

When you look at our interest rate level, the Selic more or less stable throughout the second half of the year, we get some stability in our average gross debt cost, closing the year with 13.7%. When we look at the real cost, it goes up here, basically due to the lower inflation over the course of 2016.

This is important, our debt is closely pegged to the CDI rate, almost 80% of our debt is currently pegged to the CDI, and with the outlook of declining interest rates, we have here for every percentage point decline in the interest rate, our financial expenses declining between R\$80 and R\$90 million. So here, with this outlook of a decline in the interest rate, a positive expectation for the Company's financial results throughout 2017.

Here on slide 12, I think it's important to highlight that the Company is monitoring this very closely, which is liquidity. So, we are closing 2016 with a final cash balance of almost R\$6 billion. This R\$6 billion is more than sufficient to cover all of the company's short-term maturities and, actually, the company is working today to lengthen its debt profile and looking at its investments for 2018. This used to be a concern, we have an important concentration of maturities in 2018-19, the Company so got ahead of it and started working to lengthen this debt coming due, which I hope to achieve throughout 2018 and in 2017.

So, here on slide 13, two important projects for the Company: the wind power complexes of Campo dos Ventos and São Benedito, which were fully delivered at the end of 2016, in December 2016, and actually started operating as of the beginning of the second half of 2016. So, important projects, which were



delivered at the end of last year, and contributed EBITDA of approximately R\$15 million in 2016.

For 2017, the Company's real EBITDA growth will come to around R\$150 million. I mean, these are important projects, 231 MW of installed capacity, projects that will start generating revenue fully as from 2017.

Two other important projects, also from CPFL Renováveis, here on slide 14, the wind power complex of Pedra Cheirosa, expected to startup in 2018, with 48 MW of installed capacity, and also SHP Boa Vista, expected to startup in 2020, with 26.5 MW of installed capacity.

Two projects we already started to execute, although without any difference in relation to our business plan, and financing lines are under analysis by BNDES.

Finally, on slide 15, we'll talk a little about the transaction with State Grid. I think that, after the change in control, on January 23, we can now start working on the public tender offer (OPA).

We filed a request for the Offer on February 22, a Unified Tender Offer, a mandatory Offer, plus the delisting Offer and the Offer to change registry. So, now we will interact with CVM to register the Offer and effectively conduct the Offer over the course of 2017.

We have no expectation regarding the timing to conclude the operation, it depends on a series of factors, including the interaction with CVM, but it's a process that has been going on since the 22, when we filed the request.

I'll now turn the call back to Andre for his closing remarks.

Andre Dorf: No, actually, we'll now turn the call back to the operator for the Questions and Answers Session.

Question and Answer Session

Operator: Ladies and gentlemen, we will now begin the questions and answers session. To pose a question, please press start one, and to remove your question from the queue, press star two.

Once again, if you have any question, please press start one. Start one.

The question and answer session is now finished. I would like to turn the call back to Mr. Andre Dorf for his closing remarks.



Andre Dorf: Very well, as you were able to see from the presentation, this was a very intense year for CPFL, the year of 2016 was very busy, we had the succession of the Group's CEO, we had several measures to address the crisis, delinquency, we had the acquisition of RGE Sul, important deliveries of projects by CPFL Renováveis, and finally, perhaps the most structural change, the matter of the change in the control of CPFL with the acquisition by State Grid, of the ownership interest held by the former controlling shareholders by State Grid.

Still, amid all these activities, conducting our business, our operation was conducted in a very balanced manner, very calmly, as shown in our results. As a result, the company is starting a new cycle in 2017, and we're very confident and reinvigorated to face the future and to capture opportunities in our market.

On behalf of all of the executive board, I'd like to thank you for your trust and support over the year, and I hope to continue to deserve such trust in the future. Thank you very much.

Operator: CPFL Energia's conference call is now finished. Thank you for listening and have a good day.