



Annual Report | **2004**



# About this Report

For the third consecutive year, CPFL Energia's Annual Report covers every aspect of the economic, financial, administrative, operating, social and environmental performance of its operating subsidiaries, in order to present the broadest possible overview of the challenges faced during 2004 together with the strategies and achievements within each line of business.

As in previous years, the Report goes beyond the mere observance of legal requirements, and makes an effort to add to the scope and clarity of information by complying, for the third consecutive year, with the GRI – Global Reporting Initiative international reporting guidelines.

The novelty of this year's report is the fact that CPFL has inserted the GRI indicators onto the specific pages that deal with the issues to which the indicators relate, instead of bunching them all together at the end of the report, as in previous years. This change in format, besides making for easier reading, gives a clearer idea of how CPFL incorporates the principles of corporate responsibility and sustainability into its daily activities. The GRI indicators offer a balanced and transparent evaluation of these practices and their results, from a corporate responsibility viewpoint.

Another advance is the publication of the GRI indicators consolidated by CPFL Energia which now incorporates the results of CPFL Paulista, CPFL Piratininga, CPFL Centrais Elétricas, CPFL Brasil, Rio Grande Energia – RGE and Semesa.

CPFL Energia has also published once again the chapter on its vision of corporate responsibility and sustainability which includes the evaluation of the impact of achievements on the economic, environmental and social ambience.

For quick reference, a summary of the principal performance indicators can be found on the flyleaf. Inside the back cover of the report there is also a CD containing complete audited financial statements and supplementary information of interest to diverse sectors of the public which is also available in English.

Several areas of the company have made an enormous collective effort to ensure that this report incorporates and displays CPFL's commitment to the creation of lasting value for shareholders, clients and for society, always respecting our natural resources.

## DECLARATION BY THE BOARD OF EXECUTIVE OFFICERS

We declare that this report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental, and social performance.

Campinas, São Paulo, June 2005



**Wilson P. Ferreira Junior**  
*Chief Executive Officer*



**José Antonio de Almeida Filippo**  
*Chief Financial and Investor  
Relations Officer*



**Reni Antonio da Silva**  
*Chief Strategy and Regulation Officer*



**Hélio Viana Pereira**  
*Chief Operations Officer*



**Miguel Normando Abdalla Saad**  
*Chief Energy Generation Officer*



**Paulo Cezar Coelho Tavares**  
*Chief Energy Management Officer*

# A Summary of 2004

- **CPFL Energia effects an R\$821 million initial public offering – IPO:** On September 29 2004 CPFL Energia becomes the first private sector Brazilian company to undertake an initial public offering of shares and is listed simultaneously on the São Paulo Stock Exchange – Bovespa's Novo Mercado and on the New York Stock Exchange – NYSE in the form of Level III ADSs.
- **R\$279 million 2004 net income reverses previous year's loss:** CPFL posts an 18.2% increase in gross revenue to R\$9,549 million in 2004. The company reports profits in all three lines of business – energy distribution, generation and trading reversing the R\$297 million 2003 net loss.
- **8.9% reduction in debt:** The company improves its debt profile, reduces total debt by R\$494 million, lowers the average cost of debt, extends the debt maturity schedule and mitigates risks posed by financial indices.
- **The Monte Claro hydroelectric power plant is commissioned:** This 130 MW power plant, of which CPFL Geração has rights to 84.5 MW, is the first of six facilities under construction to go into operation. The new plants will increase the CPFL group's total capacity to 1,990 MW by 2008. By early 2006, 60% of the generating capacity currently under construction will be online.
- **A 4.9% increase in sales volume raises the amount of electricity sold to end consumers and traded under bilateral contracts to 36,647 GWh:** Industrial consumption increased by 5.8% and commercial consumption by 3.9%, compared with 2003.
- **Sales to the deregulated market directly and under bilateral contracts increase 26% compared with 2003:** These sales rise to 3,123 GWh and already represent 8.5% of total CPFL group sales. Sales to free market consumers amount to 2,889 GWh, 28% of which is to 13 clients won over from outside the CPFL Energia distribution companies' concession areas.
- **CPFL Energia reinforces its Corporate Governance practices:** The board of executive officers works to improve corporate governance practice and relations between CPFL Energia and the shareholders.
- **National Quality Award Foundation – FPNO confirms managerial excellence:** CPFL Paulista is a finalist in the FPNO's National Quality Award, a first in the electricity sector. The company also receives the Governor of São Paulo Award.
- **CPFL Energia's distribution companies are among the best in the country, say customers, in polls carried out by Aneel and Abradee:** CPFL Paulista is rated the best in the country, in its category, according to Aneel's IASC Consumer Satisfaction Index.
- **Qualification for Carbon Credits:** CPFL Centrais Elétricas applies for qualification to obtain carbon credits (provided for under the Kyoto Protocol) for the environmentally-neutral, re-powering projects of its small hydroelectric power plants.
- **Joining the Global Compact:** CPFL Energia joins the UN Global Compact Initiative, promotes the UN's Millennium Development Goals within the region, and also participates with authorities and companies in social and environmental programs.
- **CPFL Energia is top scorer in the Social Report Award:** CPFL Energia wins the Social Report Award, conferred by five highly respected institutions for the 2003 Annual Report, published in 2004 and incorporating the Global Reporting Initiative – GRI guidelines.
- **Recognition for Corporate Responsibility:** CPFL Energia also receives recognition, and the highest rating, as one of ten model Brazilian corporations in Exame magazine's Guide to Good Corporate Citizenship – 2004. CPFL is also named one of the 100 best companies to work for in Latin America, in a ranking based on the Great Place to Work criteria.

# Summary of Economic, Financial, Environmental and Social Indicators <sup>(1)</sup>

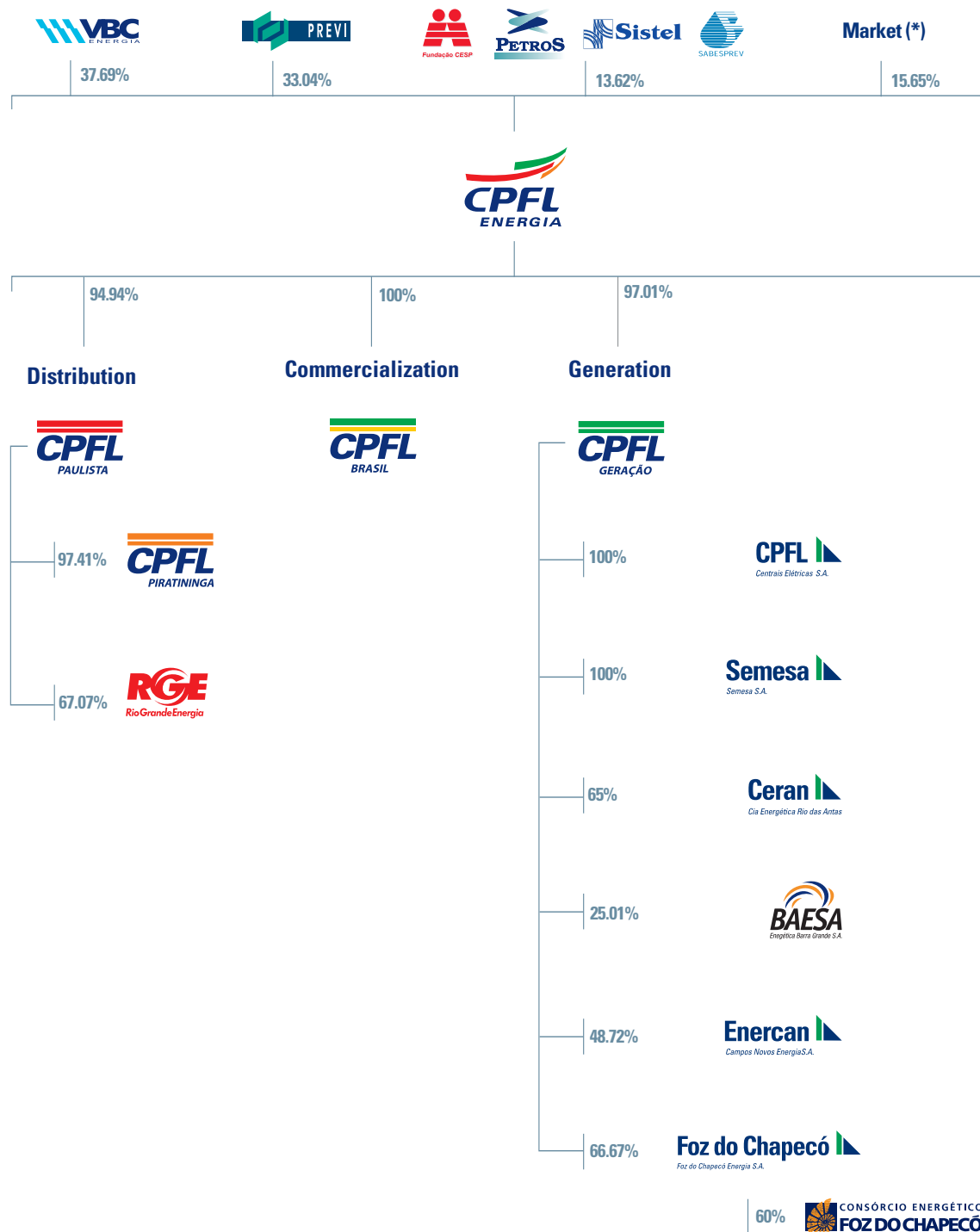
CPFL Energia	2004	2003	%
<b>Economic Indicators</b>			
Gross Operating Revenue (R\$ millions)	9,549	8,082	18.2
Net Operating Revenue (R\$ millions)	6,736	6,057	11.2
Gross Operating Income (R\$ millions)	1,770	1,622	9.1
EBITDA (R\$ millions)	1,681	1,541	9.1
Operating Income – EBIT (R\$ millions)	1,268	809	56.8
Financial Income (Expense) (R\$ millions)	(684)	(1,007)	32.1
Net Income (R\$ millions)	279	(297)	-
<b>Financial Indicators</b>			
Total Assets (R\$ millions)	12,618	12,050	4.7
Shareholders' Equity (R\$ millions)	4,096	3,397	20.6
Investments (R\$ millions)	606	565	7.3
Indebtedness (R\$ millions)	5,045	5,539	-8.9
Net Financial Debt/ (Net Worth + Minority Interests) (%)	121	166	-27.1
<b>Shares</b>			
Nº of Shares (000)	451,629	4,118,698	-
Net Earnings (Loss) per share (R\$)	0.62	(0.07)	-
Average ON share price – ON (R\$)	16.96	-	-
Dividends Distributed <sup>(2)</sup> (R\$ millions)	265	-	-
<b>Market</b>			
Electricity Sales Volume (GWh)	36,647	34,945	4.9
Nº of customers (000)	5,467	5,341	2.4
<b>Payroll</b>			
Employees – Nº	5,517	5,393	2.3
Hirings During the Period – Nº	431	237	81.9
<b>Environmental Indicators – Ibase</b>			
Environmental Investments (R\$ millions)	37	28	30.2
<b>Social Indicators – Ibase</b>			
Internal Social Investments (R\$ millions)	182	162	12.1
Total Contributions to Society (R\$ millions)	6	5	34.7
<b>Value Added for the Period</b>			
Payroll and Payroll taxes (R\$ millions)	443	388	14.2
Taxes, Fees and Contributions (R\$ millions)	3,152	2,465	27.9
Interest and Rent (R\$ millions)	1,059	1,360	-22.1
Dividends and Interest on Equity (R\$ millions)	265	-	-
Retained Earnings/Loss for the Period (R\$ millions)	14	(297)	-

## Notes:

(1) Financial information for periods prior to 2003 is not given, due to the CPFL group corporate restructuring during 2002, which makes comparison impossible.

(2) Dividend Distribution: R\$ 125 million was distributed in 2004 as an interim dividend and another R\$140 million was declared at year end, for payment in 2005.

# Corporate Structure in December 2004



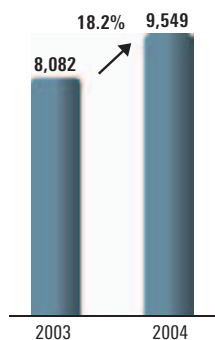
Base date: December 31 2004

(\*) Market: includes a 5.09% BNDESPAR holding

## Key Highlights

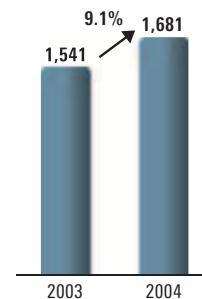
### Gross Operating Income

(R\$ millions)



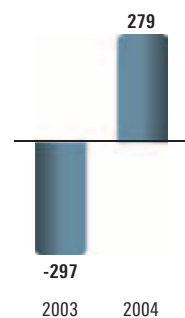
### EBITDA

(R\$ millions)



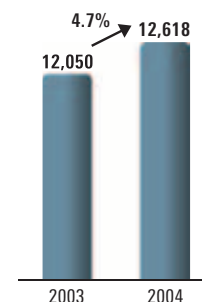
### Net Income

(R\$ millions)



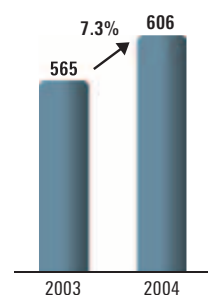
### Total Assets

(R\$ millions)



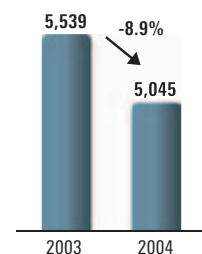
### Capital Investments

(R\$ millions)



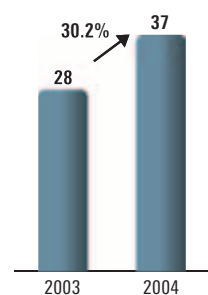
### Indebtedness

(R\$ millions)



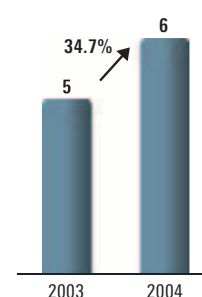
### Environmental Investments

(R\$ millions)

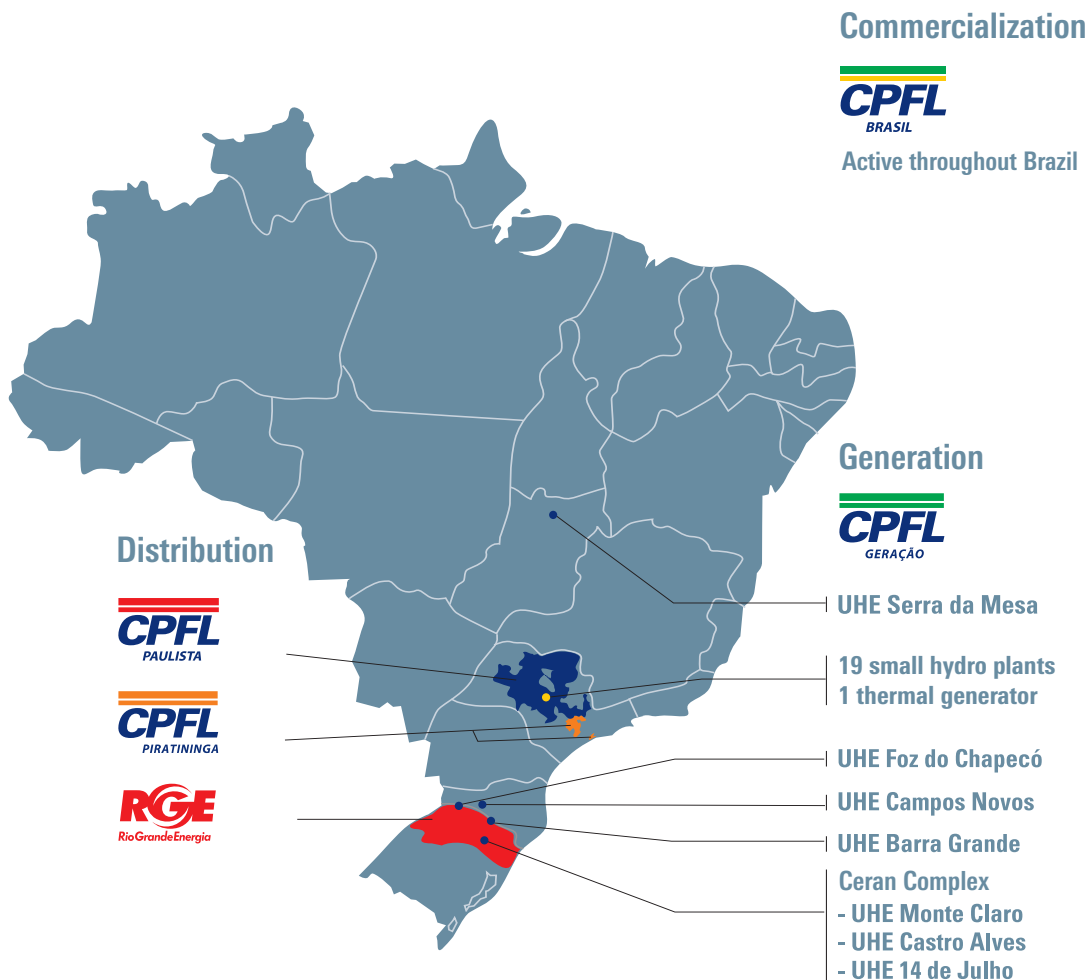


### Total Contributions to Society

(R\$ millions)



# Business Segments



Base date: December 31 2004

## 2004 – Indicators – Consolidated

- Employees: 5,517
- N° employed on power plants under construction: ≈ 10,000

## Distribution

- 523 Municipalities
- 15.3 million people served
- 5.5 million clients

## Commercialization

- 50 unregulated market customers
- Active throughout Brazil
- Brazil's largest electric power trader and one of the most important energy-related service providers in the country

## Generation

- Present capacity: 854 MW
- 6 power plants under construction: 1,136 MW (CPFL Geração's share)
- Total capacity by 2008: 1,990 MW



### 3. Strategy, Investments and Business Outlook

Corporate Strategy	33
Capital Investments	35
Business Outlook	36

### 1. Messages

Message from the Board of Directors	7
Message from the Board of Executive Officers	8



### 2. Corporate Developments and Corporate Governance

Listing of CPFL Energia – IPO	14
CPFL Energia Corporate Profile	14
Controlling Shareholders	16
Summary of 2004 Corporate Events	17
Investor Relations	18
Dividend Policy	19
Our Shares as an Investment	20
Shareholder Protection and CPFL Energia Share Trading Policy	21
Corporate Governance	22
Board of Directors and Fiscal Council	25
Members of the Board of Executive Officers	28



<b>4. Operating Performance</b>	
Macroeconomic Environment	41
Regulatory Environment	42
Electricity Tariffs	43
Performance Summary	45
Profile and Performance of the Distribution Companies	48
Profile and Performance of the Generating Companies	66
Profile and Performance of the Power Trading Business	86

<b>5. Economic and Financial Performance</b>	
Gross Revenues	93
Net Revenues	93
Cost of Power	95
Operating Expenses	95
EBTIDA	96
Operating Income – EBIT	96
Financial Income (Expenses)	97
Net Income	97
Consolidated Cash Flow Analysis	97
Debt	98



<b>6. Corporate Sustainability and Responsibility</b>	
Corporate Guiding Principles	104
Risk Prevention Systems	107
Operational Excellence	113
Intellectual Property Bank	114
Benchmark of Corporate Responsibility	119
Assessment of Economic Impacts	128
Assessment of Environmental Impacts	132
Assessment of Social Impacts	151
Principal Awards Received	156
Annual Social Report – Ibase Model	158
The 10 Principles of the Global Compact	160
GRI Reference Index	161
Team Responsible for Preparing the GRI Indicators	166

<b>Corporate Information</b>	<b>168</b>
<b>Credits</b>	<b>169</b>

# 1. Messages

Message from the Board of Directors

Message from the Board of Executive Officers





## Message from the Board of Directors

The 2004 public listing of CPFL Energia, a key element in its long-term planning strategy, was the highlight of a year marked by achievements and positive results in all fields of activity.

The initial public offering made CPFL Energia the first Brazilian private sector company to list simultaneously on the Bovespa's Novo Mercado and, in the form of level III American Depositary Shares – ADSs, on the New York Stock Exchange – NYSE. These are the segments of capital markets where companies with the most advanced corporate governance practice choose to list; practices that CPFL Energia has been steadily implementing and that embody the principles of transparency, fairness and accountability.

The success of this transaction, the group's debut in international capital markets, reflects the confidence of investors the world over in the soundness of the CPFL group and the outlook for its electric energy-related activities in Brazil.

This outlook was reinforced during 2004 by the legislation that introduced Brazil's New Electric Sector Model, offering clear rules and conditions for the electric energy sector at a time when the Brazilian economy was starting a new growth cycle, with 4.9% GDP growth in 2004.

These events confirmed the timeliness of the CPFL group's strategic plans for investing in all segments of the electric power industry, but above all, in generation. The investments currently under way will increase generating capacity from 854 MW to 1,990 MW, in time to handle the increase in demand for power resulting from the growth in the Brazilian economy.

The CPFL group's 2004 results are a consequence of the economic environment and of the group's systematic and sustainable management practices. Gross revenues increased 18.2% to R\$ 9.5 billion as the result of higher electricity sales by the group's distribution companies and its power trading company, as well as the start-up of the first of the six hydroelectric generation plants currently under construction.

The increase in revenues, efficient cost management and lower net financial expenses owing to the reduction in debt, were the factors enabling CPFL Energia to report a net income of R\$ 279 million, reversing the R\$ 297 million loss of 2003. These earnings permitted CPFL Energia to improve dividend distribution.

The success of 2004, fruit of the most intense activity since the company's inception, provides CPFL Energia with a solid and sustainable foundation on which to build its long-term strategies and plan for the growth of its activities for the coming years.

Faced with such results, our thanks are largely due to the new shareholders, who have honored us with their confidence in the company's future as well as to management and employees for the dedication and efficiency with which they have gone about their professional tasks, and their pride in contributing towards a sustainable future for Brazil.

**Carlos Ermírio de Moraes**

*Chairman of the Board of Directors*



Official Meeting Space | Head Office  
| Campinas | São Paulo

## Message from the Board of Executive Officers

The positive results achieved in all three lines of business – electric power distribution, generation and trading – and the success of CPFL Energia's listing through the initial public offering – IPO bear witness to the success of the strategies defined in the company's business plan and also lay the foundations for a new cycle of planned growth for the company.

The IPO was divided into two tranches – one primary and one secondary issue – yielding R\$ 821 million, of which R\$ 685 million represented fresh capital for CPFL Energia. As a result of the transaction, CPFL Energia's free float increased to 15.65%. The success of the transaction earned the recognition of Euromoney magazine as the Latin American Deal of the Year, in the equity category.

CPFL Energia's 2004 results are a faithful reflection of the strategies and initiatives implemented by the group, currently classified among the 25 largest companies in Brazil. Gross revenue increased 18.2% to R\$ 9.5 billion, EBITDA climbed 9.1% from R\$ 1.5 billion in 2003 to R\$ 1.7 billion, while net income of R\$ 279 million reversed the previous year's R\$ 297 million loss.

Gross revenue in the distribution business, increased 16.8% to R\$ 9.1 billion. EBITDA amounted to R\$ 1.3 billion and net income R\$ 323 million. One of the principal factors behind this growth was the expansion of the company's consumer market, with 126,000 additional clients over the year, confirming



the potential for expansion in the areas where the CPFL group's distribution companies' concessions are located. CPFL Energia invested R\$ 261 million in expanding the distribution network in order to meet this additional demand.

The highlight of the generating segment was the fourth quarter start-up of the first generator of the Monte Claro hydroelectric power plant, one of six currently under construction. This raised CPFL Geração's capacity 5.1% to 854 MW. Gross revenue was R\$ 331 million, 13.6% higher than in 2003, EBITDA rose 12.5% to R\$ 282 million and net income totaled R\$ 71 million, a major improvement on the R\$ 3 million of 2003.

The Barra Grande and Campos Novos hydroelectric projects were well along their construction schedules by year-end. Work commenced in the first half of the year on the Castro Alves hydroelectric project and on the 14 de Julho in the second half. The Barra Grande project is programmed to go into operation in the second half of 2005 and Campos Novos in early 2006. At this pace, 60% of the new generating projects will be operational by first quarter 2006 and will be available to fuel the new growth cycle in the Brazilian economy.

In the energy trading business, CPFL Brasil attracted new clients from within and outside the concession areas of the group's distribution companies, representing a migration equivalent to 287 MW of customers to CPFL from the unregulated market. The company has built up a diversified portfolio of 50 customers, 3.6 times more than the 14 customers it served in 2003. Electric power sales to these customers totaled 11.110 GWh, 145% more than the 4,540 GWh sold in 2003.

This resulted in the trading company's gross revenue increasing 166% over 2003 to R\$ 893 million, EBITDA by 114% to R\$ 152 million, whilst net income doubled to R\$ 102 million.

The sum of the results of these companies guaranteed the CPFL group's permanence among the largest electric sector groups in Brazil, when taking into account the new clients won by the trading company in the unregulated market and the fact that 82% of the energy consumed by clients who renegotiated their contracts in 2004 remained within the regulated system of the group's distribution companies.

The operating achievements of the distribution, generation and trading segments were complemented by the success of financial management. The CPFL group managed to reduce total debt by 8.9%, or R\$ 494 million, accompanied by a 32.8% or R\$ 330 million reduction in financial expenses, compared with 2003; together with the extension of the average debt repayment schedule and the mitigation of risks associated with the financial indices utilized.

The CPFL group companies continue to display strong operating efficiency indicators. The main quality indicators related to revenue, power supply and control of commercial losses at the group's distribution companies are amongst the best in the Brazilian electric sector.

This vision was shared by the customers, who voted CPFL Paulista for the IASC Award – (Aneel Consumer Satisfaction Index) as the best distribution company in the Southeast of Brazil, conceded by Aneel – Brazilian Electricity Regulatory Agency, based on a consumer satisfaction survey. In the same survey, CPFL Piratininga, in the Southeast and RGE, in the South, were also among the three highest ranked in their regions. In 2004, RGE also won, for the second year running, the Abradee Best Consumer Rating in Brazil Award, conceded by the Brazilian Association of Electricity Distributors. The same Association also gave CPFL Piratininga the Best Financial Management Award.

The excellence of management at the CPFL Energia companies was once again confirmed by CPFL Paulista reaching the finals of the National Quality Award, a first for a Brazilian electric sector company. As the only São Paulo state company to reach the finals, CPFL also received the São Paulo State Governor's Award from the São Paulo Institute of Management Excellence, an entity of the São Paulo state administration.

The belief that this vision of excellence needs to permeate all aspects of management was instrumental in helping CPFL Energia achieve significant progress in the CPFL Corporate Responsibility and Sustainability Program. These are initiatives that enable the company to maintain its lead in the constant monitoring and administration of the economic environmental, the social consequences of its activities and its relations with strategic stakeholders.

CPFL Energia's activities in this field won it recognition as one of the ten model Brazilian companies in Exame magazine's Guide to Good Corporate Citizenship – 2004. It was also ranked as one of the best companies to work for in Brazil, according to another Exame magazine survey.



CPFL Energia was ranked Top Brazilian Performer in the 2004 Social Report Award, organized by the highly respected Apimec, Ethos, Fides, Aberje and Ibase institutions. The award was given for the company's 2003 Annual Report, published in 2004, along the lines proposed by the internationally recognized Global Reporting Initiative – GRI. The award, a first for the company, is the result of having adopted GRI guidelines for annual reports since 2002.

These acknowledgements, plus CPFL Energia's 2004 results, are a direct consequence of the efficacy of strategies adopted by the board of directors and the board of executive officers.

The confidence of the shareholders has been the key source of inspiration and encouragement for both management and employees in confronting the challenge of achieving steady growth in CPFL Energia's activities and, as a consequence, contributing to the development of the country itself.

**Wilson P. Ferreira Junior**

*Chief Executive Officer*

## 2. Corporate Developments and Corporate Governance

[Listing of CPFL Energia – IPO](#)

[CPFL Energia Corporate Profile](#)

[Controlling Shareholders](#)

[Summary of 2004 Corporate Events](#)

[Investor Relations](#)

[Dividend Policy](#)

[Our Shares as an Investment](#)

[Shareholder Protection and CPFL Energia Share Trading Policy](#)

[Corporate Governance](#)

[Board of Directors and Fiscal Council](#)

[Members of the Board of Executive Officers](#)



## Shareholding Evolution and Corporate Governance

### Listing of CPFL Energia – IPO

**The IPO of CPFL Energia won the Euromoney "Latin American Deal of the Year" in the equity category.**

**CPFL Energia has committed to increase the free float to 25% by September 2007.**

The Initial Public Offering – IPO undertaken by CPFL Energia on September 29<sup>th</sup>, 2004 represented a major step forward in its corporate structuring. The IPO yielded proceeds totaling R\$ 821 million, of which R\$ 685 million stemmed from the primary offering of new shares. The difference refers to the secondary offering of shares by the controlling shareholders.

The shares were offered on both Brazilian and overseas stock exchanges. Shares sold on the Brazilian market were listed on the São Paulo Stock Exchange – Bovespa, in the form of common (ON) shares, while the shares in the international tranche were listed in the form of ADSs (each ADS corresponds to three common shares) on the New York Stock

Exchange – NYSE. The split was approximately 40% ON shares and 60% ADSs.

The share issue made CPFL Energia the first Brazilian private sector company to list its shares simultaneously on Bovespa's *Novo Mercado* and on the New York Stock Exchange, in the form of Level III ADSs.

By the end of 2004, the percentage of the company's shares on the market stood at 15.65%, of which 5.09% belong to BNDES (Brazilian Economic and Social Development Bank) and the remaining 10.56% to other, non-controlling shareholders. CPFL Energia has committed to increase the free float to 25% by September 2007, in accordance with the terms of its listing on Bovespa's *Novo Mercado*.

### Corporate Profile

#### CPFL ENERGIA

CPFL Energia S.A. is a publicly listed holding company, controlling subsidiaries operating in the power generation and electricity trading and distribution businesses, both in regulated and unregulated markets.

The consolidated gross revenue of CPFL Energia in 2004 was over R\$ 9.5 billion, making it one of the largest economic groups in the country. The activities of CPFL Energia and its subsidiaries are governed by law, by the regulations covering the Brazilian electric sector and by the terms of the concession contracts signed with the regulatory concession authority, Aneel – The National Electric Energy Agency.

#### SUBSIDIARIES

- **Companhia Paulista de Força e Luz-CPFL Paulista** (94.94% directly owned): A publicly listed electricity distribution company serving 234 municipalities in the interior of the state of São Paulo, the largest of which are Campinas, Ribeirão Preto, São José do Rio Preto and Bauru. CPFL Paulista also has equity participation in the following distribution companies:



CPFL Energia at the opening of trading  
| September 29<sup>th</sup> 2004 | NYSE | New York

- **Companhia Piratininga de Força e Luz-CPFL Piratininga** (97.41% directly owned): A publicly listed electricity distribution company, serving 27 municipalities in the interior and coastal regions of the state of São Paulo, the largest of which are Santos, Sorocaba and Jundiaí.
- **Rio Grande Energia-RGE** (67.07% directly owned): A publicly listed electricity distribution company serving 262 municipalities in the interior of the state of Rio Grande do Sul, the largest of which are Gravataí, Caxias do Sul, Passo Fundo, Canela and Gramado.
- **CPFL Comercialização Brasil-CPFL Brasil** (100% directly owned): An unlisted company, dedicated to trading in Brazil's unregulated (ACL) electricity market as well as the provision of power-related services on a nationwide basis.
- **CPFL Geração de Energia-CPFL Geração** (97.01% directly owned): A publicly listed holding company in the electric power generation business, with shareholdings in the following companies:
  - **CPFL Centrais Elétricas** (100% directly owned): An unlisted corporation, owner of 19 small hydroelectric power plants (PCHs) and one thermoelectric power plant with total installed capacity of 155 MW.
  - **Semesa** (100% directly owned): An unlisted corporation owning 51.54% of the secured power produced by the Serra da Mesa hydroelectric generating facility under a leasing contract with Furnas Centrais Elétricas S.A. – Furnas, owner of the concession. The total installed capacity of Serra da Mesa is 1,275 MW with CPFL Geração's share at 657 MW.

- **Ceran-Companhia Energética Rio das Antas** (65% directly owned): An unlisted corporation, and owner the Monte Claro (one generator already online), Castro Alves and 14 de Julho (both under construction) hydroelectric facilities. The installed capacity of these three projects will total 360 MW, of which CPFL Geração will have rights to 234 MW.
- **Baesá-Energética Barra Grande** (25.01% directly owned): An unlisted corporation owning 100% of the Barra Grande hydroelectric power generation project, currently under construction. The total installed capacity will be 690 MW, of which CPFL Geração will have rights to 173 MW.
- **Enercan-Campos Novos Energia** (48.72% directly owned): An unlisted corporation, owning 100% of the Campos Novos hydroelectric power project, currently under construction. The total installed capacity will be 880 MW, of which CPFL Geração will have rights to 429 MW.
- **Foz do Chapecó Energia** (66.67% directly owned): An unlisted corporation owning 60% of the Foz do Chapecó hydroelectric power project. The installed capacity will be 855 MW, of which CPFL Geração will have rights to 342 MW.

## Controlling Shareholders

CPFL Energia is controlled by some of the largest and most solid industrial groups and private pension funds in Brazil: VBC Energia, with 37.69%, 521 Participações S.A., with 33.04%, and Bonaire Participações S.A., with 13.62%.



**VBC Energia** is a private company controlled by VBC Participações, which is in turn controlled by three of Brazil's largest and most prominent conglomerates: Votorantim Energia Ltda., Bradesplan Participações S.A. and Camargo Corrêa Energia S.A..



**521 Participações S.A.** is the investment fund of Previ – the *Banco do Brasil* employee pension fund. Previ is the largest pension fund in the country, with over 154,000 participants and a total stakeholding of 419,000 individuals.



**Bonaire Participações S.A.** is an investment fund set up by several major pension funds, including Fundação Cesp – Funesp, Fundação Petrobras de Seguridade Social – Petros, Fundação Sistel de Seguridade Social and Fundação Sabesp de Seguridade Social – Sabesprev.





CPFL Energia at the opening of trading  
| September 29<sup>th</sup> 2004 | Bovespa | São Paulo

## Summary of 2004 Corporate Events

### April

- R\$ 350 million increase in capital of CPFL Geração.
- CPFL Geração incorporates Begesa – Barra Grande Energia S.A. Begesa owns 25.01% of equity of Baesa – Energética Barra Grande S.A..
- CPFL Energia reduces shareholders' equity by R\$ 1,543,611 thousand through the absorption of the balance of the "Accumulated Losses" account at December 31<sup>st</sup>, 2003, without any reduction in the number of shares.

### June

- The curve for goodwill amortization is extended to equal the remaining life of the concessions (CPFL Paulista, CPFL Piratininga, Rio Grande Energia and CPFL Geração).

**August**

- Reverse split of CPFL Energia shares in the ratio of 10 (ten) common book-entry shares to 1 (one) new common book-entry share, without altering the composition of shareholders' equity.

**October**

- Final settlement of the initial public share offering, involving the primary issue of 39,579,729 common book-entry shares with no par value, simultaneously with the secondary issue of 7,915,950 common book-entry shares also with no par value, both at the price of R\$ 17.22 per share, resulting in a total of R\$ 820,972 thousand, of which R\$ 684,649 thousand represented new paid-in capital for CPFL Energia. Of these shares, 28,676,652 were converted into ADSs, at a ratio of 3 common ON shares for each ADS, resulting in 9,558,884 ADSs, at the price of US\$18.00 per ADS.

**November**

- CPFL Piratininga incorporates DRAFT 1 at the same time as its equity control is transferred to CPFL Paulista.
- Alteration to the schedule for goodwill amortization from the incorporation of CPFL Piratininga, in accordance with CVM Instructions 319/99 and 349/01.

**December**

- Cancellation of CPFL Paulista shares held as Treasury Stock.
- Alteration to the schedule for goodwill amortization from the incorporation of CPFL Paulista, in accordance with CVM Instructions 319/99 and 349/01.

## Investor Relations

CPFL Energia has invested in the improvement of investor relations practices, designed to achieve closer relations with investors and capital markets professionals by the quality and transparency of disclosure.

CPFL Energia maintains several channels of direct communication with investors, aimed at aligning market perceptions with the company's fundamentals and thereby creates value for shareholders. Results are announced in quarterly conference calls and webcasts, and whenever

**CPFL Energia offers shareholders and investors full and permanent access to information.**



opportune, any information relevant to the market is disclosed. CPFL Energia holds quarterly open meetings for analysts and investors, participates in the principal conferences organized by the market and also promotes non-deal road shows.

Further investor relations practices include press releases to both domestic and international markets advising on the company's results and relevant economic, financial and operational events within the CPFL group. A CPFL Investor Bulletin is now being published, in order to keep shareholders, investors, analysts and other market players constantly informed about recent events and the business outlook for the company and its subsidiaries.

The *ri.cpf.com.br* Investor Relations site was launched on September 29<sup>th</sup> 2004 – the day of the IPO – to complement the company's investor and capital market analyst services. The site offers a full range of corporate information on CPFL Energia, such as financial statements, share quotes and share performance analysis, investor services and other market releases by both CPFL Energia and its subsidiaries.

At CPFL Energia a specialized team interacts directly with Brazilian and foreign shareholders, and also financial market professionals. Reports published by other institutions on the group are monitored and the team ensures that the group complies with the legal requirements of the financial markets regulatory agencies – the Securities and Exchange Commission – SEC and the CVM (the Brazilian equivalent of the SEC) – the Bovespa and NYSE stock exchanges.

In December 2004, CPFL hired the advisory services of a brokerage firm to act as market maker, with the goal of increasing share liquidity and of earning a place on the main Bovespa stock exchange indexes, such as the IBX 50, the IBX 100 and the Ibovespa itself. In March 2005, CPFL Energia was included in the NYSE Dow Jones Titan 20 ADR Brazil, considered a benchmark for Brazilian shares trading on international markets.



## Dividend Policy

CPFL Energia made improvements to its dividend policy during the first half of 2004, committing to distribute a minimum of 50% of adjusted net income on a half-yearly basis. Not only does this comply with legal requirements but it also brings the company closer to best market practice.

In 2004, however, CPFL Energia exceeded its own minimum requirements by distributing 95% of adjusted net income: R\$ 124.8 million out of the first half-year earnings and R\$ 140.1 million out of the second half-year earnings, a total of R\$ 264.9 million.

**CPFL Energia paid dividends equivalent to 95% of Net Income in 2004.**

## CPFL Energia Shares as an Investment

CPFL Energia's shares trading on the Bovespa (CPFE3) posted a gain of 4.2% between September 29<sup>th</sup> 2004 and December 30<sup>th</sup> 2004, compared with a 12.9% rise in the Bovespa Ibov index and a 6.3% rise in the Electric Power Index – IEE. CPFL Energia shares trading on the NYSE ("CPL") posted a gain of 11.1%, compared with 6.6% for the Dow Jones Index – DJIA.

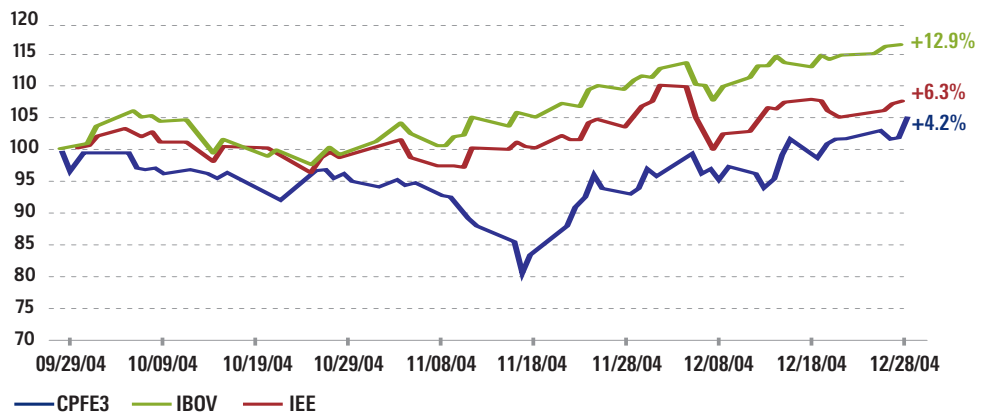
It should be emphasized that CPFL declared a 3.42% dividend yield in 2004 and a FV/EBITDA multiple of 7, based on adjusted net debt and the share value at close of trading on December 31<sup>st</sup> 2004, notwithstanding dividends declared and EBITDA for the year.

### CPFL ENERGIA – 2004 SHARE PERFORMANCE



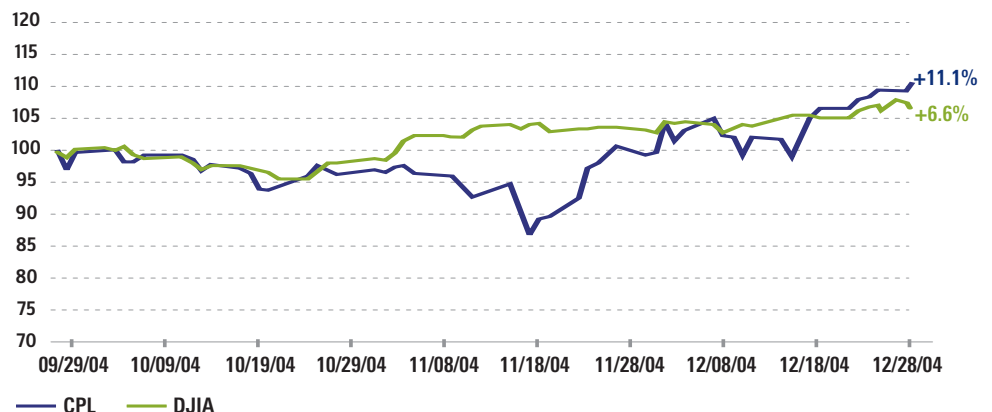
#### Comparison CPFE3 x IBOV x IEE

(Base 100)



#### Comparison CPL x DJIA

(Base 100)





São Paulo Stock Exchange | São Paulo

## Shareholder Protection and CPFL Energia Share Trading Policy

- **100% Tag along rights:** Any eventual sale of a controlling stake in the company will trigger the obligation on the part of the buyer to make a public tender offer for the acquisition of shares of minority shareholders under the same conditions as those received by the seller of the controlling stake
- **Buyback offer at fair value in the event of a delisting from the Novo Mercado:** in the event of CPFL Energia deciding to delist from Bovespa's Novo Mercado, the company will be obligated to make a public tender offer to acquire outstanding shares at a price based on their economic value
- **Buyback offer at fair value in the event of an overall delisting:** Any delisting of CPFL Energia must be preceded by a public tender offer to acquire outstanding shares at a price not lower than the value of CPFL Energia shares, as determined by an independent evaluation of their economic value
- **Disclosure of transactions with related parties:** CPFL Energia makes full disclosure of all and any transactions between themselves and their subsidiaries, affiliated companies, management, controlling shareholders, including dealings between CPFL Energia and any subsidiaries and affiliated companies owned by management or the controlling shareholders, as well as with any other company legally or de facto part of the same group, provided that the sum of the transaction or transactions whether with the same or different purpose over any one-year period is of a value equal to or in excess of 1% of the net worth of CPFL Energia
- **CPFL Energia's financial statements are also available under US accounting rules (US GAAP):** The financial statements are fully published in both Portuguese and in English, together with the management report and the explanatory notes
- **Market Meetings:** the company is committed to holding a public conference with market analysts at least once a year
- **Bovespa Arbitration Panel:** CPFL Energia, the controlling shareholders, management and members of the fiscal council are committed to resolve any disputes or disagreements by means of arbitration.

## Corporate Governance

Since its inception, CPFL Energia has made rapid progress towards the incorporation of advanced corporate governance practices and guidelines, based on the principles of transparency, impartiality, accountability and corporate responsibility.

The objective of these standards and guidelines is, primarily, to ensure the sustainability of the company's steady organic growth and relationships of trust and reliability with the company's various stakeholders: shareholders, customers, employees, suppliers, authorities and the communities in which the company carries out its activities.

In order to achieve the required objectives, in 2003, CPFL Energia established a corporate governance advisory department, reporting directly to the company's chief executive officer. Bylaws of the directly owned subsidiaries were harmonized with those of CPFL Energia. Six advisory committees were set up to advise the board of directors, and the decision was made to publish the annual report in accordance with the Global Reporting Initiative – GRI guidelines.

The following progress was made during 2004:

- A self-appraisal process was introduced at the board of directors and the fiscal council level
- The board of directors approved a new company securities trading policy
- A compliance department was set up, as part of the corporate governance advisory area
- A disclosure committee was created and charged with drafting and revising procedures for disclosing public information, as well as internal controls over the process of drawing up and releasing financial information
- The internal audit was ordered to report directly to the board of directors' audit committee
- CPFL Energia's corporate governance guidelines were communicated to all employees
- Plans were initiated on a succession plan for the chief executive officer, functional executive officers, directors and managers.

CPFL Energia's main corporate governance plans and goals for 2005 are:

- To obtain a corporate governance rating
- To conclude the documentation, the testing and the validation of the procedures for drawing up financial statements required to obtain certification under Sections 302 and 404 of the Sarbanes-Oxley law
- To set up a corporate governance committee.

### COMPLIANCE

CPFL Energia is continually taking measures to improve internal controls. In 2003, steps were taken to provide support for the internal audit unit and to improve their ability to control procedures and forestall risk.



In 2004, following the share listing, a compliance unit was set up, with the responsibility for ensuring compliance with all the rules and regulations of the markets in which the companies shares are traded.

In the same context, a project was launched to obtain certification under Sections 302 and 404 of the Sarbanes-Oxley law, focusing on the documentation required by that law regarding the principal company procedures directly and indirectly responsible for producing the numbers published in financial statements, and the identification, testing and validation of the risks and internal controls inherent in these procedures.

## **MANAGEMENT STRUCTURE AT CPFL ENERGIA**

### **General Shareholders' Meeting**

The general shareholders meeting is the company's crowning event. Established by Brazil's corporate legislation, it has the authority to make decisions and the responsibility for ensuring the legality and legitimacy of the company's corporate management structure.

The general shareholders meeting is held annually, during the four months following the end of each fiscal year. The purpose is to examine, discuss and vote on the company's financial statements; decide on income distribution; on declaration of dividends; and on the election of members of the board of directors and fiscal council.

### **Board of Directors**

The board of directors is the company's collective decision-making body, with responsibility for deciding on all issues and matters of interest to the company, with the exception of those established by law as the exclusive prerogative of the general shareholders meeting and those that the company's bylaws attribute to the board of executive officers.

CPFL Energia's board of directors is comprised of 12 members, who are elected for synchronized one-year terms of office. In November 2003, the board of directors voted to approve a set of internal regulations, including a description of its characteristics, its composition, the form of taking office, activities, rights, obligations and remuneration.

### **Fiscal Council**

The fiscal council is comprised of five members and is responsible for examining management's actions and to issue an opinion regarding such proposed actions for submission to the general shareholders meeting, as well as issuing its opinion concerning the annual report.

In 2005, the fiscal council will also assume responsibility for compliance with the Securities and Exchange Commission – SEC's Sarbanes-Oxley related requirements concerning the Brazilian market.

Members of the Fiscal Council are elected for a one-year term of office, with provision for re-election.

### Board of Executive Officers

The board of executive officers is comprised of one chief executive officer and five functional executive officers, with the authority to represent the company and to exercise individual functions according to the responsibilities attributed to them by the company's bylaws.

Important decisions are made by the board of executive officers collectively.

Terms of office are synchronized and have a two-year duration. The board of executive officers is comprised of:

- Chief Executive Officer
- Chief Financial and Investor Relations Officer
- Chief Strategy and Regulation Officer
- Chief Operations Officer
- Chief Energy Generation Officer
- Chief Energy Management Officer

### Advisory Committees to the Board of Directors

Six advisory committees to the board of directors were created in April 2003, to help improve the decision making process within the company.

The purpose of these committees is to enable the board members to be more thorough, efficient and better equipped to fulfill their role of ensuring a high-quality decision making process. The committees are made up of board members and representatives of the shareholders.

Each committee has its own set of internal regulations, which establish the committee's characteristics, composition, form of taking office, scope, activities, rights and responsibilities. Committee members are elected for a one-year term of office.

The committees and their respective functions are as follows:

**The Executive Committee**, holds responsibility for analyzing and validating the company's strategic and operating plans.

**The Compensation Committee**, holds responsibility for selecting CPFL Energia's chief executive officer, for preparing performance appraisals of the board of executive officers and for proposing the compensation level for the company's principal executives.

**The Audit Committee**, one of the responsibilities of this committee is to supervise the activities of the company's internal audit group. The name of this committee will be altered in 2005, as its present structure is not fully compatible with the Sarbanes-Oxley law.

**The Financial Services Committee**, holds responsibility for vetting the selection of financial service suppliers for the principal contracts.

**The Works Committee**, holds responsibility for vetting the selection of suppliers of construction and building services.

**The Procurement Committee**, holds responsibility for vetting the selection of suppliers and contracts for the purchase and sale of materials and other acquisitions.

## **BOARD OF DIRECTORS, FISCAL COUNCIL AND BOARD OF EXECUTIVE OFFICERS**

**Board of Directors** – *Current term of office runs from April 2004 to April 2005*

The following members of the board of directors of CPFL Energia were elected or re-elected at the general shareholders meeting held on April 30<sup>th</sup>, 2004.

### **Carlos Ermírio de Moraes** – *Chairman of the Board of Directors*

CEO of Votorantim Metais since 1996; Director of Votorantim Energia since 1998; Chairman of the Executive Board of Votorantim Participações since 2001; member of the Board of Directors of Votorantim Celulose e Papel since 2003. He is also a founding trustee of the Instituto Ayrton Senna. Chairman of the Board of Directors of CPFL Paulista since 1998 and, subsequently, of CPFL Piratininga, CPFL Geração and CPFL Energia. Chairman of the Board of Directors of CPFL Energia since March 29<sup>th</sup>, 2000.

### **Joilson Rodrigues Ferreira** – *Vice-Chairman of the Board of Directors*

Executive Secretary of the Capital Markets Department of *Banco do Brasil S.A.*, where he has worked since 1996. Alternate member of the Board of Directors of Telemar since 2002. Also vice-chairman of the Boards of Directors of CPFL Paulista, CPFL Geração and CPFL Piratininga. Has been on the Board of CPFL Energia since April 28<sup>th</sup>, 2003.

### **Aloísio Macário Ferreira de Souza** – *Board member*

Has held several positions at *Banco do Brasil* since 1978. Currently manager for Corporate Governance at the *Banco do Brasil* Previ pension fund. Has been a member of the Board of Directors of CPFL Paulista, CPFL Piratininga, CPFL Geração, RGE and Semesa. Has been a Board member of CPFL Energia since April 28<sup>th</sup>, 2003.

### **Carlos Alberto Cardoso Moreira** – *Board member*

Director of Investment and Finance at the Fundação Sistel de Seguridade Social – Sistel since June 2000. Member of CNTI (National Technical Investment Commission) and of the Board of the São Paulo World Trade Center. Is a member of the Boards of Directors of CPFL Paulista, CPFL Piratininga and CPFL Geração. Has been a Board member of CPFL Energia since April 30<sup>th</sup>, 2004.

**Cid Alvim Lopes de Resende** – *Board member*

A consultant at Camargo Corrêa Energia since 2002. Currently a member of the Board of Directors of Ceste – Consórcio Estreito de Energia, *Etau – Empresa de Transmissão do Alto Uruguai*, VBC Participações, VBC Energia, CPFL Paulista, CPFL Piratininga, CPFL Geração and Baesa. Has been a Board member of CPFL Energia since April 28<sup>th</sup>, 2003.

**Deli Soares Pereira** – *Board member*

Has served on the Boards of Directors of *Tigre Tubos e Conexões* and *Caixa de Assistência dos Funcionários do Banco do Brasil – Cassi*. Currently a member of the Board of Directors of CPFL Paulista, CPFL Piratininga and CPFL Geração. Has been a Board member of CPFL Energia since April 30<sup>th</sup>, 2004.

**Francisco Caprino Neto** – *Board member*

Chief Operating Officer of Camargo Corrêa Energia and Camargo Corrêa Transportes. Is a member of the Boards of Directors of *VBC Participações*, VBC Energia, Companhia de Concessões Rodoviárias-CCR, CPFL Paulista, CPFL Piratininga, CPFL Geração and RGE. Has been a Board member of CPFL Energia since April 28<sup>th</sup>, 2000.

**Luiz Maurício Leuzinger** – *Board member*

Director of Bradespar and *Bradesplan Participações*, Chairman of the Board of Directors of RGE and member of the Boards of Directors of *VBC Participações*, VBC Energia, CPFL Paulista, CPFL Piratininga and CPFL Geração. Has been a Board member of CPFL Energia since April 28<sup>th</sup>, 2000.

**Mário da Silveira Teixeira Junior** – *Board member*

Member of the Board of Directors of VBC Energia and *VBC Participações* as well as of Companhia Vale do Rio Doce and Valepar. Member of the Board of Directors of CPFL Paulista, CPFL Piratininga and CPFL Geração. Has been a Board member of CPFL Energia since August 30<sup>th</sup>, 2001.

**Otávio Carneiro de Rezende** – *Board member*

Director of Votorantim Energia S.A. and member of the Boards of Directors of *VBC Participações S.A.*, VBC Energia, *Grupo de Empresas Associadas Serra do Facão*, *Consórcio Empresarial Pai-Querê*, *Consórcio Empresarial Salto Pilão*, *Machadinho Energética*, CPFL Paulista, CPFL Piratininga, RGE, CPFL Geração, Enercan and Baesa. Has been a Board member of CPFL Energia since December 18<sup>th</sup>, 2002.



**Rosa Maria Said** – *Board member*

Director of Personnel Management at *Banco do Brasil*, where she has occupied several posts since 1990. Is a member of the Board of Directors of CPFL Paulista, CPFL Geração and CPFL Piratininga. Has been a Board member of CPFL Energia since April 28<sup>th</sup>, 2003.

**Susana Hanna Stiphan Jabra** – *Board member*

Capital Investment Manager of *Fundação Petrobras de Seguridade Social - Petros*. Also alternate member of the Board of Directors of Telenorte Celular and Fundo Newtel and member of the Advisory Committee of CSFB Brasil's Fundo Brasil Private Equity. Is also a member of the Board of Directors of *Bonaire Participações*, CPFL Paulista, CPFL Piratininga and CPFL Geração. Was elected a Board member of CPFL Energia in April 2003.

**Fiscal Council** – *December 2004***Inácio Clemente da Silva** – *Council member*

Employee of Bradespar S.A., the holding company for the Bradesco group's equity investments. Member of CPFL Energia's Fiscal Council since April 2003. Holds the same position at subsidiaries CPFL Paulista, CPFL Piratininga, CPFL Geração and RGE.

**Mário Felício Junior** – *Council member*

Has worked at *Banco do Brasil* since December 26<sup>th</sup>, 1987. Currently manager of the Pedreira, São Paulo, branch. Presently substituting for Milton Murakami, who resigned as member of the Fiscal Council in June 4<sup>th</sup>, 2004, until the election of his substitute.

**Martin Roberto Glogowsky** – *Council member*

Director of Investments and Asset Management at *Fundação Cesp* since 1999. Member of the Abrapp National Technical Investment Commission. Has been a member of the Fiscal Councils of CPFL Energia, CPFL Paulista, CPFL Geração and CPFL Piratininga since April 2003.

**Ramón Pérez Arias Filho** – *Council member*

Administrative, Financial and Investor Relations Director of VBC Energia and member of the Boards of Directors of Semesa, Enercan and Ceran. Member of the Fiscal Council of CPFL Energia and holds the same position at subsidiaries CPFL Paulista, CPFL Piratininga and CPFL Geração.

**Sérgio Paulo Silva** – *Council member*

Sat on the Fiscal Council of São Paulo Alpargatas from 1998 to 1999 and of Companhia Siderúrgica Belgo-Mineira from 2001 to 2003. Has been a Council member of CPFL Energia since April 2003.

**Board of Executive Officers** – *December 2004***Wilson P. Ferreira Junior** – *Chief Executive Officer*

Is Chairman of the Board of Directors of ONS – National Electricity System Operator and vice-president of ABDIB – Brazilian Infrastructure and Heavy Industry Association. Has held several major positions at Companhia Energética de São Paulo – Cesp, where he was Director for distribution from 1995 to 1998. Was Chief Executive Officer of RGE from 1998 to 2000 and Chairman of the Board of Directors of Bandeirante Energia from 2000 to 2001. Was President of Abradee – Brazilian Association of Electricity Distributors. In March 2000 took over as Chief Executive Officer of CPFL Paulista and, subsequently, of CPFL Piratininga, CPFL Geração, CPFL Brasil, CPFL Centrais Elétricas and Semesa. He is also a member of the Board of Directors of Semesa and Foz do Chapecó Energia. Took over as Chief Executive Officer of CPFL Energia on August 28<sup>th</sup>, 2002.

**José Antonio de Almeida Filippo** – *Chief Financial and Investor Relations Officer*

Has occupied executive positions at *Gafisa Imobiliária* (1982 to 1995), Reynolds *Latas de Alumínio-Latasa* (1995 to 2000) and Ingersoll-Rand do Brasil (2000 to 2004). Is Chief Financial and Investor Relations Officer of CPFL Paulista, CPFL Piratininga and CPFL Geração, Chief Financial Officer of CPFL Brasil and CPFL Centrais Elétricas, Financial, Administrative and Investor Relations Director of Semesa and Financial and Administrative Director of Foz do Chapecó Energia. Took over as Chief Financial and Investor Relations Officer at CPFL Energia on June 30 2004.

**Reni Antonio da Silva** – *Chief Strategy and Regulation Officer*

Sat on the Board of the Wholesale Energy Market, was commercial director of Escelsa and Enersul from 1996 to 1998, member of the Executive Group of the Energy Crisis Management Council and Board member of ONS – National Electricity System Operator. He is Chief Strategy and Regulation Officer of CPFL Paulista, CPFL Piratininga, CPFL Geração, CPFL Brasil and CPFL Centrais Elétricas. Took over as Chief Strategy and Regulation Officer at CPFL Energia on August 28<sup>th</sup>, 2002.

**Hélio Viana Pereira** – *Chief Operations Officer*

Has held executive positions at Eletrobrás (1976/1978) and Companhia de Eletricidade de Brasília-Ceb (1978/1981). From 1981 to 1998, held different management positions in the distribution area of Companhia Energética de São Paulo – Cesp. Was Regional Manager at Elektro from 1998 to 2000. Was named Operations Director of CPFL Paulista in September 2000. Took over as Chief Operations Officer of CPFL Paulista, CPFL Piratininga and CPFL Energia on August 28<sup>th</sup>, 2002.

**Miguel Normando Abdalla Saad** – *Chief Energy Generation Officer*

Held a number of executive positions at Companhia Energética de São Paulo-Cesp between 1974 and 2000. Was also chairman of the São Paulo branch of the Brazilian Commission on Large Dams. Is currently Chief Energy Generation Officer of CPFL Geração and CPFL Centrais Elétricas, Director of Foz do Chapecó Energia, Technical Director of Semesa and Financial Director of Consórcio Energético Foz do Chapecó. He is also Chairman of the Board of Directors of Enercan and Ceran and Vice-chairman of the Board of Baesa. Took over as Chief Energy Generation Officer of CPFL Energia on August 28<sup>th</sup> 2002.

**Paulo Cezar Coelho Tavares** – *Chief Energy Management Officer*

President of Abraceel – Brazilian Electricity Traders Association. Was Chief Executive Officer of GCS, the electricity and gas trading arm of the Guarani group. Held the positions of Vice-president for Corporate Development and subsequently Chief Executive Officer of Companhia Energética de Pernambuco – Celpe, an electricity distribution company. Has also been a member of the Board of Directors of Companhia Energética de Alagoas – Ceal, Companhia Energética do Rio Grande do Norte – Cosern and Celpe. Is currently Chief Energy Management Officer of CPFL Paulista, CPFL Geração, CPFL Piratininga, CPFL Brasil and CPFL Centrais Elétricas. Has held the position of Chief Energy Management Officer at CPFL Energia since August 28<sup>th</sup> 2002.

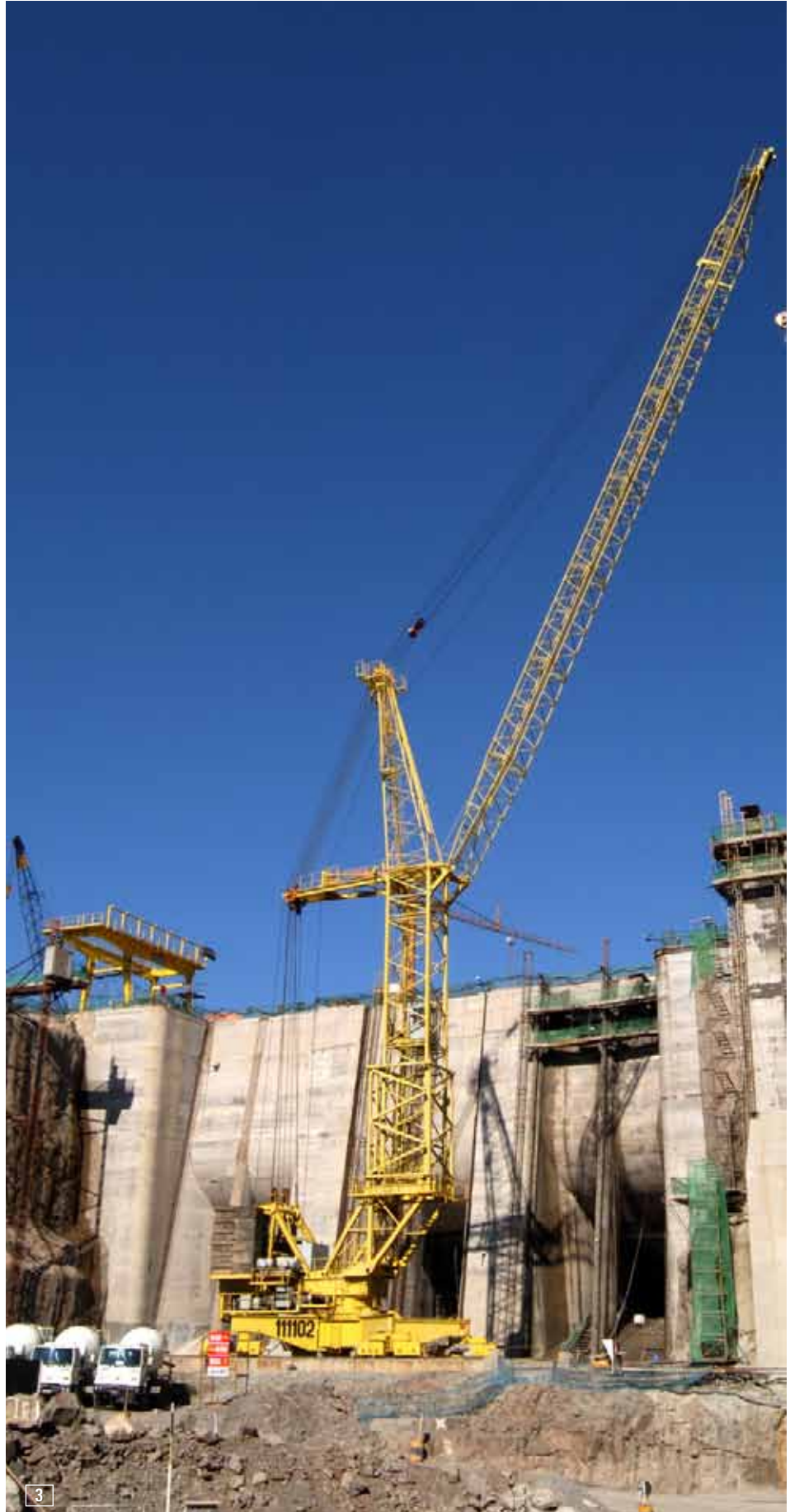
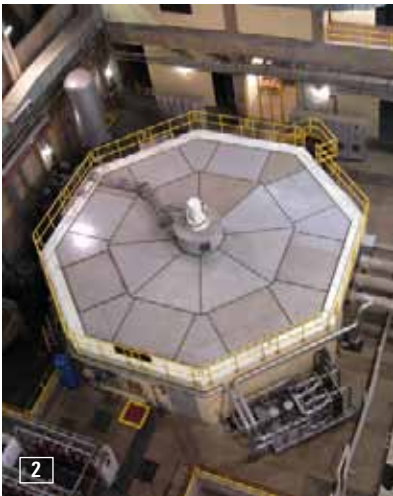
# 3. Strategy, Investments and Business Outlook

Corporate Strategy

Capital Investments

Business Outlook





1 – Operations Center | Sorocaba | São Paulo

2 – View of generator #01 | Monte Claro hydroelectric power plant | Rio Grande do Sul

3 – Panoramic view of the intake | Campos Novos hydroelectric power plant | Santa Catarina

# Strategy, Capital Investments and Business Outlook

## Corporate Strategy

The objective of CPFL Energia is to create shareholder value by expanding its electricity distribution, trading and generation activities and by continually seeking ways to improve the efficiency and profitability of operations and to take advantage of opportunities in other related activities.

To achieve these ends, CPFL Energia has developed a coherent set of business strategies, together with models of planning and management, founded on the principles of excellence, the guidelines of which have been widely disseminated throughout the company. This facilitates the creation of value and spurs the development of business strategies in a low risk environment for shareholders and other stakeholders. These business plans are based on the following strategies:

- **To Increase Electricity Generation Capacity:** Focused on concluding the hydroelectric projects under construction, acquiring already existing assets or investing in new electricity generation projects when offering attractive rates of return.
  
- **To Develop and Strengthen the Electricity Trading Business:** Focused on the retention of potentially free customers at present with our distributors, the attraction of new unregulated market customers from outside the distribution companies' concession areas and using market knowledge and experience to broaden the value-added energy-related advisory business.
  
- **To Increase Operating Efficiency:** Focused on continual reductions in maintenance and operating costs, sharing of best operational and administrative practices between companies of the group, efficient asset and investment management, productivity gains and improvements in customer service quality.
  
- **To Capitalize on Opportunities Offered by Industry Consolidation:** Take advantage of the company's hard-earned strategic position – based on a solid and diversified business platform, experience in restructuring and integrating energy sector activities and the ability to benefit from operating synergies – to act as an agent of consolidation in the Brazilian electric power sector.
  
- **A Pro-active Approach to Regulatory Issues:** Active management in regulatory issues with a view to anticipating and mitigating the effects of regulation on the present and future activities of CPFL Energia, as well as to contribute in the building of the foundations of sustained growth in the Brazilian electric power sector.

### **DISSEMINATING A CULTURE ORIENTATED TOWARDS VALUE CREATION**

The CPFL group companies' operational management model consists of a set of systems and instruments designed to provide support for the Strategic Plan, and to permeate the group culture with the concept and creation of shareholder value.

Important elements of this process include: the methodology used for Strategic Planning, based on a variety of different projected scenarios, incorporating analysis of the sector as well as different macroeconomic, political, regulatory and electrical (supply and demand) scenarios; simulations of value creation using Tree-Structure values and Performance Ratios, the latter enabling the monitoring of key performance indicators in real-time.

The administration of strategic projects is also aided by the Prometa System, permitting full time monitoring of all the control variables on a project. This system is fully integrated into the company's performance and compensation management systems.

In 2004, CPFL Energia was the first company in the Brazilian electric sector to introduce a system called GVA – Generating Shareholder Value, intended to help maximize the value of the company and, as a consequence, the value generated for shareholders. The purpose of the system is to show managers how to make better use of the economic resources under their management, in order to maximize returns, albeit, within the technical and regulatory limitations specific to the electric sector.

Commercial operations scheduled for 2005 | Barra Grande hydroelectric power plant | Santa Catarina and Rio Grande do Sul





In 2004 the first steps were taken in the implementation of management support systems based on metrics, and the concepts of Total Shareholder Return - TSR and Total Business Return – TBR. TSR enables a company to measure and compare the total return to the shareholder by measuring the value of the shares and the dividends over time. TBR is an internal metric enabling a company to track and to manage the total return from the business, relating the variations in its estimated market value (an EBITDA multiple) to the free cash flow produced.

## Investments

As part of the growth strategy and in order to comply with their commitment to service quality, the companies controlled by CPFL Energia invested more than R\$ 606 million during 2004 in all three business segments.

The bulk of this was spent on expanding the group's generation capacity. Consolidated capital expenditure totaling R\$ 342.4 million went towards the continuation of construction on the new hydroelectric projects; Ceran, Barra Grande and Campos Novos and on upgrading and modernizing Serra da Mesa and the group's small hydroelectric power plants.

Investments in the electricity distribution sector totaled R\$ 261.2 million, mainly on the connection of new customers, expanding capacity, maintenance of the grid, compliance with regulatory requirements and modernization of the distribution system. Investments were also made in operational support, infrastructure, telecommunications and IT.

R\$ 2.2 million was invested in the power commercialization business, mainly on infrastructure and management systems.

Distributors	Capital Expenditure in 2004 R\$ 000
CPFL Paulista	131,241
CPFL Piratininga	64,217
RGE	65,742
Total	261,200

Capital Expenditures			
Business segment (R\$ 000)	2004	2003	change %
Distribution	261,200	232,776	12.2
Generation	342,350	330,882	3.5
Commercialization	2,166	725	198.8
<b>CPFL Energia Consolidated</b>	<b>605,716</b>	<b>564,383</b>	<b>7.3</b>

Energy Generation	Capital Expenditures in 2004 (R\$ 000)
Small hydros and Serra da Mesa	4,006
Ceran complex	83,629
Barra Grande hydro project	77,605
Campos Novos hydro project	175,185
Foz de Chapecó hydro project	1,742
Others	183
<b>Total</b>	<b>342,350</b>

### EXPANSION OF OPERATIONS

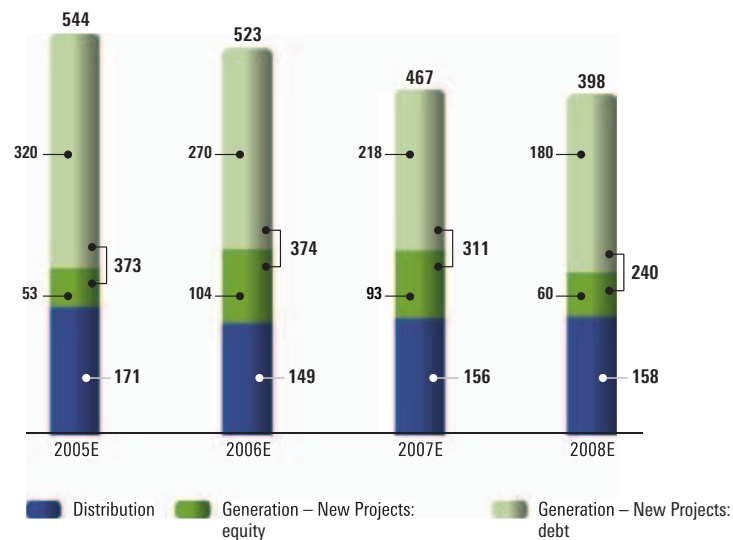
The budget provision for capital expenditure through 2008 totals R\$ 1.9 billion, with R\$ 1.3 billion earmarked for generation and further R\$ 634 million on distribution. The funding structure is being rationalized and will involve debt capital from BNDES and other sources, together with the company's own capital and the proceeds from the primary issue of new shares.

The investments in energy generation will add a further 1,136 MW, raising the CPFL group's generation capacity to 1,990 MW transforming CPFL Geração into one of the largest private sector power generators in Brazil.

The investments planned for the distribution companies will enable them to handle market growth, forecast at 600,000 new customers by the year 2008.

### Estimated Investments in Expansion – 2005/2008

(R\$ millions)



## Business Outlook

In 2005, CPFL Energia will concentrate on a growth strategy designed to expand and diversify activities, whilst simultaneously making investments to guarantee growth in the three segments in which it already operates – distribution, generation and trading – complementing each other and creating synergies of value throughout the Brazilian power sector.

CPFL group planning for the coming years contemplates a forecast in growth in the Brazilian economy and the group's consumer markets and also makes the assumption that the group will continue to seek improved margins by attracting new customers in the unregulated market, together with the conclusion of current investments in the construction of new generating capacity.

An important element of the growth strategy will be the progress towards greater diversification of the investment portfolio as a means of achieving higher rates of return without significant increase in business risk. This orientation will lead the group to increase investment in the power generation sector as well as to seek opportunities in electricity transmission.

Furthermore, in the search for new business CPFL Energia fully intends to actively participate in the "new electric power auctions" which should soon be tendered by the Federal Government. These projects already have the environmental permits and come with long-term power purchase agreements that can be used as collateral for raising project financing.

CPFL Energia's initiation in the transmission sector could either be through the acquisition of existing assets or by participating in the auction of new transmission lines held by the Federal Government.

The competitiveness that the company has shown in the power trading sector, coupled with the probability of growth in the unregulated market and increased demand for energy-related services suggests the possibility of growth in this area of activity as well.

CPFL Energia is constantly on the lookout for opportunities, primarily in regions close to its concession areas, where capitalization on operating synergies can transform into higher rates of return on investment, without a substantial increase in business risk.

Commercial Operations Scheduled for 2006 |

Campos Novos hydroelectric power plant

| Santa Catarina



# 4. Operating Performance

Macroeconomic Environment

Regulatory Environment

Electricity Tariffs

Performance Summary

Profile and Performance of the Distribution Companies

Profile and Performance of the Generating Companies

Profile and Performance of the Power Commercialization Business



# Operating Performance

System Operations Center | Head Office | Campinas | São Paulo



## Macroeconomic Environment

The international economy made a major contribution to the improvement in the Brazilian macroeconomic environment in 2004. Strong growth in international trade and easy access to credit enabled Brazil to increase exports by 32% and generate a record trade surplus.

This was one of the factors behind the increased liquidity in the foreign exchange market, which helped stabilize inflation at an acceptable level. With inflation under control, the effects of the gradual reduction in interest rates, initiated in 2003, were felt in full during 2004.

Domestic credit volumes rose substantially and manufacturing output, stimulated by exports and the durable goods sector, achieved annual growth of 8.3%, the highest since 1986, which contributed towards overall GDP growth of 4.9% in 2004.

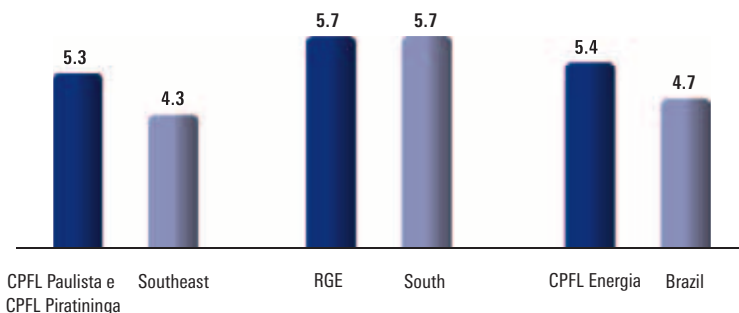
Markets in the industrially active concession areas of CPFL Paulista, CPFL Piratininga and RGE reacted rapidly to the macroeconomic stimulus, enjoying substantial growth.

The increase in electricity consumption was greater in the concession areas of CPFL Paulista and CPFL Piratininga than concession areas of other distributors in the Southeast/Midwest, a region which accounts for 62.2% of total Brazilian power consumption. The following chart shows that electricity consumption in the concession areas of CPFL Energia's distribution companies grew 0.7% more than the average for Brazil. Growth in consumption in CPFL Paulista's and CPFL Piratininga's areas grew 1% more than the average for the Southeastern region, whereas growth at RGE equaled that of the Southern region.

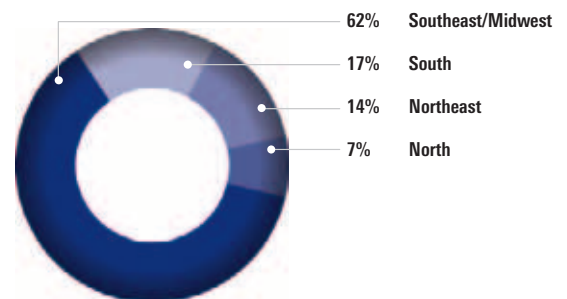
**The power sector benefited from the economic recovery.**

**Growth in electricity consumption in CPFL Energia's distribution regions-2004**

(Compared with 2003 – %)



**Breakdown of Brazilian consumption by region – 2004**



## Regulatory Environment

Law number 10,848, of March 14<sup>th</sup> 2004, and decree number 5,163, of July 30<sup>th</sup> 2004, consolidated the regulatory framework of the government's New Model for the electric sector in Brazil, significantly altering the electricity trading rules between concession holders, license holders and end consumers within the ambit of SIN – the national grid.

The New Electric Sector Model is clearly intended to restructure the bidding process for new generating concessions, where, albeit, lowest price will be the key criterion, inducements will be offered, such as a valid environmental permit and long-term power purchase agreements that can serve as the basis for raising project finance.

The return of the State's role in the electric sector planning process is another major feature of the New Model, and in order to operate the new system, the following new state-owned company and two entities have been created:

- *Empresa de Pesquisas Energéticas – EPE*, created by law number 10,847, of March 15<sup>th</sup> 2004, and decree number 5,184, of August 16<sup>th</sup> 2004, for the purpose of carrying out research to be used in the power sector planning process in Brazil
- *Câmara de Comercialização de Energia Elétrica – CCEE*, an entity created by Art.4 of Law 10,848, of March 15<sup>th</sup> 2004, and Decree 5,177, of August 16<sup>th</sup> 2004, for the purpose of supervising electricity trading in both the regulated and unregulated markets
- *Comitê de Monitoramento do Setor Elétrico – CMSE*, an entity created by Art. 14 of Law 10,848 and Decree 5,175, of August 9<sup>th</sup> 2004, with the responsibility for permanently monitoring the reliability of the electricity supply.

The New Model redefines the attributes and the responsibilities of existing sector agents and institutions, as well as reinstating the Ministry of Mines and Energy in the role of the Concession Authority. With the introduction of these changes the aim of the Brazilian Federal Government is the following:

- to guarantee a reliable supply of electricity, a pre-condition to sustainable economic growth
- to provide a stable regulatory framework conducive to the attraction of investments in the expansion of the energy sector
- to ensure fair electricity prices, an essential aspect of the social function played by electricity as well as the contribution to the competitiveness of the economy
- To use the electrical sector as an instrument to further the cause of social inclusion, chiefly through universal access to electricity programs.

The first tangible application of the new rulings occurred with the 2004 auction of "old" energy (generated by existing capacity), for supply as from January 2005, enabling the distribution companies to contract the power required to service their markets. Other ramifications of the New Model include:



- Inter-Ministerial Ruling 361, of November 26<sup>th</sup> 2004, which considered fluctuations in the cost of acquiring energy for resale as in Part A – CVA, Cost Tracking Account Mechanism for compensating for non-managed costs and sector charges
- Public Hearing 45/2004, held by Aneel on January 20<sup>th</sup> 2005 on addendums to the distribution concession contracts, which constitute an important advance towards guaranteeing the protection of distribution companies from variations in non-managed costs and towards the consolidation of the regulations for the electric sector in Brazil.

## Electricity Tariffs

### DISTRIBUTION TARIFFS

In 2004, on their respective tariff review dates, two regulatory initiatives concerning the distribution tariff process were taken: the first was an adjustment to the 2003 Tariff Review, and the other was the Annual Tariff Increase (IRT) for the period 2004 to 2005.

In compliance with Decrees 4,562/2002 and 4,667/2003, Aneel made progress on the process of tariff restructuring, specifically the gradual elimination of the cross subsidies in the existing tariff structure. This process is scheduled for conclusion in 2007. Restructuring in 2004 resulted in a 25% increase in electricity tariffs.

The effect this had on the distribution subsidiaries was the following:

#### ■ CPFL Paulista

Firstly, the average tariff increase for 2003 was revised upwards from the initial 19.95% decided on in the 2003 Tariff Review to 21.10%, retroactive to 2003, pending the agreement of the Regulatory Basis for Remuneration.

Subsequently, the electricity supply tariffs, already revised upwards, were granted an average increase of 13.65% in April 2004, valid through April 2005, of which 6.04% represented the annual tariff increase and 7.61% represented financial compensation for the increase in non-managed costs, covered by the CVA mechanism.

As a result of this tariff restructuring process, the average electricity tariff increase per customer group was: 27.45% for sub-group A2 (138 kV); 20.98% for sub-group A3 (69kV); 17.16% for sub-group A3a (34.5 kV); 17.88% for sub-group A4 (13.8 kV); and 8.67% for group B (220/127 V).

#### ■ CPFL Piratininga

Firstly, the average tariff increase for 2003 was revised downwards from the initial 14.68% decided on in the 2003 Tariff Review to 13.01%, retroactive to 2003, pending the agreement of the Regulatory Base for Remuneration. Under the conditions established by Aneel, in Resolution N° 336/2001, when it consented to the spin-off which gave rise to CPFL Piratininga, this tariff increase (13.01%) was

adjusted to match that obtained by Empresa Bandeirante de Energia S.A. (10.51%). This adjustment was the last regulatory act of the spin-off process and, commencing with the tariff review process for 2004, the two companies now have independent tariff structures.

Subsequently, the electricity supply tariffs, as revised as described, were granted an average increase of 14.00% in October 2004, valid through October 2005, of which 10.51% represented the annual tariff increase and 3.49% represented financial compensation for the increase in non-managed costs, covered by the CVA mechanism.

As a result of this tariff restructuring process, the average electricity tariff increase by customer group was: 24.58% for sub-group A1 (230 kV); 19.68% for sub-group A2 (138 kV); 11.50% for sub-group A4 (13.8 kV) and 6.64% for group B (220/127 V).

#### ■ RGE

Firstly, the average tariff increase for 2003 was revised upwards from the initial 27.36% decided on in the 2003 Tariff Review to 27.96%, retroactive to 2003, pending the agreement of the Regulatory Base for Remuneration.

Subsequently, the electricity supply tariffs, already revised upwards, were granted an average increase of 14.37% in April 2004, valid through April 2005, 7.88% of which represented the annual tariff increase and 6.49% represented financial compensation for the increase in non-managed costs, covered by the CVA mechanism.

As a result of this tariff restructuring process, the average electricity tariff increase by customer group was: 23.90% for sub-group A1 (230 kV); 19.52% for sub-group A3 (69 kV); 19.20% for sub-group A4 (13.8 kV); and 10.34% for group B (220/127 V).

#### ■ Tariffs for the Use of Distribution Facilities – TUSD

Tariffs for the use of distribution facilities, paid for by clients opting to migrate to the unregulated electric power market, increased more than the average tariff increase granted to distribution companies for electricity supply, due mainly to substantial increases in sector charges applied to those tariffs.

#### Increases in the Tariffs for the Use of the Distribution System

Company	Group A2	Group A4
CPFL Paulista	51.53%	54.20%
CPFL Piratininga	32.64%	31.64%

**Note:** There were no unregulated market customers in RGE's concession area in 2004.

#### GENERATION TARIFFS

CPFL Centrais Eléctricas' electricity supply tariffs are established in the initial contracts and were increased by 10.91% by Ratificatory Resolution 078, of April 7<sup>th</sup> 2004.



Gavião Peixoto-small hydroelectric power plant  
| Gavião Peixoto | São Paulo

## Performance Summary

### ELECTRICITY MARKET

The sum of electricity sales to the end consumer in the regulated market by distribution subsidiaries CPFL Paulista, CPFL Piratininga and RGE, plus CPFL Brasil sales to unregulated market clients and under bilateral contracts with other market players, totaled 36,647 GWh in 2004, 4.9% more than the 34,945 GWh of 2003.

Special emphasis should go to the industrial segment, which, in line with GDP growth, increased by 5.8% in 2004 and currently accounts for 48.8% of total CPFL group electricity sales.

The CPFL Energia strategy to strengthen customer loyalty whilst at the same time winning over new customers was shown to work well 2004. The companies were successful in retaining a substantial portion of customers potentially free to migrate to the unregulated market and also managed to attract new unregulated market customers from both within and outside their own concession areas.

During 2004, contracts worth 82% of the electricity consumed by customers potentially free to migrate to the unregulated market were renewed, thus retaining these customers within the CPFL group's distribution companies' regulated market. CPFL Brasil was able to win over a substantial number of the distribution company, customers who did migrate to the unregulated market, besides attracting new clients from outside their concession areas.

The movement of customers between the regulated and unregulated markets resulted in a 287 GWh net addition to CPFL Energia's sales volume, as the result of attracting an additional 1,764 GWh from unregulated market customers in the distribution companies' concession areas, plus another 583 GWh from customers from outside the concession areas.

**CPFL's total electricity sales to end consumers and under bilateral contracts increased 4.9% in 2004.**

**GRI**

Taken together, the CPFL Energia companies make up one of the largest electricity distribution groups in the country, accounting for 12.5% of total energy distribution. **This information is from GRI Economic Performance Indicator EC2.**

**Payroll and benefits total, including healthcare, private pension fund and investments made.**  
(This information conforms to GRI Indicator EC5).

R\$ thousands	2004	2003
CPFL Energia*	421,561	354,302

**Note:**

\*Consolidated: data includes RGE and Ceran proportionally

**Taxes Paid**  
(Information for Indicator GRI EC8).

R\$ thousands	2004	2003
CPFL Energia*	3,151,642	2,464,930

**Note:**

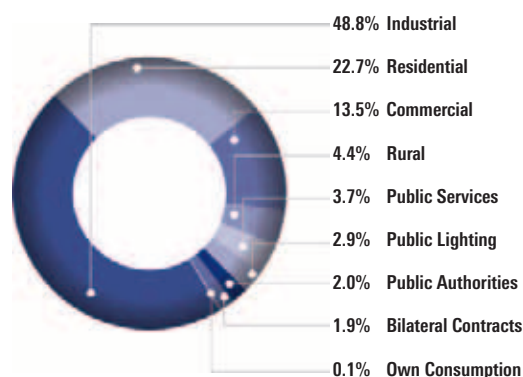
\*Consolidated: includes RGE and Ceran proportionally

**Electricity Sales**  
(GWh)

Group	2004	2003	Change %
Residential	8,302	8,124	2.2
Industrial	17,897	16,909	5.8
Commercial	4,936	4,752	3.9
Rural	1,619	1,550	4.5
Public Authorities	746	736	1.3
Public Lighting	1,070	1,048	2.1
Public Services	1,358	1,352	0.5
Own Consumption	26	25	4.0
Bilateral Contracts	693	449	54.3
<b>Total</b>	<b>36,647</b>	<b>34,945</b>	<b>4.9</b>

**Breakdown of Electricity Sales**

(%)

**WHOLESALE POWER SALES**

The CPFL group not only sells electricity to end consumers but also in the form of wholesale supplies to Furnas Centrais Eléctricas – under a sales contract via Semesa S.A. – as well as on the spot market.

Wholesale Electricity Supply (GWh)	2004	2003	change (%)
Furnas Centrais Eléctricas	3,034	3,026	0.3
Spot energy market	395	1,201	(67.1)



Trading Desk | Commercial Operations Center  
| Head Office | Campinas | São Paulo

## RESULTS

### Electric Power Distribution

Consolidated gross revenue of the distribution sector totaled R\$ 9.1 billion, compared with R\$ 7.7 billion in 2003, posting an increase of 16.8%. Consolidated EBITDA increased 4.8% to R\$ 1.3 billion, against R\$ 1.2 billion in 2003, with net income at R\$ 323.1 million, compared with a R\$ 40.8 million loss in 2003. These results can be attributed to market growth, greater operating efficiency, debt reduction and the schedule change for the goodwill amortization from the earlier acquisition of the CPFL group distribution companies.

### Electricity Generation

The first result of CPFL Energia's investment in the expansion of its power generating capacity was the on-schedule start-up of commercial operations of the Monte Claro hydroelectric project, part of the Ceran – Cia. Energética Rio das Antas – complex. Consolidated gross generating revenue at R\$ 331 million increased 13.6% compared with R\$ 291 million in 2003. Consolidated EBITDA increased 12.5% to R\$ 282 million, against R\$ 251 million in 2003, while net income posted a major improvement from R\$ 2.8 million in 2003 to R\$ 71 million. These results can be attributed to a decrease in financial expenses, lower debt and the change in the good will amortization schedule from the acquisition of Semesa by holding company CPFL Geração.

In parallel, financing for the projects under construction – the Ceran complex, Barra Grande and Campos Novos – has been ratified and is in the process of being disbursed. This includes loans totaling R\$ 1.8 billion from the principal source of finance, BNDES, Brazil's Economic and Social Development Bank.

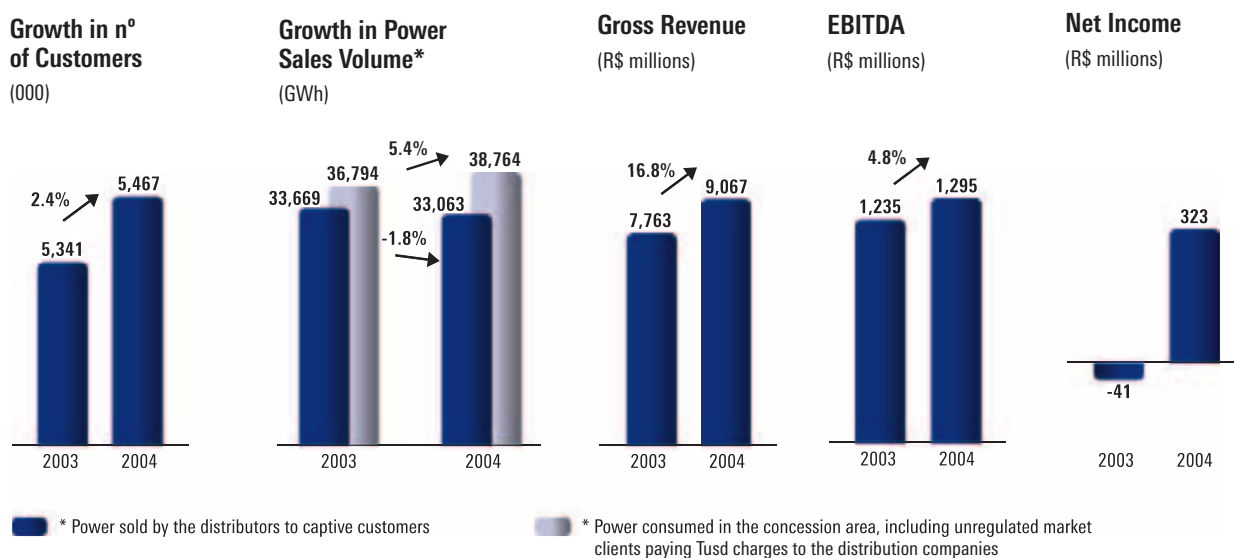
### Electricity Trading

The electricity trading sector is the most recent of the CPFL group's lines of business and is one that required little initial investment. Gross revenue totaled R\$ 893 million in 2004, compared with R\$336 million in 2003, presenting a 166% increase. EBITDA increased 114% to R\$ 152 million, against R\$ 71 million in 2003, whereas net income of R\$ 102 million was double that of 2003. These results can be attributed to a 145% increase in electricity sales volume from 4,540 GWh in 2003 to R\$ 11,110 GWh in 2004, to growth in the company's value-added energy-related services, to the exploitation of the opportunities offered by a competitive market and to the strategy of investing in customer loyalty and the ability to attract new customers.

## Profile and Performance of the Distribution Companies

CPFL Energia, through its subsidiaries CPFL Paulista, CPFL Piratininga and RGE, operates in two of Brazil's most developed electricity distribution markets: the interior of the state of São Paulo and of Rio Grande do Sul, vibrant economic hubs and home to important manufacturing, commercial, agricultural and service industries.

Between them, the three companies service 5.5 million customers in a region embracing a population of 15.3 million inhabitants in 523 municipalities. The companies employ only the best operating and maintenance practices and are dedicated to preserving their leadership in the Brazilian energy market by offering differentiated services, operating efficiency and above all, quality.





## ELECTRICITY DISTRIBUTION SECTOR



Municipalities served

523



Inhabitants (millions)

15.3



Customers (000)

5,467



Concession area (Km<sup>2</sup>)

187,943



Market share (%)

12.2



Employees

5,370



Productivity (customers/employee)

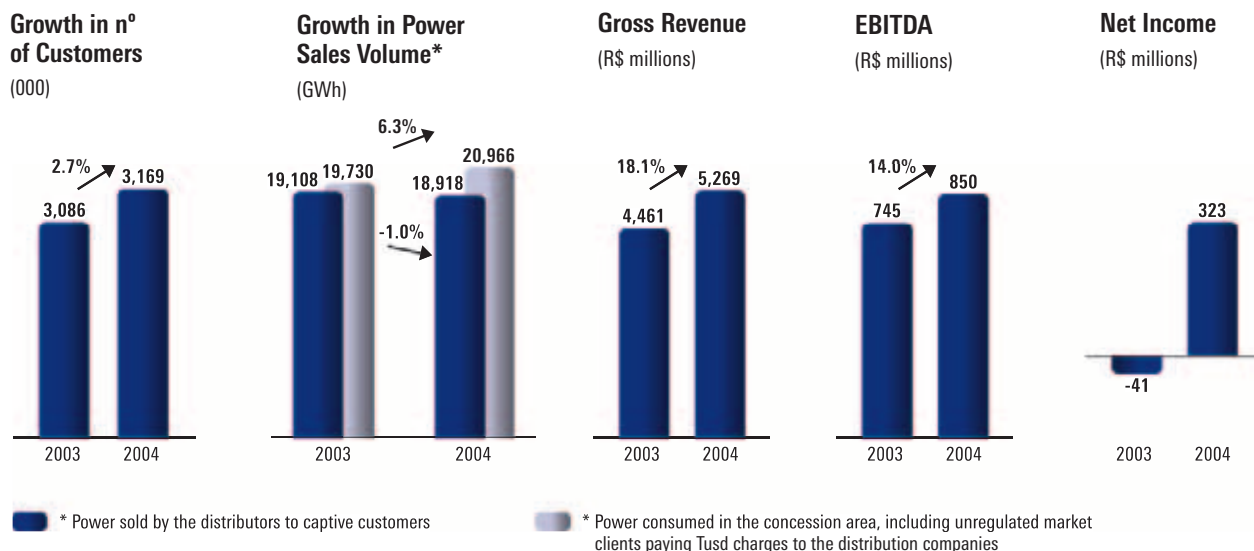
1,018

## CPFL Paulista – Cia. Paulista de Força e Luz: Profile

A by-word for tradition and quality, CPFL Paulista has operated since 1912 in the interior of the state of São Paulo, a region clustered with food, textile, chemical and metallurgical industries.

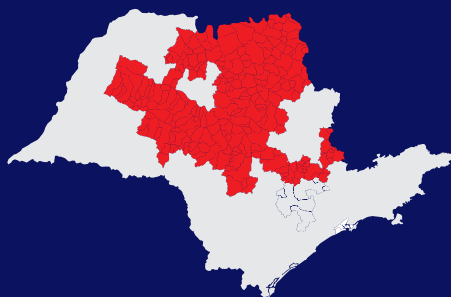
The company serves 3.2 million customers out of population of 8.7 million inhabitants in 234 municipalities, including major cities such as Campinas, Ribeirão Preto, Bauru and São José do Rio Preto.

CPFL Paulista is a publicly listed company and controlling shareholder of CPFL Piratininga and RGE.



All the Indicators refer to CPFL Paulista, except Net Income, which includes consolidated equity income





Municipalities served **234**



Inhabitants (millions) **8.7**



Customers (000) **3,169**



Concession area (Km<sup>2</sup>) **90,440**



Market share (%) **6.5**



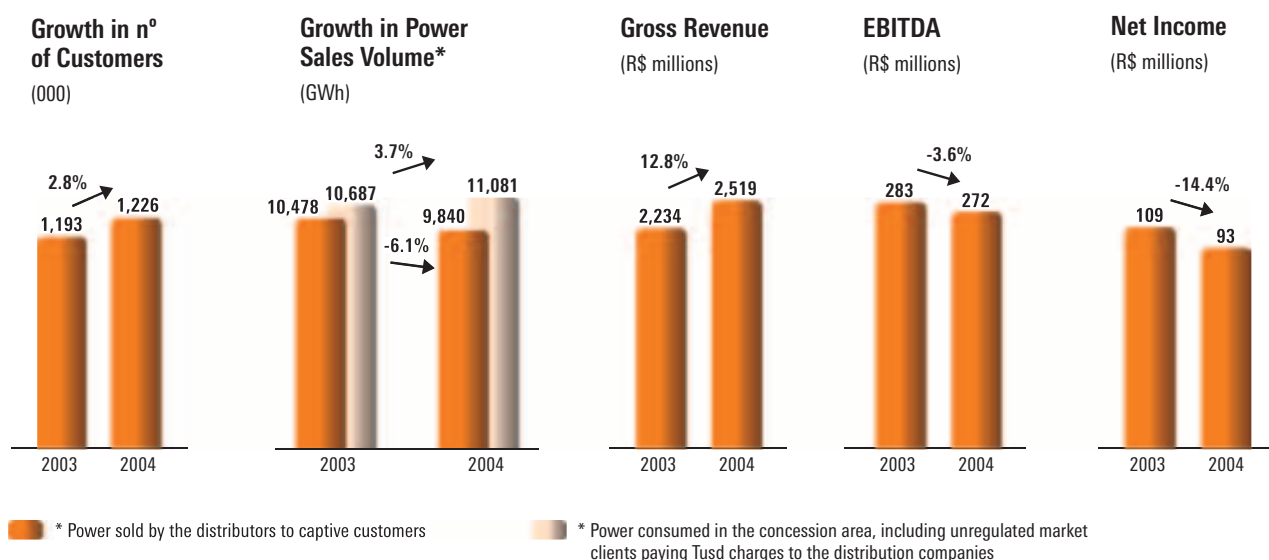
Employees **2,908**



Productivity (customers/employee) **1,090**

## CPFL Piratininga – Cia. Piratininga de Força e Luz: Profile

The company initiated operations in its present form in 2001 and operates in the interior and part of the coastal region of the state of São Paulo, an area with a diversity of food, chemical, metallurgical and transportation industries. CPFL Piratininga serves 1.2 million customers and a population of 3.2 million inhabitants in 27 municipalities, which include the cities of Santos, Sorocaba and Jundiaí.





**CPFL**  
PIRATININGA



Municipalities served **27**



Inhabitants (millions) **3.2**



Customers (000) **1,226**



Concession area (Km<sup>2</sup>) **6,785**



Market share (%) **3.5**



Employees **1,055**

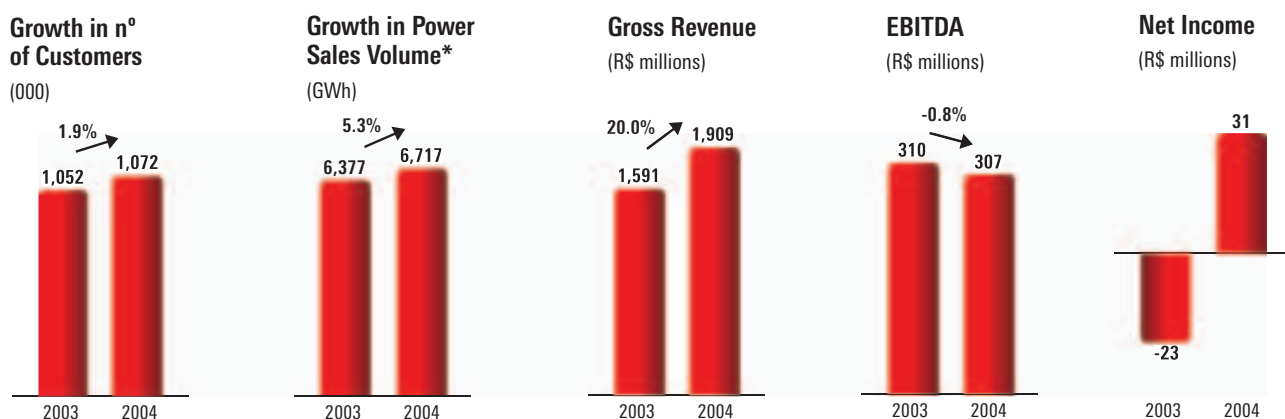


Productivity (customers/employee) **1,162**

## RGE – Rio Grande Energia: Profile

RGE has operated since 1998 in the interior of the state of Rio Grande do Sul, home to the state's principal hubs of economic activity: agriculture, cattle, industry and tourism.

RGE serves 1.1 million customers out of a population of 3.4 million inhabitants in 262 municipalities, including Caxias do Sul, Gravataí, Passo Fundo, Canela and Gramado.



\* Up to December 2004, there was no migration of customers to the free market within the concession area of RGE, therefore, the graph only depicts the power sold to the captive market.



Municipalities served

262



Inhabitants (millions)

3.4



Customers (000)

1,072

Concession area (Km<sup>2</sup>)

90,718



Market share (%)

2.2



Employees

1,407



Productivity (customers/employee)

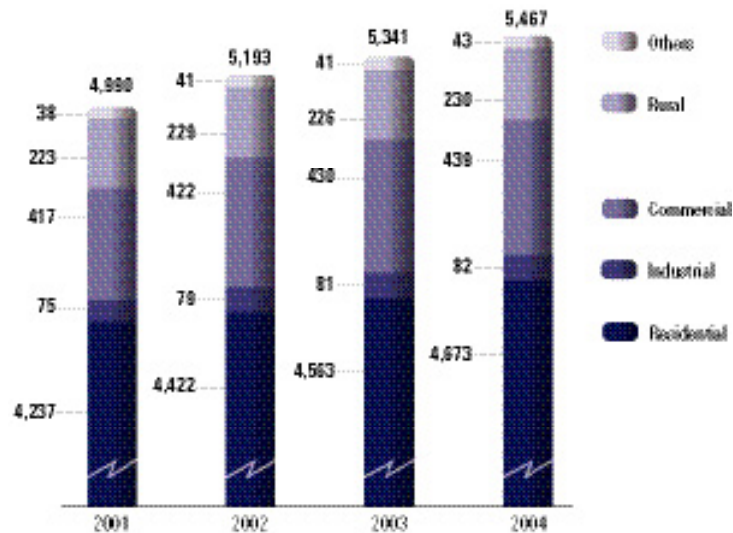
762

## Performance of the Distribution Companies

By December 31<sup>st</sup> 2004, the CPFL Energia companies had gained another 126,000 new customers since 2003, a clear reflection of the market depth, within a region of heavy population density and constant economic growth.

### Number of Customers per Category

(000)



The CPFL distribution companies posted a net income of R\$ 323 million in 2004 consolidated at CPFL Paulista. CPFL Piratininga accounted for R\$ 93.1 million and RGE R\$ 30.7 million.

The 2004 results reflect the interaction of a number of factors, the chief of which being growth of the consumer market in step with GDP growth. Residential and commercial consumption, which together accounted for 36.2% of the consolidated market, reported growth of 2.2% and 3.9%, respectively, compared with 2003.

Sales volume to the industrial sector dropped 5.8%, due to the migration of larger customers to the unregulated market, though earnings were boosted by a 503% surge in revenues from charges for the use of distribution

facilities – TUSD - which shot up from R\$ 36 million in 2003 to R\$ 217 million.

Moreover, other positive economic and financial elements should be factored in, such as the tariff increases, the successful control of costs and managed expenses and the positive effect of the goodwill amortization extension over the remaining tenor of the concessions.

**CPFL's distribution companies increased both operating income and net income during 2004.**

### Principal Electricity Assets

Electricity Distribution	2004	2003
Substations (N°)	339	338
Capacity (MVA)	9,299	9,251
Transmission Lines (Km)	8,249	8,249
Distribution Network (Km)	157,368	151,857
Distribution Transformers (N°)	177,332	173,751



CPFL Paulista	2004	2003
Substations (N°)	246	245
Capacity (MVA)	5,447	5,407
Transmission Lines (Km)	6,088	6,088
Distribution Network (Km)	73,881	71,513
Distribution Transformers (N°)	94,133	93,259



CPFL Piratininga	2004	2003
Substations (N°)	33	34
Capacity (MVA)	2,435	2,455
Transmission Lines (Km)	545	545
Distribution Network (Km)	19,961	17,396
Distribution Transformers (N°)	30,461	29,661



RGE	2004	2003
Substations (N°)	60	59
Capacity (MVA)	1,417	1,389
Transmission Lines (Km)	1,616	1,581
Distribution Network (Km)	63,526	62,948
Distribution Transformers (N°)	52,738	50,831



## Operating Efficiency

CPFL Energia's distribution companies invested R\$ 261.2 million in 2004, mainly on providing for market growth and maintaining the quality of electricity supply.

CPFL Energia has adopted Integrated Distribution System Management – GIS-D, a standard consisting of a platform of geo-referenced systems to provide support for all the technical processes involved in power distribution, including systems for inventorying electricity-related assets, electric grid projects, asset maintenance and operational dispatching. Implementation of GIS-D was concluded in 2004 at CPFL Paulista and work will begin at CPFL Piratininga in 2005.

## The power distributors of the CPFL Group maintain their leadership in supply quality in the Brazilian electricity sector.

One of the 2004 highlights at CPFL Piratininga was the conclusion of a project to completely automate the substations in the transmission system. RGE has embarked on a program to expand its transmission system by investing in substations and transmission lines, which will permit the de-activation the old 44kV system in the region.

CPFL Energia's distribution companies invest heavily in training and professional development programs out of the conviction that much of the company's positive results can be attributed directly to the professional skills of its employees.

CPFL Paulista averaged approximately 98 hours of training per employee in 2004, CPFL Piratininga 66 hours and RGE 83 hours.

The productivity of the distribution companies, as measured by the ratio of customers to employees, was 1,090 at CPFL Paulista, 1,162 at CPFL Piratininga and 762 at RGE.

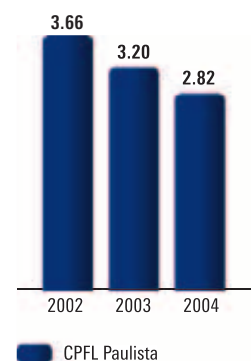
### COMMERCIAL LOSSES

CPFL Paulista succeeded in reducing commercial losses to 2.82% and CPFL Piratininga to 2.00% – the lowest level for the last three years. This was achieved by intensifying the Commercial Loss Reduction Program, which involved improving systems for analyzing consumer patterns, forming new inspection teams and carrying out 377,000 inspections of consumer units, 96.3% more than in 2003.

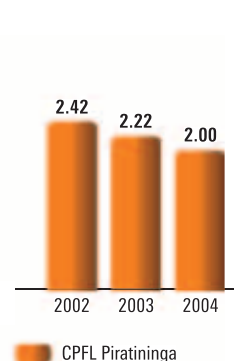
RGE initiated an inspection program and intends to measure 200,000 consumer units over the next 24 months. This is part of its 2005/2006 loss reduction action plan.

With these initiatives, the Commercial Loss Reduction Program contributed additional revenues of R\$ 57.2 million in 2004.

**CPFL Paulista – Commercial Losses**  
(%)



**CPFL Piratininga – Commercial Losses**  
(%)







Customer Service Point | Santos | São Paulo

**PAYMENT DELINQUENCY**

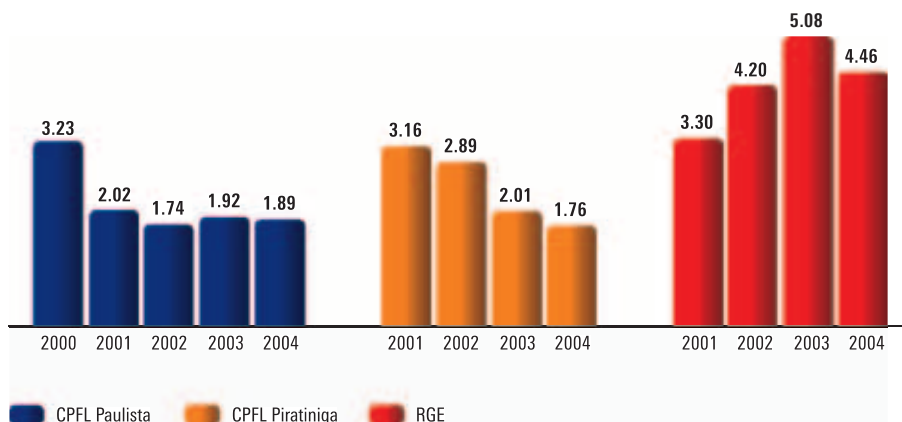
Payment delinquency for the year, measured by unpaid electricity bills over 30 days past due, was 1.89% for CPFL Paulista and 1.76% for CPFL Piratininga, which are among the lowest in the sector. Targeted action at RGE succeeded in reducing the level from 5.08% in 2003 to 4.46% in 2004.

One of the most important operational initiatives contributing to these results was the intensification of negotiations for the collection of unpaid bills and the efficient response to power cuts applied to a total of 832,000 late payers at CPFL Paulista, 302,000 at CPFL Piratininga and 236,000 at RGE.

**The payment delinquency rate in 2004 was 1.89% for CPFL Paulista and 1.76% for CPFL Piratininga, among the lowest in the sector.**

**Payment delinquency rates**

(% of Sales Revenues)



### Mathematical consumption forecasting model lends precision to the energy contracting process at the CPFL group's distribution subsidiaries.

#### ELECTRICITY PURCHASES IN THE REGULATED MARKET

Electricity purchases in the regulated market are intended to ensure that distribution companies are able to meet their requirements with adequate stocks at reasonable prices.

In order to help distribution companies adapt to the federal government's new electricity market rules, during 2004, computer models based on mathematical programs were developed and implemented for analyzing and forecasting electricity markets. These projections helped the companies make decisions regarding the acquisition of power to serve their markets and also on their strategies for taking part in the December 7<sup>th</sup> 2004 energy auction.

This helped companies get the most value from their energy purchases, whilst minimizing the risks involved in complying with the requirements of Decree 5,163, of July 30<sup>th</sup> 2004, regarding previously contracted energy supply.

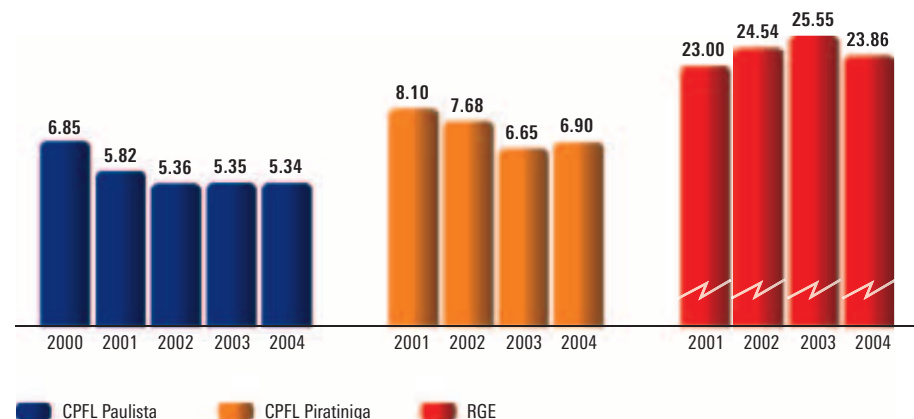
#### QUALITY OF ENERGY SUPPLY

Efficient management of operations and past investments enabled the CPFL Energia distribution companies to keep their energy supply quality indicators at the "excellent" level.

This achievement also reflects the companies' policies and initiatives regarding inspection and preventive maintenance of the distribution lines and networks, the operational flexibility of the power system and the logistics of their emergency service system.

#### DEC - Average duration of service interruptions

Median duration of power outages by customer per year - Hours

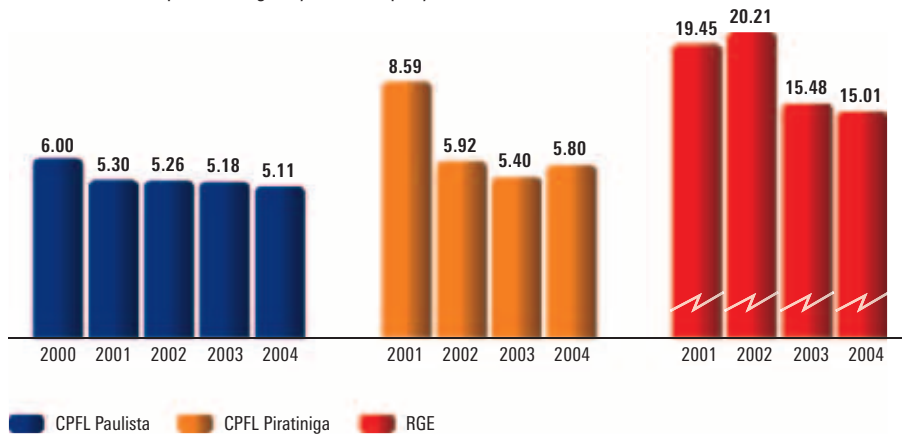




Central substation | Campinas | São Paulo

**FEC - Average frequency of service interruptions**

Median number of power outages by customer per year - Times

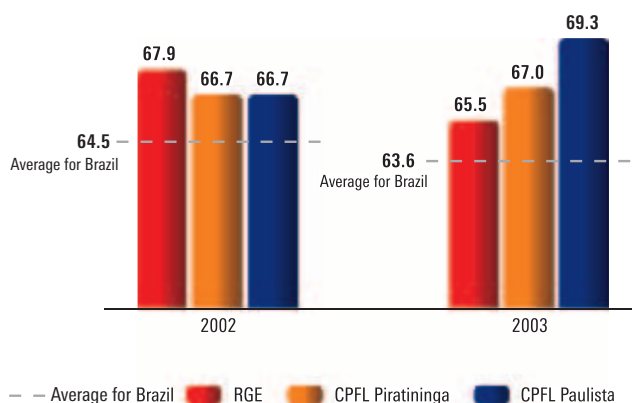


### CUSTOMER SATISFACTION

In 2004 CPFL Paulista was ranked top among all Brazilian distribution companies serving over 400,000 customers and received the IASC Award – Aneel Consumer Satisfaction Ranking for the Southeastern region of Brazil. The ranking was taken from a client satisfaction survey held by Aneel among the Brazilian electricity distribution company customers. The same survey ranked CPFL Piratininga and RGE among the top three distribution companies in the Southeast and South of Brazil.

#### IASC 2003 Award – Aneel Consumer Satisfaction Ranking

(Obtained through a survey of residential customers)



CPFL Paulista  
IASC-Aneel 2003  
Award/Best Distribution Company  
in the Southeastern Region



## CUSTOMER SERVICE

A total of 16,819,851 customers were attended to by CPFL Paulista, CPFL Piratininga and RGE, 9% more than in 2003. The increase was due mainly to the intensification campaign against payment delinquency and commercial losses. The call center handled 70.4% of the cases, the [www.cpfl.com.br](http://www.cpfl.com.br) and [www.rge-rs.com.br](http://www.rge-rs.com.br) sites another 19.6% and the group's 69 customer service points located throughout the concession areas handled 10%.

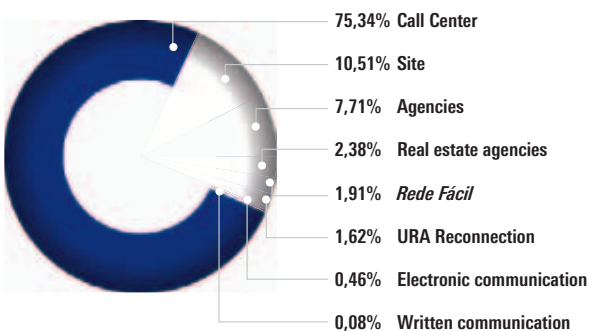
The call center has 235 desks and offers the public free and uninterrupted service. In addition the companies offer personalized attention at the customer service points located in various municipalities throughout the concession areas, the internet sites as well as service at the *Rede Fácil* stores (duly accredited electric material stores) and real estate agents, both using the CPFL Internet site to provide customers with service. Another department is responsible for responding to written and electronic communications.

There is also an exclusive and automatic phone service called URA –Audible Response Unit, which deals with reconnection requests after disconnection for non-payment.

The star among these means of communication has been the evolution of Internet use, which, besides being easier for the clients, reduces the distribution companies' operating costs by 85%.

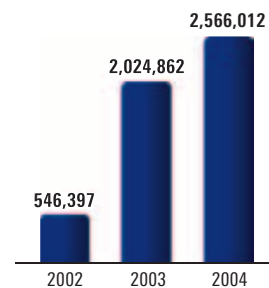
### CPFL Energia

16,819,851 customer contacts



### Internet contacts

CPFL Energia (000)



**Note:** The Internet contacts include those made through the companies' sites, *Rede Fácil* and the real estate agents.

## CUSTOMER SERVICE FOR LARGE CONSUMERS

In an effort to remain competitive in today's electric power market and to better communicate with large consumers, the CPFL group distribution companies have come up with novel ways of providing their large (contracted demand equal to or greater than 500 kW) customers with service.

CPFL Paulista and CPFL Piratininga have introduced a Contact Center to supplement the services provided by the business managers responsible for customer solutions and service. This is a personalized telephone service center at which a specialist attends a pre-established portfolio of



Call Center | Head Office | Campinas | São Paulo

customers. CRM – Customer Relationship Management, introduced in September 2004, is a computerized system which houses more complete customer information and unifies all customer requests, suggestions, complaints and other events as well as providing integrated contract management.

The contact center uses advanced technology to provide faster and more efficient service and handles, on average, 11,110 calls per month, totaling 133,322 in 2004.

#### **ENERGY EFFICIENCY, RESEARCH AND DEVELOPMENT**

The distribution companies' energy efficiency, research and development programs derive from a clause in their concession contracts, requiring them to earmark 1% of net operating income for these programs: 0.5% to Energy Efficiency and 0.5% to Research and Development.

During 2004, the CPFL Energy distribution companies concluded or were working on 259 energy efficiency projects, aimed at promoting the rational use of energy and communicating the concept of efficient energy management, through training for teachers, technicians and customers. Projects were implemented in the fields of:

- Energy efficiency in public illumination and public places
- Lighting efficiency in the residential sector



- Energy diagnosis and implementation at industrial installations, public water and waste management services, police precincts and hospitals.
- Energy efficiency and the Environment Educational Program
- Industrial Energy Management Course
- Educational program for lower income customers on energy wastage.

Half of the resources earmarked for the research and development program – 0.25% of net operating income – are channeled to the National Science and Technology Development Fund – FNDCT, under the aegis of the Ministry of Science and Technology – MCT. The remaining 0.25% is spent on the projects managed directly by the distribution companies. The use of these funds and the purpose, execution and compliance with physical and financial targets for each project are regulated and monitored by Aneel.

The CPFL Energia distribution companies' R&D programs are carried out in conjunction with universities, research centers, equipment manufacturers and technology companies and are intended to produce innovative products and systems.

The R&D program generated 150 projects between 1999 and 2004, of which 75 are concluded and are already in use or are in the process of implementation, and work continues on the remaining 75. The projects will meet the requirements of several sectors, such as planning, engineering, operations, marketing and the environment.

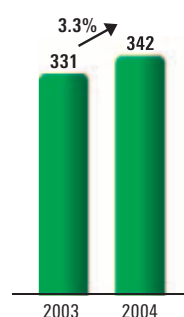
## Profile and Performance of the Generating Companies

CPFL Geração de Energia is a holding company with shareholdings in six companies. It is 100% owner of two of them: CPFL Centrais Elétricas, which runs 19 small hydroelectric power plants plus one oil-fired plant, and Semesa, which owns 51.4% of the Serra da Mesa hydroelectric facility. The other four companies were incorporated specifically for new hydroelectric generation projects, as follows:

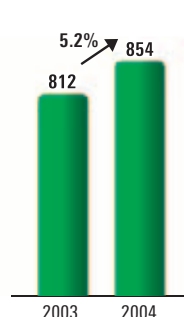
- **Ceran – Cia Energética Rio das Antas:** responsible for the Monte Claro hydroelectric plant, already operating, and the Castro Alves and 14 de Julho projects, still under construction;
- **Enercan – Campos Novos Energia:** responsible for the Campos Novos project, under construction;
- **Baesa – Energética Barra Grande:** responsible for the Barra Grande project, also under construction
- **Foz do Chapecó Energia:** responsible for the Foz do Chapecó project, due to break ground in 2005.

CPFL Geração de Energia's installed capacity on December 31<sup>st</sup> 2004 was 854 MW. When the above projects are concluded, capacity will increase to 1,990 MW.

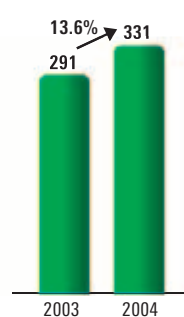
**Investments**  
(R\$ millions)



**Installed capacity**  
(MW)



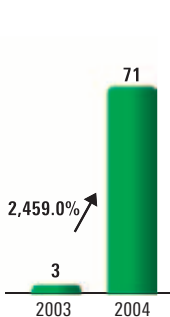
**Gross Revenue**  
(R\$ millions)



**EBITDA**  
(R\$ millions)



**Net Income**  
(R\$ millions)







Serra da Mesa hydroelectric power plant | Panoramic view of the Dam and Reservoir | Goiás

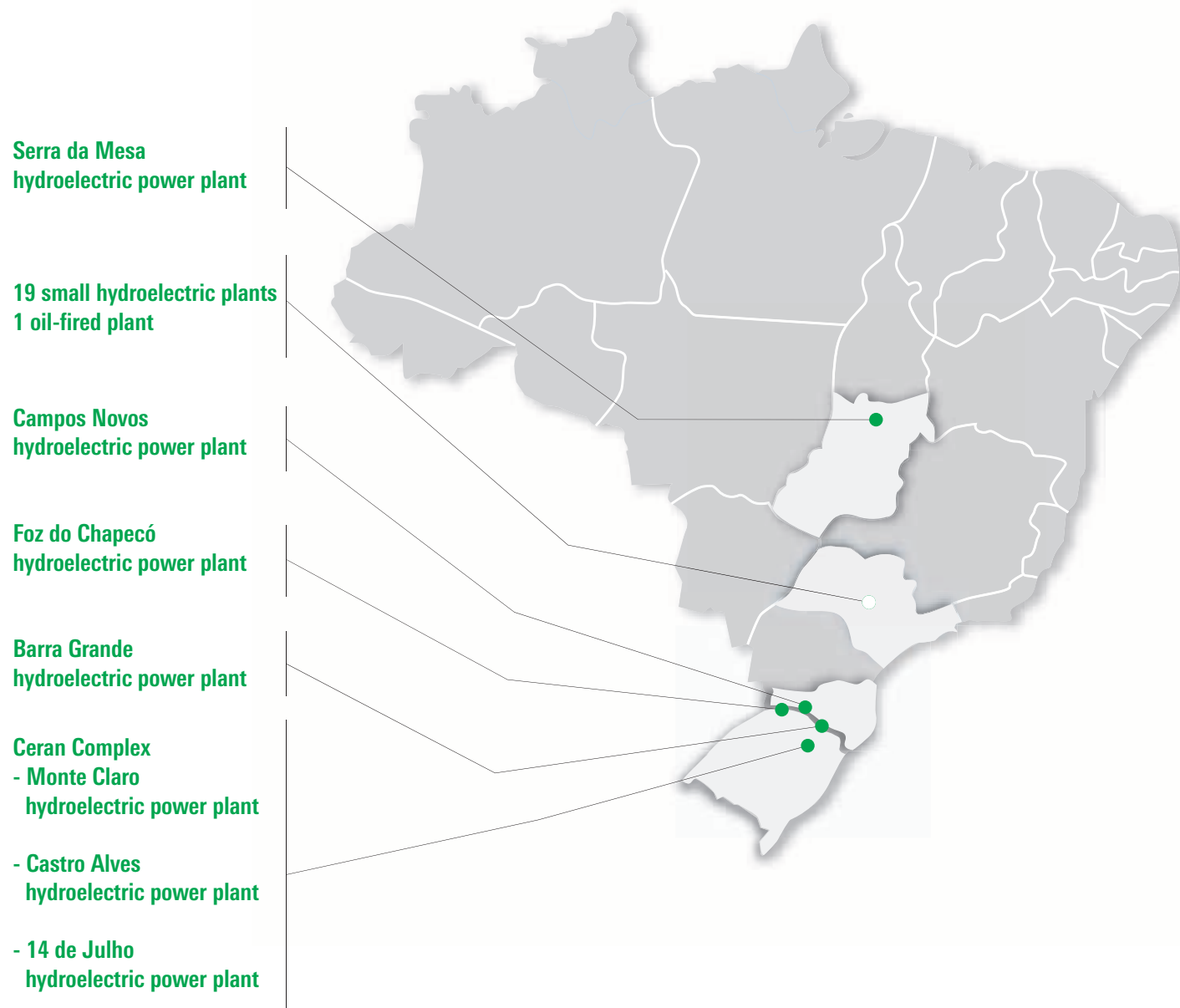


<b>Current Installed Capacity</b>	<b>854 MW</b>
<b>Current Secured Power Capacity</b>	<b>472.13 average MW</b>
<b>Employees</b>	<b>114</b>
<b>Electricity sales</b>	<b>3,789 GWh/year</b>
<b>Productivity</b> (Installed capacity – MW/employee)	<b>7.5</b>
<b>Projects under construction</b>	<b>6</b>
■ Additional capacity: 1,136 MW	
■ Additional secured capacity: 530.5 MW médios	

#### Estimated growth of CPFL Geração's installed capacity – in MW

Power plants	2004	2005	2006	2007	2008
Small hydroelectric plants	118.9	118.9	118.9	118.7	119.2
Thermoelectric plant	36.0	36.0	36.0	36.0	36.0
Serra da Mesa	657.1	657.1	657.1	657.1	657.1
Monte Claro	42.3	84.5	84.5	84.5	84.5
Barra Grande		57.5	172.5	172.5	172.5
Campos Novos			428.8	428.8	428.8
Castro Alves				84.5	84.5
14 de Julho				65.0	65.0
Foz do Chapecó					342.0
<b>Total</b>	<b>854</b>	<b>954</b>	<b>1,498</b>	<b>1,647</b>	<b>1,990</b>

## Location of CPFL Geração's Power Plants



## Performance of the Generation Companies

**The first generating unit at Monte Claro started commercial operations, the first of six hydroelectric power plants under construction.**

The start-up of commercial operations at the Monte Claro hydroelectric facility, part of the Ceran complex, in the fourth quarter of 2004 held a special significance for CPFL Geração. It was the first of six hydroelectric power stations scheduled to go on-line by 2008. These new projects will place CPFL Geração firmly amongst the largest private sector power generators in the country.

Another advance made during 2004 and according to schedule, was Aneel's approval of the re-powering of the Gavião Peixoto small hydroelectric power plant, which was recently granted its environmental permit. Work is scheduled to start in 2005.

The environmental permit for the Foz de Chapecó hydroelectric project was also granted in September. The projects for re-powering the small Chibarro and Capão Preto hydroelectric plants were developed during 2004 and concluded in March 2005. Work is scheduled to commence this year.

CPFL Geração reported net income for the year of R\$ 71 million, over 2,400% more than the R\$ 2.8 million earned in 2003.

### ELECTRIC POWER COMMERCIALIZATION

Under Brazilian regulations, the power that can be made available from a power generating facility is the Secured Power, the quantity of which is fixed, determined by the Concession Authority and registered in the concession contract. Revenues therefore do not depend on actual power generated, and any shortfalls between power effectively generated and the Secured Power thus determined, are covered by the Energy Reallocation Mechanism – MRE.

The Secured Power of the CPFL Geração power plants on December 31<sup>st</sup> 2004 totaled 472.13 MW, distributed as follows:

<b>Power Plant</b>	<b>Secured Power</b> (Average MW)
Serra da Mesa (CPFL Geração's share)	345.83
Small hydroelectric power facilities	63.47
Monte Claro (CPFL Geração's share)	37.83
Carioba oil-fired plant	25.00
<b>Total</b>	<b>472.13</b>

The power generated by Serra da Mesa is sold to Furnas under a contract expiring in 2014. The power from the small hydroelectric plants, from the Carioba thermoelectric plant and CPFL Geração's share of Monte Claro is sold to CPFL Paulista, CPFL Piratininga and to CPFL Brasil, the group's power trading company. Of the total 3,789 GWh sold in 2004, 3,034 GWh were sold to Furnas, 652 GWh to CPFL Paulista and CPFL Piratininga and 103 GWh to CPFL Brasil.

The electricity tariff under the initial contracts was increased by 10.91%, based on Ratificatory Resolution 078, of April 7<sup>th</sup> 2004. CPFL Geração's other energy sales contracts were increased in line with the IGP-M inflation index: 8.71% for the Furnas contract and an average of 5.08% for the CPFL Energia distribution companies.

The small hydroelectric plants and the Carioba thermoelectric plant, operated by CPFL Centrais Elétricas continued, during 2004, to gradually sever their Secured Power rating from the initial contract with CPFL Paulista, at a rate of 25% per year.

The power from the small hydroelectric plants released from the initial contracts was signed up under new contracts with CPFL Centrais Elétricas and CPFL Paulista. The power from the Carioba oil-fired plant similarly released was signed up under new contracts with CPFL Centrais Elétricas and CPFL Brasil.

## NEW PROJECTS

The six new hydroelectric generation plants, in which CPFL Geração participates, will have a total installed capacity of 2,786 MW and will receive capital investments totaling R\$ 5.9 billion. The company's share in this will be 1,177 MW and R\$ 2.5 billion, respectively.

The first generator of the Monte Claro hydroelectric facility started operations in 2004 with a capacity of 65 MW; of which 42 MW belong to CPFL Geração.

Approximately 60% of the generating capacity of these 6 projects should have entered the Brazilian power grid by early 2006.

Share of CPFL Geração in the New Projects							
Power Plant	Installed Capacity (MW)	Secured Power (Av. MW)	Estimated Investment (R\$ millions)	CPFL Geração: market share (%)	CPFL Geração: total installed capacity (MW)	CPFL Geração: Secured Power (Av. MW)	CPFL Geração: Estimated Investment (R\$ millions)
			Base date: dec/04				Base date: dec/04
Barra Grande	690.0	380.6	1,608.7	25.01	172.6	95.2	402.3
Campos Novos	880.0	377.9	1,532.3	48.72	428.8	184.1	746.6
Ceran Complex	360.0	173.0	823.3	65.00	234.0	112.5	535.3
Castro Alves	130.0	64.0	250.9	65.00	84.5	41.6	163.1
Monte Claro	130.0	59.0	316.9	65.00	84.5	38.4	206.0
14 de Julho	100.0	50.0	255.5	65.00	65.0	32.5	166.1
Foz do Chapecó	855.0	432.0	1,913.4	40.00	342.0	172.8	765.4
<b>Total</b>	<b>2,785.0</b>	<b>1,363.5</b>	<b>5,877.7</b>		<b>1,177.3</b>	<b>564.5</b>	<b>2,449.6</b>

During 2004, the focus of CPFL Geração was on administrating the construction and financial schedules of the Monte Claro, Barra Grande and Campos Novos projects and on finalizing the contracts for commencing the Castro Alves project, which occurred in April, and the 14 de Julho project, in October. In addition, efforts were made to obtain the environmental license for the Foz de Chapecó project.

CPFL Geração also implemented preparation procedures for the operation and maintenance of the Monte Claro, Barra Grande and Campos Novos plants, including team recruitment and training. Operational and maintenance manuals were drafted; the commissioning of Monte Claro was monitored and the relationship with the regulator Aneel and ONS, the system operator was developed.

## SMALL HYDROELECTRIC POWER PLANTS

CPFL Centrais Elétricas, a subsidiary of CPFL Geração, operates 19 Small Hydroelectric Power Plants (PCHs) which together, have an installed capacity of 118.9 MW and average Secured Power of 63.47 MW. Most of these plants were built early last century. As part of the program for the operation and maintenance of these plants, the company has been investing in upgrading their capacity (re-powering) and automation. The re-powering basically consists of exchanging, renovating or installing new turbines,

ancillary equipment and automated systems, together with the upgrading of infrastructure. The investments are designed to increase the volume of Secured Power, to reduce operating costs and, as a consequence, to improve profitability.

The company installed an operations center in Campinas (SP) to administrate and monitor by remote control the operation and the production cycle of the PCHs plants, which could not have been possible without investments in automation.

Under their new configuration, the operating and maintenance cost of the PCHs fell from R\$ 26.47/MWh to R\$ 8.70/MWh. The availability rate of the generating equipment has increased from 82% in 1997 to 96% in 2004.

Another five PCHs are scheduled for re-powering by 2008: Gavião Peixoto, Capão Preto, Chibarro, Buritis and Três Saltos. Feasibility studies have already been carried out during 2004 on the Gavião Peixoto, Capão Preto and Chibarro power plants.

Re-powering adds generating capacity without environmental side effects, and also opens up the possibility of generating and trading carbon credits. CPFL Centrais Elétricas signed a cooperation agreement in 2004 with the International Utility Efficiency Partnerships-IUEP to identify opportunities for trading carbon credits and is ready to start the validation and documentation stage of the process. The studies so far, indicate that the additional power from the PCHs re-powered since 2001, plus the power from those scheduled to be re-powered in the future, will total 130,318 MWh/year; accessible power with nil environmental impact. Compared with the emissions from the generation of an equivalent amount of power by an oil-fired power plant, the reduction in the volume of CO<sub>2</sub> emissions would be the equivalent of 921,000 tons for the period from 2003 to 2023, which would be the basis for CPFL Centrais Elétricas to obtain and trade carbon credits. At a rate of US\$5.00/ton, this represents a gain of roughly US\$4.6 million.

## GRI

The information on repowering the PCHs refers to Indicator GRI EN17 on the use of renewable sources of energy to increase the efficiency of energy already utilized.

**CPFL Centrais Elétricas is applying to qualify for carbon credits, as the additional power gained from the re-powering of the PCHs, having no negative environmental impact, contributes to lowering global CO<sub>2</sub> emissions.**

View of control room | Monte Claro facility  
| Rio Grande do Sul



### **SERRA DA MESA HYDROELECTRIC POWER PLANT**

The Serra da Mesa hydroelectric power plant is the largest of CPFL Geração's portfolio of generation assets and was acquired in 2001 from VBC Energia, one of CPFL Energia's controlling shareholders.

Serra da Mesa is situated on the river Tocantins, in the state of Goiás, and is equipped with three turbines with a capacity of 1,275 MW. Operations were started in 1998 by the concessionaire Furnas, who is also the plant operator. The majority of the assets are the property of Semesa, a wholly owned subsidiary of CPFL Geração. Semesa leased these assets to Furnas under a 30 year contract, effective from 1998, and in return receive 51.54% of the plant's Secured Power until the year 2028, irrespective of the actual amount of energy generated by the plant, or of any expropriation, loss of validity or expiry of the concession during that period.

The power sales contract signed with Furnas, valid through 2014, sets the price per MWh and the price adjustment formula, which is in accordance with the IGP-M inflation index. From 2014 to 2028, Semesa will continue to have the right to the same percentage of the plant's Secured Power but will be free to dispose of it as it wishes, under whatever the regulatory framework is valid at that time. The installed capacity and Secured Power of the Serra da Mesa plant to which Semesa has a right are 657.1 MW and average 345.8 MW, respectively.

Simulations of Brazil's hydro/thermal generation systems were carried out in conjunction with Furnas during 2004 in order to discover alternatives for the use of the Serra da Mesa reservoir, which is of strategic importance for the Brazilian electricity system due to its localization, its capacity for storing energy and its role in the interconnection between the sub-markets of the Southeast/Midwest and the North/Northeast.

### **CARIOBA THERMOELECTRIC POWER PLANT**

CPFL Centrais Elétricas also operates the Carioba thermoelectric generator, built in 1954, with installed capacity of 36 MW and average Secured Power of 25.0 MW. Prior to 2002, Carioba was fired with 100% subsidized fuel oil. Since 2003 this subsidy has been gradually reduced at the rate of 25% per year, and will cease to exist in 2006.

Concomitantly the volume of power under existing contracts will also decrease by 25% and from 2006 onwards 100% of Carioba's energy will be available for sale under new power purchase and sale contracts.

### **PRODUCTIVITY**

CPFL Geração has invested heavily in training and qualification of its professionals through technical courses, seminars, workshops and specialization, totaling, on average, 98 man/hours of training over the year.

Productivity at CPFL Geração, measured by installed capacity divided by number of (own) employees, was 7.5 MW per employee.





Monte Claro hydroelectric power plant  
| Rio Grande do Sul



## PROJECT PROFILE

### HYDROELECTRIC POWER PLANTS AT THE CERAN COMPLEX

CPFL Geração owns 65% of Ceran-Companhia Energética Rio das Antas, a joint venture set up to undertake the construction, financing and operations of the Monte Claro, 14 de Julho and Castro Alves hydroelectric power plants, under concessions granted in March 2001, valid for 35 years. The Ceran complex is situated on the river das Antas, in the state of Rio Grande do Sul.

The other shareholders in the joint venture are CEEE (30.0%) and Engevix (5.0%). On completion, the plants will be operated by Ceran, under the supervision of CPFL Geração.

The total estimated construction cost of the Ceran complex is R\$ 823.3 million (base date: December 2004), of which CPFL Geração's share is R\$ 535.3 million. The investments have already started to pay off. The first generator at the Monte Claro hydro project, initiated in 2002, went online in the fourth quarter of 2004. Full capacity should be reached during 2005, with the completion of the second generator. It should be emphasized, however, that the first generator already generates 99% of the plant's Secured Power: 58.2 MW average out of a total of 59.0 MW average.

Work on the Castro Alves plant started in April 2004 and the 14 de Julho plant in October 2004. Both should be operating at full capacity by 2007.





The capital structure forecast for the project is 34% equity and 66% debt. Ceran was granted a R\$ 436 million loan by BNDES in February 2004, with the guarantee of CPFL Energia and with collateral in the form of a lien on the Ceran shares owned by the shareholders and another lien on Ceran's rights under the concession contract. Several partial disbursements under this loan agreement were made during 2004 totaling R\$ 203.2 million. An additional two disbursements were made on February 28<sup>th</sup> and March 1<sup>st</sup> 2005, in the amounts of R\$ 10.1 million and R\$ 8.2 million, respectively.

The EPC – Engineering Procurement and Construction contract was signed in May 2002 with Construções e Comércio Camargo Corrêa S.A., Alstom Brasil Ltda. and Engevix Engenharia Ltda., on a turnkey basis.

The total invested in the Ceran Complex by December 2004 (base date: December 2004) was R\$ 366.7 million, of which CPFL Geração's share was R\$ 238.4 million.

CPFL Geração's share of the energy to be produced is already committed under power purchase and sales contracts with distribution companies CPFL Paulista and CPFL Piratininga, as well as with CPFL Brasil, all duly approved by Aneel.

Panoramic view of work in progress at the dam site | Castro Alves hydroelectric power plant  
| Rio Grande do Sul



#### PROGRESS AS OF DECEMBER 31<sup>ST</sup> 2004

**Usina Monte Claro:** The first generating unit is already in commercial operation and the second is scheduled for 2005.

**Usina Castro Alves:** Construction was initiated on April 1<sup>st</sup> 2004. Work is currently at the stage of rock excavation and blasting for the river diversion, the dam and the power house structures.

**Usina 14 de Julho:** Construction started on October 1<sup>st</sup> 2004 and is currently at the stage of mobilization and site preparation.



1 – Mock-up of Castro Alves

2 – Mock-up of 14 de Julho



View of generator #01| Monte Claro hydroelectric power plant | Rio Grande do Sul

### Social and environmental initiatives

59.3% already undertaken

These initiatives are undertaken for the purpose of forestalling, mitigating, monitoring and compensating for the impact the project will have on the human, biotic and physical environment. To this end, 27 separate programs were developed. Initiatives taken through December 2004 include:

- indemnification of 754 properties, of which 262 were acquired and 56 leased, whereas 436 are still being negotiated, primarily in the region surrounding the 14 de julho hydroelectric project
- steps to relocate approximately 60 families, at the 14 de julho project only
- preservation of the region's historical, cultural and archeological heritage
- preserving, rescuing and monitoring the wildlife in the vicinity of the construction sites for the Monte Claro and Castro Alves projects and prior to the filling of the Monte Claro reservoir
- preservation of endemic forms of plant life, creation of a nursery of seedlings and saplings and monitoring of the epiphyte population covered by the Flora Preservation, Rescue and Monitoring Program
- research into the distribution patterns of the fish population
- installation of two automated meteorological stations to continually monitor climate conditions
- monitoring the quality of the surface water in areas under the influence of the river das Antas.

*(Read more about this in the chapter 6 section on Environmental Impacts)*



#### PROJECT PROFILE

##### BARRA GRANDE HYDROELECTRIC POWER PLANT

CPFL Geração owns 25.01% of Baesa-Energética Barra Grande S.A., a joint venture for the construction, financing and operation of the Barra Grande hydroelectric power plant, the concession for which was granted in May 2001 for a period of 35 years. The plant is being constructed on the river Pelotas, on the Stateline between the states of Rio Grande do Sul and Santa Catarina.

Other shareholders in the joint venture are Alcoa (42.18%), CBA – Companhia Brasileira de Alumínio S.A.(15%), DME – Poços de Caldas Municipal Electricity Department (8.82%) and Camargo Corrêa Cimentos S.A. (9.0%). When completed, the plant will be operated by a consortium composed of CPFL Geração and Alstom Brasil Ltda.



1 – General downstream view | Barra Grande hydroelectric power plant | Santa Catarina and Rio Grande do Sul

2 – View of slab construction from upstream | Barra Grande hydroelectric power plant | Santa Catarina and Rio Grande do Sul

Total estimated construction cost is R\$ 1,608.7 million (base date: December 2004), of which CPFL Geração's share comes to R\$ 402.3 million. Work started in July 2001 and the first generating unit should go online in October 2005. Barra Grande will add another 172.6 MW to CPFL Geração's generation capacity.

The projected capital structure is 36% equity and 64% debt. In June 2003 the joint venture was granted a R\$ 460.6 million loan by BNDES, with corporate guarantees from Hejoassu Administração Ltda. (holding company for the Votorantim group), Camargo Corrêa S.A. and Alcoa Alumínio S.A.

The loan is also collateralized by a lien on the joint venture company's shares and another lien on Baesa's rights under the concession contract. Several partial disbursements were made during 2003 and 2004, totaling R\$ 330.96 million and R\$ 138.40 million, respectively, monetarily restated at the time of disbursement. The joint venture made a R\$ 185.45 million debenture issue on September 30<sup>th</sup> 2004, guaranteed by the venture participants, pro rata to their share in the equity.

A supplementary loan in the amount of R\$ 300 million was granted by BNDES in February 2005, the first disbursement of which occurred on February 25<sup>th</sup> 2004, in the amount of R\$ 117.5 million.

This supplementary finance is collateralized by a bank guarantee.

A turnkey EPC contract was signed in August 2001 with Construções e Comércio Camargo Corrêa S.A., Alstom Brasil Ltda. and Engevix Engenharia Ltda.

The total already invested in the project at December 31<sup>st</sup> 2004 stood at R\$ 1,258.9 million (base date: December 2004), with CPFL Geração's share of totaling R\$ 314.8 million.

CPFL Geração's allocation of the energy to be produced is already committed under power purchase and sale contracts with distribution companies CPFL Paulista e CPFL Piratininga, duly approved by Aneel.



Installing the generator turbine | Barra Grande hydroelectric power plant | Santa Catarina and Rio Grande do Sul



Panoramic view of the area to be occupied by the reservoir | Barra Grande hydroelectric power plant | Santa Catarina and Rio Grande do Sul

Work on the project which started in 2001 is on schedule and remains within budget.

#### PROGRESS AS OF DECEMBER 31<sup>ST</sup> 2004

89.3% of the project completed, of which:

<b>Civil construction</b>	<b>96.7%</b>
Dam foundations	99.8%
Concrete structure of the power house	96.0%
Concrete structure of dam	99.0%
Concrete structure of the spillway	99.0%
Concrete structure of the intake	100%
<b>Delivery of equipment</b>	<b>90.6%</b>
Turbine rotor, shaft and blades	95.2%
Generators	82.2%
Digital Supervision and Control System	88.5%
<b>Electrical and mechanical installation</b>	<b>60.7%</b>

**Social and environmental work****69.2%**

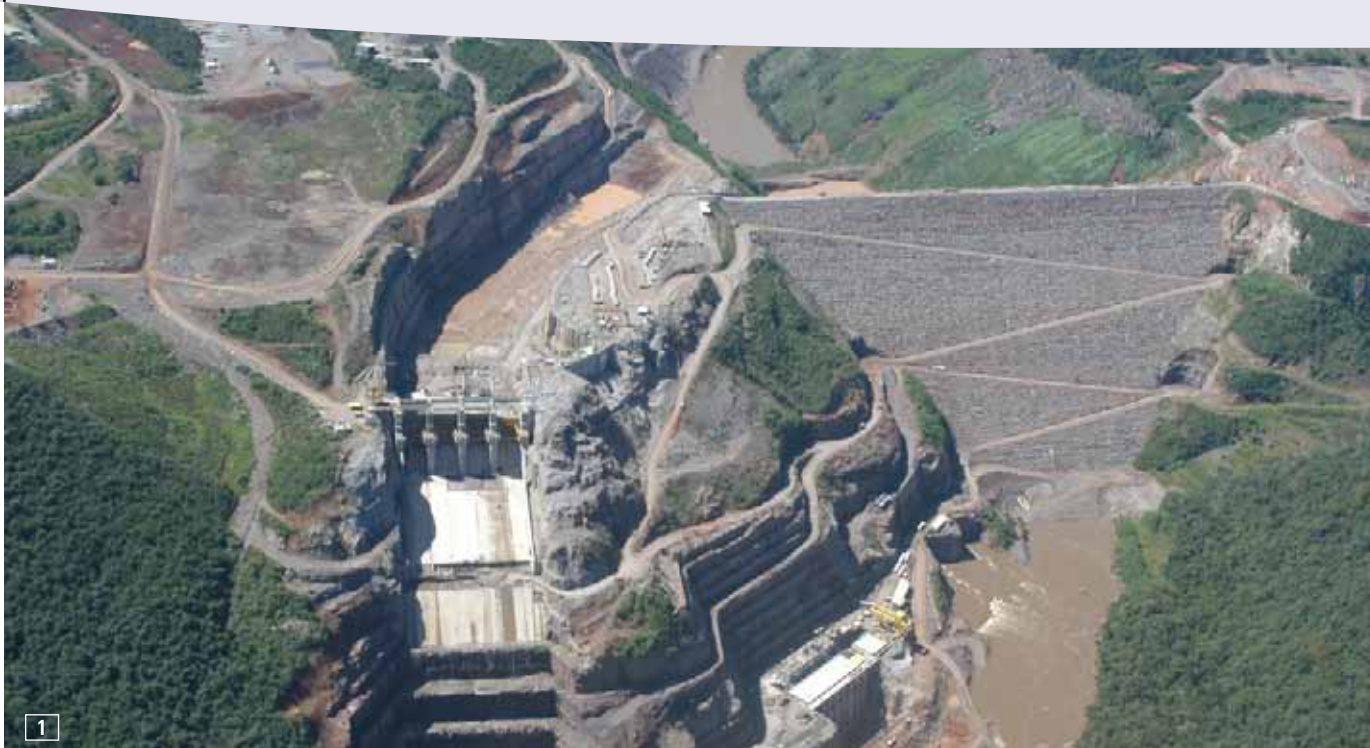
The social and environmental initiatives are undertaken for the purpose of forestalling, mitigating, monitoring and compensating for the impact the project will have on the human, biotic and physical environment. To this end, 26 separate programs were developed. Initiatives taken through December 2004 include:

- indemnification of 968 properties, of which four take the form of land permutations
- relocation of 367 families, 150 of which opted for collective relocation, 191 for the letter of credit system and 9 for resettlement to still available adjacent areas. Only 17 families have not yet decided on the mode of relocation
- preservation and rescue of the region's historical, cultural and archeological heritage
- preservation, rescue and monitoring of local wildlife
- creation of a germ plasma bank to preserve native species
- creation of a nursery of seedlings and saplings and monitoring of epiphyte life
- monitoring of wildlife
- installation of automated meteorological stations to monitor climate conditions
- monitoring the quality of the surface water in areas under the influence of the river Pelotas.

*(Read more about this in the chapter 6 section on Environmental Impacts)*



Panoramic view of the area to be occupied by the reservoir | Barra Grande hydroelectric power plant | Santa Catarina and Rio Grande do Sul



**Enercan**   
Campos Novos Energia S.A.

## PROJECT PROFILE

### CAMPOS NOVOS HYDROELECTRIC POWER PLANT

CPFL Geração owns a 48.72% stake in Enercan-Campos Novos Energia S.A., a special purpose joint venture company created to carry out the construction, arrange the financing and assume the operations of the Campos Novos hydroelectric power plant, for which a 35 year concession was granted in May 2000. The plant, currently under construction, is located on the river Canoas, in the state of Santa Catarina.

The other joint venture partners are CBA – Companhia Brasileira de Alumínio S.A. (22.69%), CNT – Companhia Níquel Tocantins (20.04%), CEEE - Companhia Estadual de Energia Elétrica (6.51%); and



1 – General downstream view | Campos Novos  
|hydroelectric power plant| Santa Catarina

2 – View of slab construction from upstream  
| Campos Novos hydroelectric power plant |  
Santa Catarina



Celesc – Centrais Elétricas de Santa Catarina (2.03%). On completion, the plant will be operated by Enercan, under the technical supervision of CPFL Geração.

Total construction cost is estimated at R\$ 1,523.3 million (base date: December 2004), of which CPFL Geração's share comes to R\$ 746.6 million. Work started in August 2001 and the first generating unit is scheduled to go online in January 2006. Campos Novos will add a further 428.8 MW to CPFL Geração's generation capacity.

The projected capital structure is 37% equity and 63% debt. In September 2003 the joint venture was granted a R\$ 619.87 million loan by BNDES, with a corporate guarantee from Hejoassu Administração Ltda. Several partial disbursements were made during 2003 and 2004, totaling R\$ 297.98 million and R\$ 245.62 million, respectively. An additional disbursement of R\$ 86.43 million was made on January 12th 2005. Enercan also obtained a US\$75 million loan from the Inter-American Development Bank, with corporate guarantees from Hejoassu and CPFL Energia. The first tranche, totaling US\$50 million, was disbursed on April 7<sup>th</sup> 2005.

A turnkey EPC contract was signed in October 2001 with Construções e Comércio Camargo Corrêa S.A., GE Hydro Inepar do Brasil S.A., CNEC Engenharia S.A. and Engevix.

The total already invested in the project at December 31<sup>st</sup> 2004 stood at R\$ 1,161.5 million (base date: December 2004), of which GPFL Geração's share amounted to R\$ 565.9 million.

CPFL Geração's allocation of the energy to be produced is already committed under power purchase and sale contracts with distribution companies CPFL Paulista e CPFL Piratininga and with CPFL Brasil, duly approved by Aneel.

Work on the Campos Novos project started in August 2001, has remained within budget and has kept to the original timetable.

1 – Erection of the spillway gates | Campos Novos hydroelectric power plant | Santa Catarina

2 – View of the inside of the power house | Campos Novos hydroelectric power plant | Santa Catarina



**PROGRESS AS OF DECEMBER 31<sup>ST</sup> 2004**

83.1% of the project completed, of which:

<b>Civil construction</b>	<b>88.5%</b>
Dam foundations	98.7%
Concrete structure of the power house	70.6%
Concrete structure of the dam	73.3%
Concrete structure of the spillway	82.6%
Concrete structure of the intake	77.6%

<b>Delivery of equipment</b>	<b>71.8%</b>
Turbine rotor, shaft and blades	81.0%
Generators	72.1%
Digital supervision and control system	47.1%

<b>Electrical and mechanical installation</b>	<b>54.7%</b>
---	--------------

**Social and environmental work** **87.0%**

The social and environmental initiatives are undertaken for the purpose of forestalling, mitigating, monitoring and compensating for the impact the project will have on the human, biotic and physical environment. To this end, 16 separate programs were developed. Initiatives taken through December 2004 include:

- indemnification of 362 properties
- relocation of 301 families, of which 80 opted for collective rural resettlement, 168 for the letter of credit system and 53 for resettlement in still available adjacent areas
- acquisition of 1,150 hectares for the River Canoas State Park
- monitoring of wildlife, the fish population and plant life
- monitoring the quality of the surface water in areas under the influence of the river Canoas
- preservation of the region's historical, cultural and archeological heritage together with the surrounding countryside
- conclusion of the plan for the conservation and rational use of the areas surrounding the reservoir
- raising the height of the bridge over the SC 456 state highway
- construction of 40 km of municipal roads and secondary accesses
- construction of 150 meters of bridges
- installation of two meteorological and three hydrological automated stations.

*(Read more about this in the chapter 6 section on Environmental Impacts)*



## Foz do Chapecó

Foz do Chapecó Energia S.A.

### PROJECT PROFILE

#### FOZ DO CHAPECÓ HYDROELECTRIC POWER PLANT

CPFL Geração owns a 66.6% stake in Foz do Chapecó Energia S.A., which, in turn, has a 60% share in the Consórcio Energético Foz do Chapecó, a joint venture created for the purpose of executing the construction, arranging the financing and assuming the operations of the Foz do Chapecó hydroelectric power plant, for which a 35-year concession was granted in November 2001. Companhia Vale do Rio Doce and CEEE also own a stake in the Foz do Chapecó joint venture. The plant is located on the river Uruguai, on the Stateline between the states of Santa Catarina and Rio Grande do Sul.

Total construction cost is estimated at R\$ 1,913.4 million (base date: December 2004), of which CPFL Geração's share is R\$ 765.4 million (40%). The plant is scheduled to go online in 2008 and will add another 342 MW to CPFL Geração's generation capacity.

The construction license was granted on September 21<sup>st</sup> 2004 and work is scheduled to start during 2005. At the time of publication the financial structure for the project was being put together.

CPFL Geração's allocation of the energy to be produced is already committed under power purchase and sale contracts with distribution companies CPFL Paulista e CPFL Piratininga, duly approved by Aneel.



- 1 – Artist's impression of the project | Foz do Chapecó hydroelectric power plant | Santa Catarina and Rio Grande do Sul
- 2 – Panoramic view of the area where the project is to be built | Foz do Chapecó hydroelectric power plant | Santa Catarina and Rio Grande do Sul

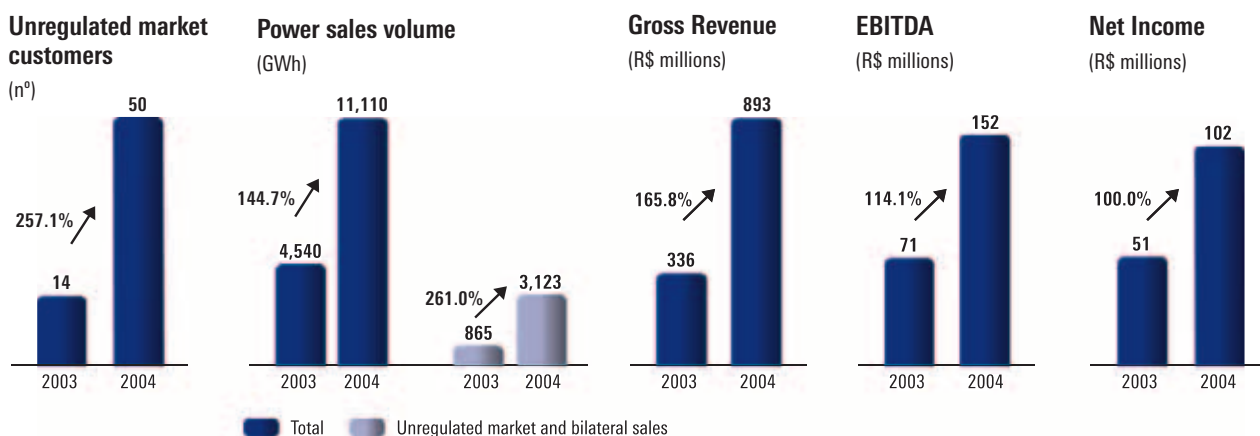
## Profile of the Electric Power Commercialization Business

CPFL Brasil started operations in January 2003, with the mission of adding value to the CPFL group by trading in electricity and providing energy-related services. In order to comply with this; the company is continually seeking the most attractive short, medium and long-term opportunities.

CPFL Brasil supplies power to the CPFL group's distribution companies to other electricity market agents and to consumers in the unregulated market, and has now become leader in the Brazilian power commercialization business.

CPFL Brasil also acts as a broker for the power generated by the group's own generation companies, adding value to the generation business and actively contributing towards the feasibility of investments in power generation.

The company provides power-related services to clients in all segments of the energy sector, among which figure some of Brazil's foremost corporations.





Operations Center | Head Office | Campinas | São Paulo



Performance  
throughout Brazil



Gross Revenue (000)

R\$ 892,569



Net income (000)

R\$ 101,716



Unregulated market customers

50



Electricity sold (GWh)

11,110



Substations built in 2004

9



Installed capacity (MVA)

178



Institutional Concourse | Head Office  
| Campinas | São Paulo

**In 2004, CPFL Brasil became Brazil's largest purchaser of power in the electricity trading sector.**

## Electric Power Commercialization Performance

CPFL Brasil's commercialization operations reached the sales level of 11,110 GWh of power during 2004, 145% more than the total sold in 2003, turning it into the largest purchaser of hydro, thermal and biomass energy in the country. Bulk purchases enabled the company to negotiate better terms and, consequently, offer competitive prices in Brazil's crowded unregulated electricity market.

The company's competitiveness was evidenced by the increase in sales to unregulated market customers and to other market players under bilateral contracts to 3,123 GWh/year during 2004, practically three times (261% increase) the volume of energy sold in this highly competitive market in 2003 (865 GWh). The number of unregulated market customers increased 257% from 14 in 2003 to 50 in 2004.

CPFL Energia reported gross revenue of R\$ 893 million for 2004, practically three times the figure for 2003. Net revenue for the period increased from R\$ 313 million in 2003 to R\$ 789 million, or 150%. EBITDA rose 114% from R\$ 71 million to R\$ 152 million and net income doubled to R\$ 102 million.

### ENERGY COMMERCIALIZATION IN THE UNREGULATED MARKET

The growth in the number of unregulated market customers enabled CPFL Brasil to expand and diversify the portfolio of trading contracts to include a wide range of power sector players, which, in turn, allowed it to optimize its energy purchases and sales while simultaneously mitigating the business risks. An important aspect of this growth is that it was achieved by attracting customers from a wide range of consumer segments, particularly industry, which covers a broad range of economic activity.

In 2003, for example, customers from just 3 sectors of the economy accounted for over 75% of the company's energy sales to the unregulated market. In 2004 the same three sectors accounted for only 45% of sales.

During 2004, CPFL Brasil also reinforced sales of value-added energy-related services, such as the construction of substations and transmission lines; preventive and corrective maintenance of substations and industrial electrical installations; energy-efficiency and public lighting projects; distribution systems in horizontal condominiums and water treatment systems. The list of contracts in December 2004 included nine 138 kV substations totaling 178 MVA of transformer capacity.

**CPFL Brasil was successful in expanding and diversifying its portfolio of customers.**

### BREAKDOWN OF CPFL BRASIL'S SALES BY SECTOR

Sector of the economy	2004	2003
Chemicals	19.2%	29.8%
Non-metallic minerals	12.8%	13.0%
Textiles	11.1%	0.0%
Wood	11.0%	3.9%
Pulp and paper	10.5%	5.2%
Autos	7.4%	33.0%
Beverages	4.6%	3.1%
Metallurgical industry	7.1%	0.0%
Food	3.6%	0.0%
Rubber	2.8%	3.1%
Electric materials	2.6%	0.0%
Education	1.9%	6.4%
Cosmetics	1.8%	0.0%
Cleaning products	1.7%	0.0%
Engineering	1.2%	0.0%
Commerce	0.7%	2.5%
Total	100.0%	100.0%

# 5. Economic and Financial Performance

Gross Revenue

Net Revenue

Cost of Power

Operating Expenses

EBTIDA

Operating Income – EBIT

Financial Income (Expenses)

Net Income

Consolidated Cash Flow Analysis

Debt





## Economic and Financial Performance



CPFL Energia Head Office  
| Campinas | São Paulo

CPFL Energia's 2004 performance was the result of a series of corporate decisions that culminated in a net income of R\$ 279 million, compared with a R\$ 297 million loss in the previous year.

One of the key contributing factors for this performance was the 4.9% increase in consolidated electricity sales, to which the commercialization company CPFL Brasil made an important contribution, specifically with regard to the retention of existing customers and the attraction of new unregulated market customers. Other important factors include the distribution company tariff increases and the substantial increase in revenue from the Distribution Network Usage Charge (Tusd) by unregulated market customers, and last but not least, the commissioning of the Monte Claro hydroelectric power plant in the fourth quarter of 2004.

Total Operating Expenses, without taking into account the cost of energy purchased for resale, but considering the effects of the goodwill amortization extension, rose less than inflation for the period, leaving a positive effect on operating income. In addition, the CPFL group continued overhauling its capital structure during 2004 and succeeded in reducing and rationalizing indebtedness, together with the extension of the amortization schedule.

The sum of these factors resulted in a positive R\$ 576.3 million swing in results between 2003 and 2004.

**CPFL Energia – Net Income** (R\$ millions)

Company	2004	2003	% change (R\$ millions)
CPFL Paulista Consolidated	323.1	(40.8)	363.8
CPFL Piratininga*	93.2	108.8	(15.5)
Rio Grande Energia	13.5	(14.7)	28.2
CPFL Geração	71.1	2.8	68.3
CPFL Brasil	101.7	50.7	51.0
CPFL Energia Consolidated**	278.9	(297.4)	576.3

\* The reduction in net income is due to the effect of the 2003 tariff adjustment, accounted for in 2004.

\*\* Consolidated 2004 net income and the R\$ 576.3 million reverse from 2003 to 2004 do not match the sum of the changes in the subsidiary results, due to the differing percentage ownerships in each, as well as, the results of the holding company CPFL Energia itself, before equity equivalence.

## Gross Revenue

Consolidated 2004 gross revenue for the group totaled R\$ 9.5 billion, an 18.2% increase over the previous year.

The 2004 revenue increase was primarily due to:

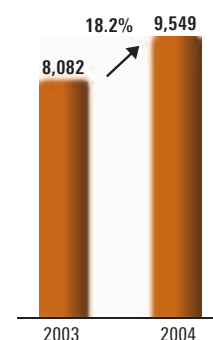
- a 4.9% increase in total energy sales to end consumers and from bilateral contracts of the distribution companies and CPFL Brasil
- the 13.65%, 14.00% and 14.37% tariff increases awarded to CPFL Paulista, CPFL Piratininga and RGE, respectively
- the tariff increases applied to the generating contracts; 10.9% on the initial contracts of the PCHs, 8.71% for the Semesa contract and 5.08% for all other contracts
- the 503% increase in revenues from the use of the electricity distribution system by unregulated market customers.

## Net Revenue

Net revenue for 2004 increased 11.2% over 2003 to R\$ 6.7 billion. The increase would have been greater were it not for the effect of higher PIS and Cofins tax rates and the change in accounting methods for tax credits determined by the technical ruling 01/2003 of the Brazilian Institute of Accountants- Ibracon, recommended by Aneel (National Electric Power Agency) and adopted by CPFL Energia in 2004. This new procedure changes the practice of accounting the tax credits in the revenue account and applies them against the accounts of origin, such as purchase of materials, services or financial expenses. The effect on net income is zero, but the alteration makes it impossible to compare certain accounts, such as net revenue, with 2003.

### Gross Revenue

(R\$ millions)

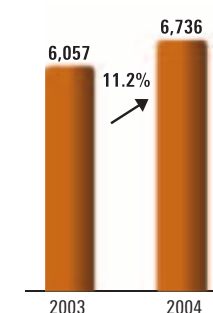


### GRI

The information on Net Sales Revenues is for GRI Economic Performance Indicator EC1.

### Net Revenue

(R\$ millions)





## Cost of Power

### POWER PURCHASED FOR RESALE

The cost of power purchased for resale throughout the CPFL group in 2004 totaled R\$ 3.3 billion, or R\$ 3.1 billion, after adjusting for the effects of the CVA - Part A cost tracking account mechanism, PIS and Cofins tax credits and other accounting adjustments, represented a 3.5% increase over 2003.

The variation in expenditure of purchased energy is mainly the result of the increase in contracted prices and the higher volumes purchased in order to cater to stronger market demand; and also because of the aforementioned PIS and Cofins tax effect.

### CHARGES FOR USE OF THE TRANSMISSION NETWORK

These charges include the cost of using the transmission network, the cost of using certain transmission connections, whether exclusive or shared with other companies, and pro rata sharing of other system use charges.

The charges paid in 2004 for the use of the electric system totaled R\$ 641.7 million, 16.6% more than the R\$ 550.5 million paid in 2003. This increase reflects the higher volumes of electricity contracted, the increase in the rates at which the charges are levied and the variation of the IGP-M inflation index during the period.

The balance of these charges at the end of 2004, after adjustment for CVA for the period and the PIS and Cofins tax credits, was R\$ 678.6 million, which will be passed on to electricity tariffs in its entirety.

## Operating expenses

### PERSONNEL, MATERIALS, SERVICES AND OTHERS

Operating expenses, such as payroll, materials, services and others totaled R\$ 789 million compared with R\$ 715 million in 2003. The 10.4% increase was less than IGP-M inflation for the period. The gains in operating efficiency achieved by CPFL Energia over the past five years can be directly attributed to the integration, centralization, standardization and optimization of its operating procedures, coupled with increasing economies of scale in the acquisition of goods and services.

### PENSION FUND

Provisions for the CPFL Energia group companies' pension funds, in accordance with CVM ruling 371, totaled R\$ 150.6 million, a 78.9% increase over the R\$ 84.2 million provided in 2003.

The primary reason for the R\$ 64.4 million increase is due to a 2003 change in the accounting methods for such expenses. The new CVM (ruling on pension funds obliged companies to execute a reversal on provisions taken in 2002, thus reducing the net amount accounted for in 2003 and inflating the difference between that year and 2004.

### Cost of all goods, materials and services purchased (This information is for GRI Economic Performance Indicator EC3)

R\$ 000	2004	2003
CPFL Energia*	4,496,735	4,121,775
Energy Purchased for Resale**	3,125,752	3,022,575
Charges for Use of the Transmission and Distribution System	678,558	443,139
Materials	132,659	154,595
Outsourced Services	349,304	289,919
Others	210,462	211,548

#### Notes:

\* Consolidated – includes pro rata RGE and CERAN.

\*\* Equivalent to the net cost of deferral of tariff costs (CVA), PIS and Cofins tax credits plus the effect of the increase in unregulated electricity prices.

### GRI

100% of all contracts were paid in accordance with their original terms, including provisions for fines

(This information is for GRI Economic Performance Indicator EC4)]

### AMORTIZATION OF GOODWILL RESULTING FROM INCORPORATION

Conforming to the requirements of CVM (Fixed Asset Value Commission) and Aneel, CPFL Energia altered the schedule for goodwill amortization resulting from the incorporation of CPFL Paulista, CPFL Piratininga, CPFL Geração and Rio Grande Energia, to match the remainder of their respective concession contracts.

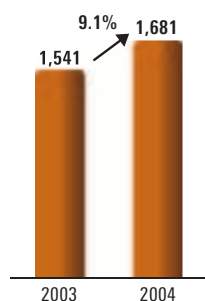
In addition, the CPFL group requested and obtained authorization from the same entities to apply the same concept as provided for under CVM Instructions 319 and 349 to the accounting methodology of goodwill originally incorporated in CPFL Paulista and CPFL Piratininga. This does not affect the consolidated group earnings and preserves the tax benefit of the goodwill at the original subsidiary level. It has the positive effect, however, of removing the goodwill amortization expense (now at the controlling company level) from the earnings of the subsidiaries, leaving them available for dividend distribution, if that be the decision made by the General Shareholders Meeting.

These measures result in different, but positive effects on all the subsidiaries involved. At the CPFL Energia level, for example, the variation in the amortization expense in the consolidated income statement was R\$ 354.3 million, compared with 2003.

### ENERGY DEVELOPMENT ACCOUNT - CDE

This Account refers to contributions that electricity distribution companies are obliged to make towards projects for promoting and developing alternative sources of energy. The contributions in 2004 totaled R\$ 184.6 million, a 136.8% increase over the figure for 2003. This expense is covered in its entirety by electricity tariffs.

**EBITDA**  
(R\$ millions)



## EBITDA

Consolidated EBITDA amounted to R\$ 1.681 billion, 9.1% higher than the R\$ 1.541 billion EBITDA posted in 2003.

EBITDA is calculated as net income before income and social contribution taxes, financial expenses/income, depreciation, amortization, pension fund contributions (including extraordinary items) and non-recurring events related to the gains/losses from the sale of equity participations in 2003.

## Operating Income – EBIT

Operating income grew 56.8% from R\$ 809 million in 2003 to R\$ 1.3 billion in 2004, buoyed by the increase in gross revenue, the alteration in the amortization schedule of goodwill at the subsidiary company level to match the remainder of the concession contracts and the below inflation increase in operating expenses.

## Financial Result

Financial expenses for 2004, (discounting the effect of interest on shareholders' equity), dropped 32.8% from R\$ 1,007 million in 2003 to R\$ 677.2 million in 2004, mainly as a result of a decline in total debt, longer median repayment schedules and higher financial returns from the cash generated by the subsidiaries and from the proceeds of the holding company IPO.

## Net Income

In 2004 CPFL Energia reported net income of R\$ 278.9 million, reversing the R\$ 297.4 million loss suffered in 2003. This was primarily the result of the increase in operating income and the improvement in the financial result.

## Consolidated Cash Flow Analysis

Operating cash flow totaled R\$ 1,084 million in 2004, a R\$ 137 million increase over the R\$ 947 million reported in 2003, mainly a reflection of the improvement in operating performance.

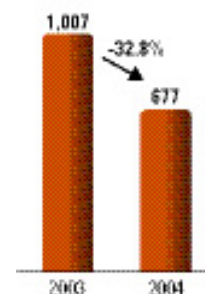
Gross capital expenditures in the distribution and generation segments totaled R\$ 606 million (R\$ 564 million invested in 2003), or R\$ 555 million (R\$ 223 million in 2003) net, discounting proceeds from sales of assets and participations etc. The R\$ 332 million difference in net capital expenditures between the two years can be explained by the sale of part of the equity participations in Baesa and Enercan in 2003.

Net financial flows show an R\$ 86 million use of cash in 2004, compared with a R\$ 526 million use of cash in 2003. The reduction reflects the debt amortizations made in 2003.

The final result was net cash generation of R\$ 443 million in 2004, compared with R\$ 198 million in 2003. CPFL Energia started 2004 with cash holdings of R\$ 375 million (R\$ 177 million in 2003) and ended the year with cash holdings of R\$ 818 million (R\$ 375 million in 2003), leaving the company in a favorable situation to handle whatever new investments corporate strategy decides upon.

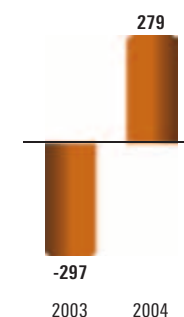
### Financial Result

(R\$ millions)



### Net Income

(R\$ millions)



## GRI

This information is for GRI Economic Performance Indicator EC7.



CPFL Energia at the opening of Trading |  
September 29<sup>th</sup> 2004 | Bovespa | São Paulo

#### Consolidated Cash Flow Analysis – 2004/2003 (R\$ millions)

	2004	2003	Change (R\$ millions)
Opening Balance	375	177	198
Operating Cash Flow	1,084	947	137
■ Total Net Capital Expenditure*	(555)	(223)	(332)
Net Financial Flows**	(86)	(526)	440
Increase in Cash for the Period	443	198	245
Final Balance	818	375	443

\* Capital expenditure on expansion of distribution and generation projects under construction, less sales of assets and equity participations.

\*\* Equivalent to new loans plus fresh capital received during the period, less debt amortizations and dividend payments.

## Debt

CPFL Energia is constantly working to adjust its capital structure in such a way as to minimize the cost of debt and maximize shareholder value, thus improving the group's debt profile with regard to cost, tenor and interest rates.

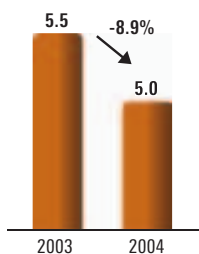
As the result of the group's efforts to achieve these ends, total financial debt of CPFL Energia in December 2004 stood at R\$ 5.0 billion, a 8.9% reduction from the R\$ 5.5 billion total in December 2003.

Moreover, net adjusted debt – financial debt plus pension liabilities less regulatory assets and cash flow – decreased 13.9% from R\$ 4.4 billion in December 2003 to R\$ 3.8 billion in December 2004.

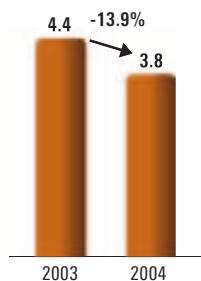




**Total Financial Debt**  
(R\$ billions)



**Net Adjusted Debt**  
(R\$ billions)



**Debt service broken down by interest on loans and financial debt and dividends on all classes of shares – R\$ 000 (This information is for GRI Economic Performance Indicator EC6)**

	Interest on Debt Domestic Currency		Interest on Debt Foreign Currency		Derivatives*		Proposed Dividends	
	2004	2003	2004	2003	2004	2003	2004	2003
<b>CPFL Energia**</b>	33,205	28,368	6,543	37,482	87,752	31,046	264,973	-

\* Note: For 2004 and 2003, Swap transactions have been reclassified for balance sheet purposes as derivatives

\*\* Consolidated: Includes pro rata RGE and CERAN



CPFL Energia Head Office | Campinas

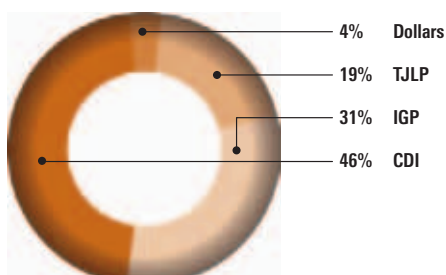
| São Paulo

### CHANGES IN DEBT PROFILE

The nominal cost of debt was substantially reduced during 2004, from 19.63% in 2003 to 17.75%. The volume of debt pegged to Brazil's interbank deposit (CDI) rate was reduced from 46% in December 2003 to 31% in December 2004, making room to peg more debt to other reference rates, such as the IGP-M inflation index or BNDES' TJLP long-term rate. Finally, the average tenor of the debt was extended from 5.5 years in 2003 to 6 years in December 2004.

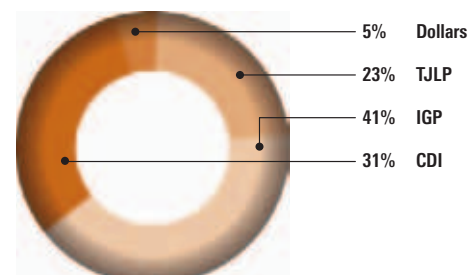
#### Breakdown of Debt by Indexation Rate Type – 2003

(%)



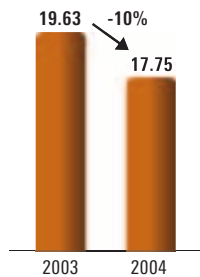
#### Breakdown of Debt by Indexation Rate Type – 2004

(%)

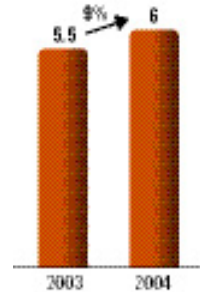


**Nominal Cost of Debt**

(per year)

**Average tenor**

(years)

**MAIN TRANSACTIONS**

The IFC – International Finance Corporation, financial arm of the World Bank, granted CPFL Energia a six-year US\$40 million loan in 2004. The company was able to swap the underlying currency risk element of the cost of this loan into the domestic currency CDI interbank rate.

CPFL Piratininga succeeded in raising R\$ 200 million for a three-year term, pegged to the CDI rate, using a FIDC – Collateralized Debt Obligation structure based on receivables. The transaction was notable for being the first of its kind for an electric sector company and the first to use receivables as collateral in a structure that successfully mitigates risks and reduces costs.

CPFL Paulista raised R\$ 250 million through the issue of two series of debentures on the domestic capital market, both for five-year tenors. The yield on the first series, for R\$ 120 million, is priced off the CDI interbank rate, whereas the second series, for R\$ 130 million, is pegged to the IGP-M inflation index. Not only are both these costs very competitive, but also, with this issue, CPFL re-opened the debenture market to electric sector companies in 2004.

In the case of generation projects, the group was successful during 2004 in finalizing the financing structures for Baesa, Enercan and the Ceran Complex projects, signing up a total of R\$ 1.8 billion in loans from BNDES and another US\$75 million from BID – The Inter-American Development Bank. In addition, Baesa complemented its financing program with a R\$ 185.5 million debenture issue. The new debt is reflected in CPFL Energia's financial statements, through CPFL Geração, in direct proportion to its equity participation in each of the companies.

The other high point of the year was the early redemption by CPFL Energia in October 2004 of R\$ 787 million in debentures, originally issued in April 2003 and priced off Brazil's CDI interbank rate.

In December 2004, BNDES pre-qualified CPFL Paulista and CPFL Piratininga for its Program for the Expansion and Modernization of the Brazilian Electric System. The two companies will be eligible for Finem (Project Financing) loans totaling R\$ 241 million and R\$ 89 million, respectively, both pegged to BNDES' TJLP long-term interest rate and with six-year tenors. The loans are due to be disbursed during the first half of 2005.

# 6. Corporate Sustainability and Responsibility

Corporate Guiding Principles

Risk Prevention Systems

Operational Excellence

Intellectual Property Bank

Benchmark of Corporate Responsibility

Assessment of Economic Impacts

Assessment of Environmental Impacts

Assessment of Social Impacts

Principal Awards Received

Annual Social Report – Ibase Model

The 10 Principles of the Global Compact

GRI Reference Index

Team Responsible for Preparing the GRI Indicators



# Corporate Responsibility and Sustainability

## Corporate Guiding Principles

### Corporate Responsibility and Sustainability Policy

**"To include, on a permanent basis, issues of social responsibility and sustainability in CPFL's activities, by managing the economic, social and environmental consequences of the Company's activities in such a way as to ensure alignment with society's legitimate interests and compliance with the applicable legislation".**

#### GRI

As per the requirements of GRI Social Performance Indicator S01, the company declares that the guidelines, policies and procedures observed by CPFL companies, as well as its Integrated Management System – SGI and its ISO 14001 and SA8000 certifications, should contribute towards ensuring that any internal decision always considers the consequences for the company's stakeholders.

In the early days of its existence, CPFL drew up – and has subsequently refined – a set of Corporate Guiding Principles, which are expressed through its vision, mission, values and its policies regarding quality, the environment, human resources, health, safety and quality of life for employees. Coupled with the Corporate Responsibility and Sustainability Policy, this set of principles permeates the company's whole management process, starting at the earliest stages of Strategic Planning.

These principles are present throughout the Planning process and are reflected in the challenges, goals and strategies established for all aspects of the company's business. The principles are present in the company's day-to-day activities, applied to everything; from risk prevention to the systems for attaining international standards of excellence.

The Guiding Principles also determine the long term administration of the impacts that the company's business activities have on its stakeholders – shareholders, clients, employees, suppliers, authorities, neighboring communities and society at large – and on how its environmental precautions are managed. The principles are also closely linked to the company's efforts to introduce a sense of corporate citizenship into the culture of its companies.

In order to ensure that the activities of management and employees reflect these principles, CPFL Energia has developed and implemented a Code of Ethics. It has also assumed commitments with international organizations regarding best practices on issues such as human rights, social rights and environmental precautions.

The achievements referred to in this chapter demonstrate that business principles and ethics are a permanent element of corporate planning and execution and of the company's constant search for improvements to its daily activities (see section on Strategies and Guidelines at the beginning of this Report).



## Vision CPFL

To be recognized as a corporate benchmark in the energy sector, for the quality of its products and services, the skill of its employees and the values held.

## Mission

To compete effectively in the domestic energy market, providing clients, shareholders, employees and partners with satisfaction and making a decisive contribution to the development and welfare of society.

## Values

- Responsiveness and courtesy towards clients
- Respectful and dignified treatment for all
- Occupational safety and quality of life
- Search for excellence and growth
- Ethical and transparent behavior
- Professional pride
- Social and environmental responsibility

## REVISED CODE OF CONDUCT

Since 2001, the CPFL Code of Ethics has been a guiding handbook for helping management at all levels in their decisions and their attitudes, not only in business issues, but also the wider context of corporate responsibility, which in reality are one and the same.

Work undertaken during 2004 by the Social Responsibility and Corporate Ethics Committee on improving CPFL's code of ethics and professional conduct led to a plan to publish a new version in 2005, entitled Ethical Principles of Corporate and Professional Conduct, which was accompanied by a document of acknowledgment of receipt and commitment to compliance, signed by all employees.

The preparatory work and the resulting revised version, were preceded by seminars on the code of ethics during 2003, attended by 1,224 employees and outsourced workers. The Ethics Committee approved the new text in December 2004 and it is now before the board of directors for approval.

The code applies to all the elements of society with which CPFL interacts and explicitly states the company's position as regards transparency and integrity of information, discriminatory practices and respect for diversity, child labor, harassment of any kind and bribery and corruption.

The code consolidates a set of behavioral rules that already existed implicitly prior to the code and was used systematically in the technical and economic analyses that typically precede decision making. It is of fundamental importance for CPFL Energia that its decisions and those of its employees, in their daily

## GRI

The code of ethics clearly states the company's position against bribery, corruption and political contributions (**GRI Social Performance Indicators S02, S03 and S05 – see the definitions of the performance indicators in the GRI Reference Index at the end of this report**).

The Code of Ethics also takes a position with regard to the prevention of unfair competition. (**GRI Indicator S07**).

**CPFL's distribution companies were awarded consumer satisfaction ratings of over 85% on issues of "honesty, seriousness and transparency", well above the 75.9% average of the companies polled by Abradee in 2004.**

business activities, incorporate ethical considerations that take into account the consequences of such actions on the company's community of stakeholders.

The result of this unceasing concern with ethical issues is reflected in the company's external consumer ratings, as evinced by a 2004 survey, carried out by Abradee, of residential consumers in CPFL Energia's concession regions.

#### **The Committee represents different groups of stakeholders**

In order to better serve to the interests of all the groups of stakeholders with which the company interacts, CPFL Energia's Social Responsibility and Corporate Ethics Committee is composed of representatives from many different areas: Corporate Communications and Institutional Relations, Human Resources and Infrastructure, Operations, Procurement, Project Development, Quality, Internal Audit, the Ombudsman's Office, Customer Service, Legal, as well as the president of the CPFL Paulista Workers' Representative Committee (also representing CPFL Geração workers) and a workers' representative from CPFL Piratininga.

The principal responsibilities of the Social Responsibility and Corporate Ethics Committee are:

- to ensure that the Social Responsibility and Corporate Sustainability policy remains appropriate, applicable and effectual
- to remain well informed and propose whatever measures and actions are needed to keep CPFL permanently aligned with the best practices in corporate social responsibility
- to implement monitoring and audit procedures for ensuring compliance with the principles of the code of ethics
- to examine CPFL's publicity campaigns from the point of view of the social responsibility concepts therein
- to supervise the implementation of the Social Responsibility Management Program;
- to take measures to ensure that the Vision, Mission and Corporate Values and Policies take root in CPFL Energia's corporate culture.

CPFL Cultural Space | Head Office | Campinas  
| São Paulo





## Risk Prevention Systems

CPFL Energia and its subsidiaries and affiliates, in keeping with the principles of corporate responsibility and sustainability, have implemented financial and operating policies and strategies for protecting their assets and their workers and controlling the impact of their business activities on society, the communities and the environment. CPFL has procedures in place for monitoring its operations and transactions in such a way as to forestall, track and mitigate the various types of risk to which it may be exposed.

The principal risks and precautionary measures are as follows.

### PREVENTION OF FINANCIAL RISK

#### Instruments used

Financial risk management is centralized at CPFL Energia and uses the instruments most frequently found in financial markets, one of which is the Risk Maps system, used by some of the largest banks in the Brazilian financial market. This model allows users to manage financial risk using ALM – Asset and Liability Management, VAR – Value at Risk analysis, Stress Test and the Duration analysis of assets and liabilities of the subsidiaries and holding companies of the CPFL group, defining the level of financial risk in each transaction and offering ways of neutralizing or protecting against such risks.

#### Exchange rate risk and Interest Rate Risks on other Liabilities

**Currency Risk in Electric Power Purchases** – In 2004, 25% of the power purchased for resale by the CPFL group was acquired from Itaipu Binacional, whose price is quoted in US dollars. Companies that are obliged by law to acquire energy from Itaipu have the right to seek financial protection from currency losses through the CVA Part A Cost Tracking Account Mechanism (Aneel Resolution 90/2002), which compensates companies for exchange rate losses on purchases of energy by adjusting their electricity tariffs.

**Currency Risk on Financial Liabilities** – The CPFL group protects its earnings and cash against fluctuations in the US dollar through hedge/swap transactions, swapping the reference rate risk on all its financial debt from foreign to domestic parameters.

**Interest Rates** – The CPFL group companies have entered into derivatives contracts to hedge against the risk of fluctuations in reference interest rates such as Libor, the effect of which could be to increase the financial cost of foreign currency debt.

**Financial Covenants** – Loan agreements, financing contracts and debentures into which the CPFL group of companies has participated, include the restrictive covenants usual in this type of transaction, typically relating to certain financial ratios, cash generation etc.. . All such covenants are strictly complied with by the CPFL group and do not represent any kind of limitation on the companies' abilities to conduct their normal business.

**Credit** – The risk of loss through inability to collect from clients is low, given the absence of client concentration and the company policy on collection and disconnection in the event of non-payment. Measures were taken during 2004 to reduce the level of payment delinquency. Lawsuits were filed against public authorities under the Fiscal Accountability Law. Refinancing of unpaid amounts was only conceded to public and private sector clients against the delivery of solid collateral - ICMS tax receipts in the case of public authorities. Extrajudicial proceedings were initiated to collect from delinquent Group B (low voltage) clients and credit analysis of Group A clients (large clients) was reinforced. (read more about payment delinquency in the section on the Operating Performance of the Distribution Companies).

**Planning for Energy Purchases** – CPFL Energia's operating subsidiaries have also implemented extensive planning models and procedures, intended to generate solutions and strategies for reducing their exposure to risks and penalties and to discover new ways to add value to their activities, within the context of Brazil's new electricity sector framework.

Under the new framework, companies are obliged to guarantee service in their concession areas and to submit forecasts of their energy needs over the next five years. Considering the intrinsic uncertainties of market projections, this leaves distribution companies exposed to risks of over-contracting or under-contracting their energy needs.

In order to limit these risks and minimize the total cost of energy purchases, the CPFL group distribution companies have built mathematical models to help develop the best strategies for acquiring energy in the auctions on the regulated energy market, based on a range of projected demand scenarios constructed in such a way as to incorporate all of the sectorial and macroeconomic variables affecting the demand for electricity.

#### **Private Pension Plan**

The CPFL group employs specialized instruments to neutralize the risk of a deficit in its employee pension plans, which are managed by the Fundação Cesp. In addition to a highly specialized team, equipped with all the most advanced instruments for evaluating risk, the CPFL group has also created the Pension Plan Asset Management Committee covering all of the group's subsidiaries. The committee is comprised of staff from the chief financial officer's office, employees and beneficiaries (active and retired).

The responsibility of the team is to monitor the financial management of the plans and to authorize each year the policies and limits for operating in equity markets, fixed income markets and equity participations and real estate. Results are analyzed monthly by the management committee and the asset management team of Fundação Cesp.

Meetings are held quarterly or whenever deemed necessary, to review strategies and limits.

**Insurance** – CPFL Energia has established formal insurance management guidelines for taking the necessary measures to protect its assets, as well as to protect against the threat to profits from accidental losses. Strategies for eliminating this type of risk are developed in conjunction with specialized world-renowned insurance consultants.

## PREVENTION OF OPERATING RISK

**Environment** – Extensive and conservatively based environmental impact studies are prepared for each of CPFL's new projects and the company closely monitors the execution of its environmental programs. This enables it to comply with the numerous and complex stages that precede the granting or periodic renewal of an Operating Permit - LO, helping avoid delays to the start-up of the project's commercial operations.

**Hydrological Risks** – The power generated by CPFL Energia's subsidiaries is basically hydroelectric in origin. The power made available for sale by each power plant, however, corresponds to that plant's Secured Power, since, under Brazilian regulations, the revenue from the sale of power does not depend on the volume of power effectively generated, but on the amount of Secured Power assigned to each plant, which is fixed in volume, determined by the Concession Authority and written into each concession contract. Any shortfalls between the power generated and the Secured Power are covered by the Energy Reallocation Mechanism – MRE. The mission of the MRE is to mitigate hydrological risk and ensure that all participating power plants are remunerated by the amount of Secured Power allocated to each one, irrespective of the volume of power effectively generated. In short, the MRE is a mechanism for reallocating power from those generating above their Secured Power allocations to those generating below. The amount of power actually generated is determined by the ONS, based on the effective demand for power and the hydrological situation.

**Wrongful Consumption** – CPFL Energia has a system for managing wrongful or fraudulent consumption, which selects consumers to be inspected and offers payment terms and managed solutions for cases involving wrongful or fraudulent consumption.

**Communities** – The CPFL group distribution companies monitor any accidents involving the communities in their regions and have identified electric shocks as the principal cause. They are permanently reminding the communities of the risks involved in using electricity and raising consumer awareness of the precautions needed to avoid accidents.

## GRI

The CPFL distribution companies run year-round publicity campaigns with explanations and orientation concerning the risks and precautions to be taken whenever using electricity.

The concession contracts with Aneel lay down the basic requirements concerning the preservation of consumer health and safety.

**(Information for GRI Product Responsibility Indicator PR1).**

**GRI**

IT resources are used to ensure customer confidentiality (**GRI Product Responsibility Indicator PR3**).

CPFL has no record of having received any complaints regarding violation of client confidentiality (**GRI Product Responsibility Indicator PR11**).

**GRI**

CPFL Energia has never been accused of, or investigated for, any violation of antitrust or monopoly control legislation. (**Information for GRI Social Performance Indicator SO6**).

**PREVENTION OF INFORMATION TECHNOLOGY RISK**

CPFL Energia has permanent procedures in place for ensuring the security of its technological resources and systems, including built-in redundancy in critical areas such as protection against equipment failure. The company's IT management procedures ensure absolute client confidentiality, copying or reproducing being strictly forbidden.

Use of the Internet and its links increases the need for protection against viruses. CPFL routinely employs latest generation detection and protection programs.

**REGULATORY FRAMEWORK**

The power distribution and generation concessions are subject to a series of obligations established in the concession contract and by the sector's regulatory framework and are regularly inspected by Aneel – the National Electric Energy Agency and the São Paulo Electricity Services Commission, under powers delegated by Aneel.

The mitigation of regulatory risks is one of the CPFL group's strategic directives. Regulatory risks are rigorously and systematically controlled at each of the concessions, using structured procedures at both the business units and the corporate center, and by support systems, such as Sisgere – Regulatory Management System, which exists to monitor and control the entire regulatory process.

Regulatory risk in the electricity distribution sector is tightly controlled, primarily through rigorous compliance with the contractual obligations of a technical, commercial, economic and financial nature and permanent monitoring to ensure observation of standards regarding quality, targets and deadlines.

Regulatory risks are equally closely controlled at the generating companies, through the operations of each power plant and compliance with the project schedules of the plants under construction, so as to guarantee start-up on the day stipulated in the contract.

The trading company operates mainly in the unregulated market and is not required to submit to regulated market rules, except for inter dealing between related group companies, a transaction which requires prior approval of Aneel and is rigorously observed.

The corporate structure of the holding company CPFL Energia and regulatory requirements demand that effective control of this type of risk ought to be centrally coordinated by the corporate center, in order to provide an integrated vision of all the inter-relations between the companies, especially economic and financial, and to ensure that all operations conform to the rules.



On the Job Exercises at the Call Center | Head Office | Campinas | São Paulo

## PREVENTION OF RISK AND OCCUPATIONAL SAFETY

The CPFL Energia group companies' Occupational Health and Safety Management Systems are OHSAS 18001 certified, signifying their compliance with ILO – International Labor Organization regulations, as well as those required for certification under SA8000, the international Social Responsibility standard.

All accidents and occupational illnesses involving time off work or not, are registered, monitored and analyzed in order to identify the causes and implement any corrective measures required for future prevention. As required by the law, information is submitted to the Social Security authorities, the Ministry of Labor and the unions. Internally, the information is forwarded to the CIPAs – Internal Accident Prevention Commissions, to the personnel responsible for injured employees and to SESMT – Occupational Safety and Healthcare Service.

The group companies maintain medical records on all employees and have a loss control system that complies with the requirements of the ILO Code of Practice for Reporting and Notifying Occupational Accidents and Illnesses. Information concerning these standards and the procedures for communication and processing is made available to all employees.

The CPFL Energia group companies have also worked together with the unions to set up Joint Health and Safety Commissions, replete with rules on functioning, records, monitoring and decision-making. In addition, the companies maintain an Integrated Management System Committee,

**Occupational Health and Safety procedures are OHSAS 18001 certified.**

### GRI

The information concerning Occupational Safety is for the following GRI Labor Practices and Decent Work Indicators: LA5, LA6, LA8, LA13, LA14 and LA15 (see definitions of the performance indicators in the GRI Reference Index at the end of this Report).

**As an additional incentive, the Green Light Program was introduced in 2004 to recognize and reward employees who developed the best accident prevention practices.**

representing 100% of all employees, as well as a structure of Internal Accident Prevention Commissions – CIPAs compatible with the levels of risk and type of activity at each company.

The company is a signatory to the São Paulo State Electricity Sector Collective Occupational Health and Safety Convention for improving workers' occupational health and safety conditions.

The group companies hold annual educational campaigns on HIV/AIDS prevention for workers, their families and outsourced workers, including written material, direct mailing and internal communication vehicles – the CPFL & Você magazine, Expresso, the Intranet and workplace events.

## GRI

All security personnel are given a 120-hour training course on issues such as ethics, discipline and the Penal Code (**Information for GRI Human Rights Indicator HR11**).

### Occupational Health and Safety (GRI Labor Practices and Decent Work Indicator LA7)

CPFL Energia	2004	2003	2002
<b>Accidents involving employees</b>			
Degree of gravity	885	1,839	761
Frequency rate (FR)	3.54	3.32	2.64
FR of accidents not involving loss of work	8.89	12.66	5.95
<b>N° of accidents</b>			
Non-fatal	136	175	100
Fatal	1	3	1
<b>Total</b>	<b>137</b>	<b>178</b>	<b>101</b>
<b>Accidents with Contractors</b>			
Accidents involving time off	63	34	31
Accidents not involving time off	39	10	11
Fatal accidents	2	3	0
<b>Total</b>	<b>104</b>	<b>47</b>	<b>42</b>
<b>Accidents involving third parties (communities)*</b>			
Fatal accidents	26	17	15
Fatal accidents	34	41	16
Minor accidents	20	17	9
<b>Total</b>	<b>80</b>	<b>75</b>	<b>40</b>

\*CPFL monitors accidents involving the community and has identified electric shocks as the principal cause. CPFL understands the need to raise consumer awareness of the risks involved in using electricity

## Operational Excellence

The CPFL group's commitment to standards of excellence is enshrined in its Integrated Management System – SGI, which covers Quality Management, Social Responsibility Management, Environmental Management and Occupational Health, Safety and Quality of Life Management.

The purpose of the Integrated Management System is to ensure that all the company's technical and administrative procedures, as well as its organizational structure complies with ISO 9001 and 14001, OHSAS 18001 and SA 8000 requirements, and that they are also incorporated into all activities or projects over which CPFL Energia has control.

### QUALITY STANDARDS

The simultaneous audits performed first in January 2004 and again in August 2004 at CPFL Paulista, CPFL Piratininga and CPFL Geração by Bureau Veritas Quality International-BVQI, an independent international certifying organization, confirmed the 17 international certifications already awarded these companies:

- ISO 9001:00, for Quality Management – for "Distribution and Sale of Electric Power" and "Compiling and Processing of Technical and Commercial Indicators of Electricity Supply Quality" at CPFL Paulista and CPFL Piratininga; "Hydraulic Electricity Generation" and "Electricity Generation System Operations" at CPFL Centrais Elétricas; "Electricity Transmission Systems Operations"; "Electricity Consumer Call Center Service" at CPFL Paulista; and "Electricity Distribution Services" at RGE
- ISO 14001:96 for Environmental Management – for "Harmony between Urban Electricity Distribution Networks and the Environment" at CPFL Paulista and CPFL Piratininga; "Hydraulic Electricity Generation", for CPFL Centrais Elétricas' Small Hydroelectric Power Plants
- OHSAS (Occupational Health and Safety Assessment Series) 18001:99 for Health and Safety Management – for "Electricity Distribution and Sales" at CPFL Paulista and CPFL Piratininga; "Hydraulic Electricity Generation" at CPFL Centrais Elétricas; and OHSAS 18001:00 for RGE's "Occupational Health and Safety" procedures
- SA 8001:01 for Social Responsibility Management – for "Electricity Distribution and Sales" at all CPFL Paulista and CPFL Piratininga units; "Hydraulic Electricity Generation" at CPFL Centrais Elétricas.

**CPFL Paulista and CPFL Piratininga were the first electricity distribution companies in the world to be awarded certification according to all four standards: ISO 9001, ISO 14001, OHSAS 18001 and SA 8000.**

### GRI

The information on Sustainability and Corporate Responsibility, the Integrated Management System and the certifications awarded refer to the GRI Social Performance Indicator SO1.



**GRI**

The CPFL companies take an active role in local committees, commissions and organizations, besides organizing regular meetings with community representatives for the purpose of presenting their plans and jointly analyzing the social and economic consequences.

Periodically, they also submit themselves to external opinion, by entering their activities for prizes and opinion surveys or polls, in order to better understand the effectiveness of their social responsibility management procedures and systems

**(GRI Social Performance Indicators S01 and S04).**

**The strength and tradition of the CPFL brand, its client base and the skills and competencies of its employees are among the company's most valuable assets.**

The results of all these guidelines, plans and measures, developed in the context of the Integrated Management System, can be clearly seen in the companies' performance indicators in a number of areas. For distribution activities, the most important are the service quality indicators and the consumer satisfaction ratings at CPFL Paulista and CPFL Piratininga. At CPFL Geração, they are the operating and environmental management indicators at both its already operational power plants and at those still under construction. The occupational health and safety indicators are positive for all the group companies.

CPFL Energia is also ranked among the "100 Best Companies to Work for in Brazil" in a survey carried out by Exame magazine (please, refer to the other indicators mentioned in the sections on Operating Results and Management and Evaluation of Economic, Social and Environmental Impacts).

## Intellectual Property Bank

During 2004, CPFL Energia made steady progress towards identifying and expanding the assets in its intellectual property bank, a store of intellectual resources that has proven to be a driver of sustainable and strategically consistent growth. This exercise entailed researching and identifying the company's intangible assets and creating a GVA® – Shareholder Value Generation system which will eventually cover all levels of the organization.

Analysis and valuation of intangible assets – which, until recently, were of purely academic interest – have grown in importance throughout the world, with direct implications for microeconomic application. CPFL, in step with this trend, introduced during 2004 specific procedures for estimating the value of its intangible assets, by establishing correlations between incremental economic gains and the use to which a series of these assets is put. There now remains the challenge of documenting

and adopting a systematic approach to this issue.

The intangible assets were classified according to a set of characteristics, chief among which were: the ability to be clearly identified, legal existence, intellectual property rights, the ability to determine useful life and transferability. The following CPFL intangible assets were identified:

### **a) Marketing-related intangible assets**

The strength and tradition of the CPFL Energia brand and the group companies' client base: an extensive data base on consumption habits and consumer information on over 5 million customers and over 15 million individual consumers served by CPFL every month. This asset was the foundation for the development of the company's CRM system (marketing program focusing on customer relations).

### **b) Human Resources-related intangible assets**

The use of strategically aligned Human Resources programs for training and developing key competencies helps lift employee skills and competencies to higher levels of excellence.



**c) Intangible assets related to the geographical location of the electricity distribution concessions**

The electricity distribution concession rights in the interior and part of the coastal region of the state of São Paulo and the north and northeast of the state of Rio Grande do Sul, among the fastest growing regions in Brazil, easily constitute one of the major factors driving the growth and prosperity of the group's activities.

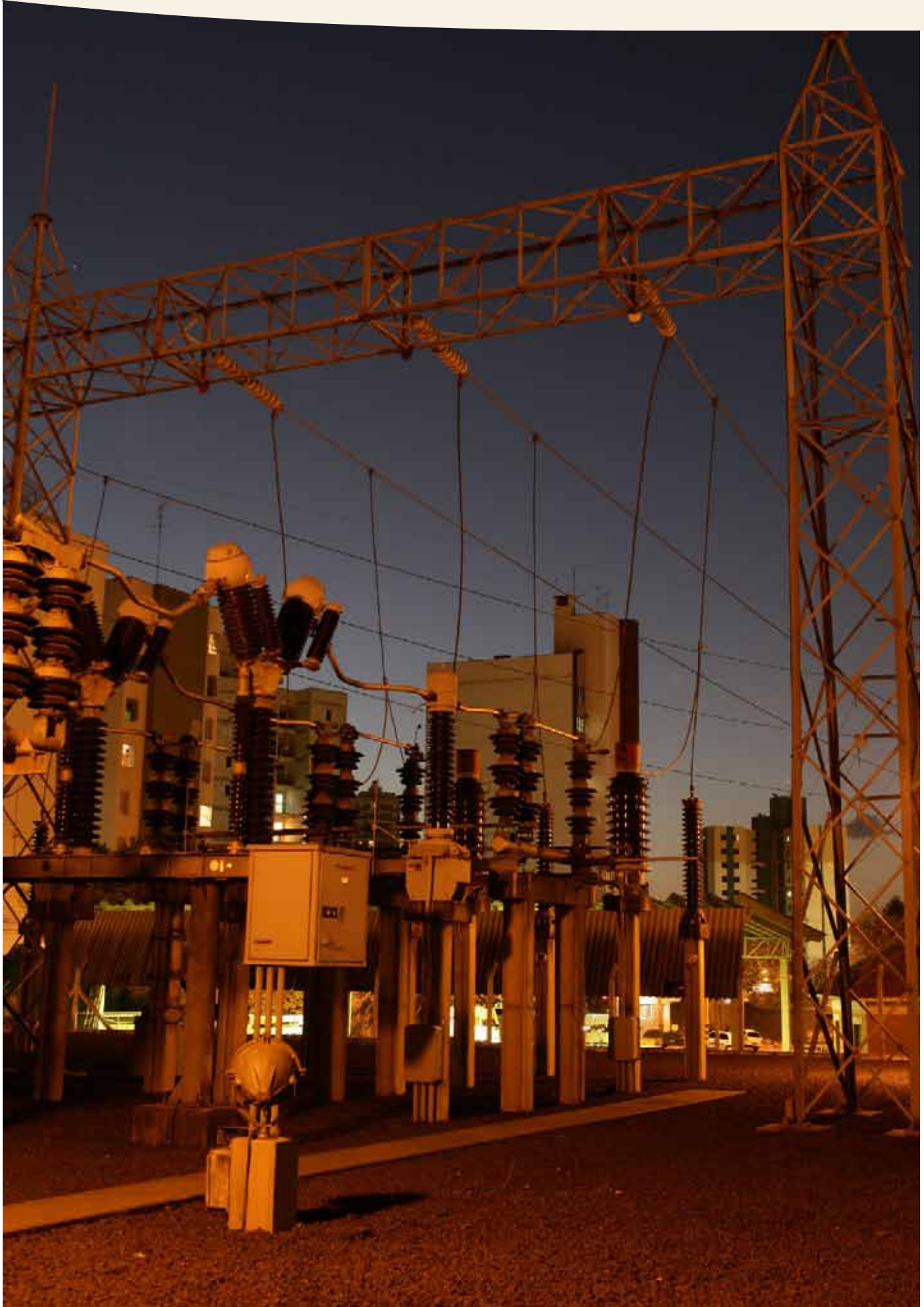
On the other hand, certain intangible factors or influences can be seen to exist, but lack the above defining characteristics of intangible assets, although they nevertheless influence the value of the intangible assets and deserve to be mentioned:

- a) A 12.2% share in the total Brazilian electricity distribution market, offering opportunities for economies of scale and cost synergies throughout the group companies;
- b) A balanced portfolio of activities, with a presence in all three links in the electricity chain – Distribution, Generation and Trading – enabling the companies to extract the maximum benefit from dealings with clients and suppliers;
- c) The high levels of productivity and employee motivation that have been identified in surveys and benchmarking exercises and ratified by the awards received every year;
- d) The quality of CPFL Energia's controlling shareholders, who have been demonstrating their commitment to the development of the country for decades, turning the company into a strategic partner of the government in its plans for economic development.

CPFL intends to use the recognition of its intangible assets and their direct correlation with the value added to the company's activities to further refine its criteria for allocating capital expenditures, recognizing the importance of each one as a competitive advantage and a source of additional value.

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### **GVA®: METRICS HELP CREATE VALUE**

When totally implemented, the Shareholder Value Generation System will align the interests of shareholders, directors and managers more closely, through the use of common standards of measurement throughout the company. The use of the GVA® will enable CPFL to more closely integrate its strategic objectives with new lines of business, on-going evaluation of results and performance and executive motivation and compensation. The objective is to achieve the highest possible company value.

The introduction of GVA®, initiated in 2004, will enable the company to identify opportunities for improvement, through the correct choice between different strategic options. It will give greater balance to the allocation of capital expenditures and improve decisions in the operational areas and internal procedures.

The use of a single management language will preserve those values such as simplicity and flexibility that have helped CPFL attain its present high standards of management.

#### **O GVA® helps:**

- identify the assets that each manager administers
- analyze and quantify the return on each of these assets
- identify value drivers
- pinpoint opportunities for improvement
- establish value creation targets for each line of business.

Given the scope of CPFL's operations and its ambitious targets, GVA® – based management will make an important contribution towards achieving these objectives and enable the company to become more competitive.





## Benchmark in Corporate Responsibility

The CPFL Corporate Responsibility and Sustainability Program is the group's instrument for putting into practice policies for managing the impacts of its activities and organizing the CPFL group companies with regard to their commitment to contribute towards economically, environmentally and socially sustainable growth in Brazil.

**In 2004, CPFL Energia obtained the highest ranking among 10 companies chosen as models by the Exame Guide to Corporate Citizenship, a survey carried out by Exame magazine to rank Brazilian companies according to standards of corporate social responsibility.**

Several initiatives have already been undertaken by CPFL group companies and provide living proof that it is indeed possible to achieve a symbiosis between commercial sustainability and the requirements of the universe of stakeholders and society.

The initiatives taken in 2004 to incorporate issues of Corporate Responsibility and Sustainability into the group companies' day-to-day activities include:

- 1) Inauguration of a Regional Citizens' Rights and Solidarity Forum and dissemination of the Millennium Targets;
- 2) Community projects;
- 3) Supplier conventions;
- 4) An action plan to emphasize the value of diversity;
- 5) The CPFL Program for Promoting Volunteer Work.

(Read more about # 3, 4 and 5 above in the section on Assessment of Economic and Social Impacts).





Bento Quirino Day Care Center | Campinas | São Paulo

**FORUM PROMOTES GLOBAL COMMITMENTS**

CPFL Energia has committed itself to two platforms launched by the UN: the Global Compact and the Millennium Targets.

The Global Compact is a UN initiative that aims to get companies from around the world to commit to a set of principles relating to human rights, improvements in working conditions and environmental preservation. The Millennium Targets, which are compatible with the principles of the Global Compact, also originated in the UN and consist of eight development goals to be attained by 2015. The goals have been ratified by 119 member nations and involve a commitment to a series of programs ranging from reducing extreme poverty and hunger to universal basic education and the formation of a world partnership for development.

Prompted by its commitments to these two platforms, CPFL Energia launched a Regional Citizens' Rights and Solidarity Forum in 2004, for the purpose of triggering debate and disseminating the Millennium Targets among companies, authorities and third sector entities in the Campinas region.

Today the Forum has already attracted 25 companies and NGOs as well as the municipal authorities of two of the region's townships and membership grows with each monthly meeting.

The following table summarizes the economic, environmental and social initiatives taken by the CPFL group in the context of the Millennium Goals.

**O MUNDO TEM JEITO**  
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**1**  
ACABAR COM A FOME E A MISÉRIA

**2**  
EDUCAÇÃO BÁSICA DE QUALIDADE PARA TODOS

**3**  
IGUALDADE ENTRE SEXOS E VALORIZAÇÃO DA MULHER

**4**  
REDUZIR A MORTALIDADE INFANTIL

**5**  
MELHORAR A SAÚDE DAS GESTANTES

**6**  
COMBATER A AIDS, A MALÁRIA E OUTRAS DOENÇAS

**7**  
QUALIDADE DE VIDA E RESPEITO AO MEIO AMBIENTE

**8**  
TUDO MUNDO TRABALHANDO PELO DESENVOLVIMENTO

**8 JEITOS DE MUDAR O MUNDO**

**NÓS PODEMOS**

Movimento Nacional pela Cidadania e Solidariedade

Millennium Goals	Type of Action
<b>1. Eradicate extreme poverty and hunger</b> 	Support for job and income creation Support for school meals Action to reduce hunger in rural areas Nutritional educational programs Volunteer work programs Programs for greater inclusion of Afro-Brazilians, people with deficiencies and other groups suffering some form of discrimination Hiring of apprentices
<b>2. Achieve universal basic education</b> 	Action against child labor Support for and investment in schools and NGOs engaged in educational programs Promotion of education for employees and dependents Supplementary educational projects Contributions to municipal Child and Adolescent funds
<b>3. Promote equality of the sexes and independence for women</b> 	Programs promoting the value of diversity, focusing on gender and race Income generation programs for women and heads of families
<b>4. Reduce infant mortality</b> 	Improve access to cheap and reliable medication Improve access to clean drinking water Support and awards for model projects
<b>5. Improve maternal health</b> 	Improve women's working and occupational health conditions Support NGOs working on this issue
<b>6. Fight HIV/AIDS, malaria and other diseases</b> 	Make reliable and cheap medication available Support for education, prevention and treatment programs Support for other health projects
<b>7. Guarantee environmental sustainability</b> 	Environmental Impact Management Education and training in the sustainable use of environmental resources Waste treatment programs
<b>8. Promote the World Partnership for Development</b> 	Promote decent working conditions for adolescents Partnerships for sustainable development

(\*) CPFL invested R\$ 196,149.00 on Health and Sanitation-related projects during 2004

(\*\*) A good example is the yearly contributions made since 2001 to the Campinas *Hospital das Clínicas*, using resources earmarked for helping needy people suffering from chronic respiratory disease. Other resources are also donated to the Centro Orsini, a benchmark in HIV treatment, and to *UAI – Unidade de Atendimento Intensivo*, for children suffering from AIDS

## CPFL group Activities

- Volunteer Worker Program
  - Respect for Diversity Program
  - Community Kitchen Gardens
  - The *Aprender* (Learning) Project
- 
- CPFL has included clauses prohibiting child labor in its contracts with suppliers
  - The *Aprender* (Learning) Project
  - The School Ship Association
  - The CPFL goes to School Program
  - Donations to Municipal Child and Adolescent Rights Councils
- 
- The Respect for Diversity Program
  - Support for the Center for Research and Assistance for Socially Excluded Women
- 
- Donations to Municipal Child and Adolescent Rights Councils (\*)
- 
- Donations to Municipal Child and Adolescent Rights Councils
- 
- Internal Aids and other disease prevention campaigns
  - Flu vaccination campaign for employees
  - Internal blood donor campaign
  - Specific donations in the field of healthcare (\*\*)
- 
- Environmental Management System, based on ISO 14001 standards, for all group activities
  - Environmental programs for compensating for the impacts of the group's electricity generation and distribution activities
- 
- Regional Citizens' Rights and Solidarity Forum
  - The *Aprender* (Learning) Project



## COMMUNITY PROJECTS

The strategies for CPFL Energia's relations with neighboring communities are defined by its Social Responsibility and Corporate Ethics Management Committee, based on the Corporate Guiding Principles and the commitments assumed by CPFL with different sectors of society. These initiatives include:

Access the CPFL Cultural Center programs at [www.cpflocultura.com.br](http://www.cpflocultura.com.br).

More than 65,000 people visited the "Contemporary Society: Life, Dangers and Opportunities" cultural event.

### GRI

R\$ 350,000 was spent during 2004 on maintenance of the Cultural Center. Internal remodeling and renovation are carried out annually. (Information for GRI Economic Performance Indicator EC12).



■ **Culture for the XXI Century:** In March 2004, CPFL inaugurated its cultural program "Contemporary Society: Life, Dangers and Opportunities" in the Cultural Center at Campinas head office. The event is intended as a profound reflection upon modern times, based on analyses from different fields of knowledge. The event was staged daily from March to December. The free entry event was open to the public and widely commented on in the regional press.

The structure was in modules, composed of discourses organized by curators and given by specialists and widely respected intellectuals. The program analyzed society from the point of view of the arts, sciences, literature, sociology, urbanism and economics. The purpose was to offer spectators the knowledge, parameters and reference points to enable them to better understand events in the XXI century.

For the younger audience, shows were staged on Saturday afternoons on the theme "Youth and Culture". For the very young, there was a "Playing with Art" module on Sunday mornings.

■ **Community Kitchen Gardens:** These were created on CPFL premises for lower income families. One of them, in the town of Americana, includes a partnership with the municipal social authorities for the use of plots of land inside the premises of the Americana power plant. In the city of Sorocaba, strips of land beneath the company's high voltage (88,000 volts) transmission lines are used. In both cases the land is used to grow vegetables. Free classes in vegetable growing are scheduled for this year. The projects involve 35 families in Americana and another 16 in Sorocaba.

■ **The School Ship Association:** This is a partnership between CPFL and the NGO "The School Ship of Nature Association", in existence since 2002, with the objective of collecting information on the problem of water resources in the Piracicaba river basin, more specifically regarding the water reservoir of the Americana power plant, and organizing discussions of proposals for environmental recuperation. The Association runs the "Sailing on the Seas of Knowledge" project, attended by approximately 10,000 people last year. The project also held other events, courses and talks on environmental education and awareness, attended by about 1,100 people.





## GRI

### Donations to communities, civil society or other groups (Information for GRI Economic Performance Indicator EC10).

Donations (tax advantaged or not) to projects for improving the quality of life and bringing culture to Brazil's communities is CPFL's way of contributing private social investment to the fields of health, art and education, in keeping with its own vocation and with the legitimate aspirations of society. Cultural investments and support and sponsorships by CPFL Energia and its subsidiaries in 2004 totaled R\$ 6,308,257.17, of which R\$ 2,627,901.00 used the tax advantages offered by Brazil's Rouanet cultural promotion law, distributed as follows:

1) Education: R\$ 1.338.108,17

■ CPFL Goes to School Project

2) Culture: R\$ 3.626.000,00

■ The "Contemporary Society – Life, Dangers and Opportunities" Cultural Event

3) Health and Sanitation: R\$ 195.149,00

■ Support of the Santa Casa hospitals

■ Others

4) Leadership and Social Influence: R\$ 1,149,000.00

■ CMDCA: 10 Municipal Child and Adolescent Rights Councils

■ Others

**Note:** RGE invested more than R\$ 1.7 million on educational and cultural projects.

■ **The CPFL Goes to School Project:** This is part of the Energy Efficiency – Procel program run by CPFL Energia's distribution subsidiaries. Launched in 1996, it comprises the Procel at School and Kids against Energy Wastage programs. The aims are not only to teach children and adolescents, but also their teachers about the safe and correct use of electricity and the need for environmental preservation. The first one trains public and private primary and secondary education teachers to use the classroom to transmit the basic concepts of environmental education to their students. The content is directed towards reducing electricity wastage at school and at the students' homes, helping emphasize the correct usage of renewable and non-renewable sources of energy. The Kids against Energy Wastage program tries to raise awareness among the younger generation of the importance of rational use of electricity and the need to reduce wastage. This program, under the sponsorship of Procel, is carried out in partnership with the Mauricio de Souza studios, and mixes learning with fun and invites the children to reflect upon and change the way they relate to the environment. The Kids program, together with Procel at School, distributes written material on how to do experiments and make games for children, using Brazil's famous "Monica's Gang" comic strip



characters. Since its launching, the program has provided training for 5,948 teachers from 1,332 schools, representing 917,000 students in 122 towns and cities in the CPFL Energia group companies' concession areas. In 2004 alone, the training cycle scheduled to terminate in May 2005 included 207 schools, 1,918 teachers and 160,000 students in 11 towns and cities.

■ **The *Aprender (Learning)* project:** This project, in partnership with non-profit philanthropic organizations, takes in 108 adolescents between 16 and 18 years of age, from low- income families and helps them take their first steps in the job market and the world of business. These adolescents, whose selection process emphasizes the value of diversity, work a six-hour shift at CPFL Energia as administrative assistants. For a further two hours a day, they take part in activities focusing on issues of social inclusion and qualifications for the job market, grouped into four modules: Education for the Job Market, Culture, Health and Sports.

**108 young people take part in the *Aprender (Learning)* Project and are registering progress, with the help of CPFL employees.**





## RESPONSIBILITY IN PROJECT EXECUTION

CPFL Energia cultivates pro-active relations, incorporating principles of social and environmental responsibility with the communities influenced by the company's hydroelectric power plant projects in the south of the country. This includes:

- Support for municipal authorities in the regions affected by its Barra Grande, Campos Novos and Ceran hydroelectric generation projects, to help reinforce their ability to provide health, education and security services for the influx of new workers. Since the projects attract large numbers of migrant workers, each project has its own "Migrant Worker Support Center", which helps select those migrant workers with acceptable qualifications and helps unqualified workers return to their places of origin.
- Involvement of communities threatened by reservoirs, local social movements, rural associations and unions in the choice and definition of the projects for relocating families in the affected areas.
- Help with the 2003/4 crop harvest for farmers in the Barra Grande hydroelectric project region, and the signing of a Social Agreement with the Victims of Dams Movement – MAB, the Ministry of Mines and Energy – MME, the Brazilian Institute for the Environment and Renewable Natural Resources – Ibama and the Federal Public Prosecutor's Office for regional development through increased agricultural production.
- A partnership with Sebrae SC – the Santa Catarina branch of the Brazilian Small and Micro Enterprise Support Organization for developing and introducing new technologies for farmers in the region of the Campos Novos hydroelectric project and to increase productivity.
- A partnership with the Victims of Dams Movement – MAB for the building of infrastructure at the new collective rural settlements surrounding the Barra Grande hydroelectric project.
- Creation of approximately 10,000 indirect jobs thanks to the increase in local commerce and service industries.

## GRI

The information on the creation of employment at and around the new hydroelectric generation project construction sites, and on CPFL's regional projects is for GRI Economic Performance Indicator EC13 concerning the organization's indirect impacts.

Old Mill from Colonial Times | Caminhos de Pedra | Bento Gonçalves | Rio Grande do Sul



**GRI**

The companies all have Ombudsman's offices, with specific goals and performance criteria, for handling suggestions, criticisms and complaints from consumers, regulators or the public in general. They are at liberty to interact with all areas within the company and to propose changes in internal working practices. **This information refers to GRI Social Performance Indicator S01.**

## Assessment of Economic Impacts

### CUSTOMER RELATIONS MANAGEMENT

CPFL Energia's activities are essential to the country's development. Its strategies and policies reflect its commitment to deliver electricity and provide quality service to millions of customers in its distribution companies' concession areas, as well as to the large consumers served by the group's power trading arm.

The majority of the customers are part of the distribution companies' captive market within well-defined concession areas. These are mostly residential, industrial, commercial, rural and service industry customers. There are Public Authorities and Public Services segments as well. The conditions, under which power is to be supplied to these markets, are defined in Brazil's legislation, by the terms of the concession contracts signed by the Concession Authority and the distribution companies, as well as in the contracts between the distributors and their end consumers. These conditions include the quality of electricity supply and customer service quality.

**CPFL is the only electricity company in Brazil to process all requests for electrical installations via the Internet.**

The other important segment of the CPFL group's market in Brazil is the unregulated market customer, comprising of large consumers from all sectors of the economy. They are served directly by the group's electricity trading arm, under conditions agreed directly between the two parts.

**GRI**

The CPFL companies permanently monitor the favorability of the press coverage received in the cities and towns, in which they operate and have a policy of actively communicating with local communities (**This information is for GRI Social Performance Indicator S01**).

CPFL Energia is aware of the importance of the quality of energy supply for the economic development of its concession areas and for the unregulated market customers served by its trading arm. Guided by its corporate values, CPFL strives for increasingly efficient operations while, at the same time, offering premium service as a means of generating customer satisfaction and loyalty. This is one of the reasons for the investments in broadening and diversifying its channels for providing service and maintaining customer relations and communications, as well as for undertaking educational campaigns on the safe and efficient use of electricity.

In addition, the CPFL group companies regularly access and interact with Brazil's consumer protection organizations - the Procons – in order to find fast and effective solutions to the service quality issues brought before the Procons by customers.

CPFL Paulista and CPFL Piratininga both have Consumer Councils, with representatives from all sectors involved, for the purpose of monitoring service quality continuously and offering a

permanent channel for communication regarding the companies' programs and activities. Clients also have access to the companies' Ombudsman's Offices for submitting and obtaining solutions to problems. The Ombudsman's Offices are at liberty to interact with all internal areas of the companies and they are given targets and performance standards,

with compliance continually monitored.

**Consumer Councils, with representatives from all sectors, are permanently monitoring service quality.**

Surveys results from captive customers of the group's distribution companies indicate higher customer satisfaction ratings that are the average in Brazil. This has positive implications for the companies' performance, helping strengthen the companies' brand and image and enhancing the CPFL group's competitiveness in the Brazilian energy market.



Traffic Control | Call Center/Head Office  
| Campinas | São Paulo

### Advertising

Advertising campaigns and material are submitted to the Ethics and Social Responsibility Management Committee for approval. The CPFL group uses mass media vehicles as well as direct marketing to preserve close relations with customers and institutional relations with the market as a whole.

The purpose of these media campaigns is to communicate to clients and the electricity market in general the characteristics of the CPFL brand and organization: responsiveness, reliability, experience, social responsibility and competitiveness.

The objective is that these attributes should be perceived and that the company's values and beliefs should be uppermost in the minds of its different groups of stakeholders. That is why the advertising campaigns are not restricted to the companies' products and services, but also cover issues such as the importance given to culture and activities involving social inclusion, including initiatives in the field of environmental preservation.

To a lesser extent, the advertising campaigns on television and in magazines are also designed to consolidate the group's institutional image. The direct communication channels, on the other hand, such as the electricity bills themselves, call centers, the service centers, the Internet, the *Rede Fácil* stores and the Ombudsman's offices are used for direct communication with residential clients, both concerning issues with legal content or of public interest and directly concerning the acquisition of

### GRI

CPFL does not breach any advertising or marketing regulations (**GRI Product Responsibility Performance Indicator PR10**).

### GRI

Regular client satisfaction surveys analyze all aspects of the electricity distribution companies' services (**GRI Product Responsibility Performance Indicator PR8**).

**Subsidies Received**  
(Information for GRI Economic Performance Indicator EC9)

R\$ 000	2004	2003
CPFL Energia Consolidated*	46,785	31,872

**Note:**

\*Official subsidies for serving (proven) low income groups at special tariffs.

specific goods and services. The communication can be either one-way, as in electricity bills and the Internet, or two-way, as in the call centers.

The analysis of the degree of customer familiarity with the group's brands and products is made through annual surveys, where risks, opportunities and the degree of acceptance of the group's products, services and service quality are identified. Other surveys also measure group attributes such as responsiveness, honesty and transparency in the group's dealings, concern with social issues, respect for the environment and the preservation of nature.

**Connections in Poorer Communities**

The Community Network program was launched in 1998 as an attempt to regularize the situation of illegal consumers in CPFL Paulista's concession area and, subsequently, in 2001, that of CPFL Piratininga. The results, so far, have been positive, not only for the companies themselves, but also for the inhabitants of these regions.

Electricity for Everyone Program | Sorocaba

| São Paulo





The main purpose is to eliminate the risks associated with illegal connections and to instruct the population in the proper use of electricity through courses financed by Aneel, which also receives periodic progress reports.

The Community Network Program involves the following steps: after the project is duly authorized by the local municipal authorities, a visit is made to the local neighborhood leaders and a census is made of the local inhabitants. The next step is to design the project and build the distribution network, at no cost to the local inhabitants, and then finance the acquisition of the connection installation in up to 24 monthly installments, thus regularizing the connection. During the first three months following connection, the new consumer pays a maximum electricity bill equivalent to consumption of 100 kW/hour, to permit adaptation to the new situation, since actual consumption is usually well above this. During this period the new customers learn how to understand the information in the electricity bills and to manage their consumption responsibly.

To this end, courses are offered on a series of topics, such as: how generation works, basic notions on how to use electricity safely, how to read the electricity bill correctly and the electricity consumption of different types of appliances.

In addition to raising the level of awareness in general regarding the rational use of electricity, the regularization of the situation of the inhabitants of these poorer regions also paves the way to reaffirming their rights as citizens, since the electricity bill is accepted as proof of residence and can be used in a number of situations, such as obtaining consumer credit or enrolling children in schools.

In 2003 and 2004, 2,028 and 3,057 connections, respectively, were regularized in CPFL Paulista's concession area (mainly in Campinas) and another 1,300 in CPFL Piratininga's concession area (Jundiaí, Sorocaba and the Santos coastal region). The goal for 2005 is another 4,700 connections between the two concession areas.

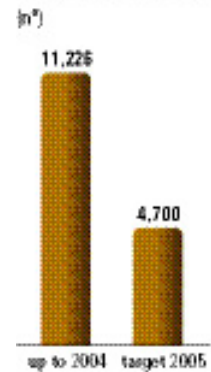
## SUPPLIER RELATIONS

CPFL Energia's policy is to share its knowledge in the fields of Corporate Responsibility and Sustainability with its suppliers, as part of a policy of extending its management practices throughout the chain of production. The idea is to provide parameters and create value in the company's relations with its various stakeholders.

CPFL Energia has hosted three main events, attended by 121 suppliers of materials and services, as part of its policy of encouraging suppliers to align more closely with its own parameters regarding social responsibility. The objective of these meetings is to obtain the involvement and the commitment of suppliers on issues relating to corporate social responsibility. These events have proven that the decision to create the opportunity for these dialogs and to transmit the group's corporate principles throughout the company's sphere of activity was opportune.

It should be emphasized that all contracts with suppliers carry specific clauses concerning their commitment to the requirements, policies and practices of CPFL's Integrated Management System, such as the use of proper techniques for tree branch lopping and emission controls on vehicles as examples.

## Connections Regularized



## GRI

The supplier selection and approval process is based on the company's Integrated Management System, and requires suppliers to comply with minimum standards of quality management, environment, occupational health and safety and social responsibility, all of which can be found on the Internet or in the CPFL Code of Ethics and Conduct. **These procedures are for GRI Environmental Performance Indicator EN33.**

**CPFL encourages supplier commitment on issues of corporate responsibility and sustainability.**

**GRI**

Information on main suppliers refers to indicator GRI EC11.

**Audits**

CPFL has held audits of its principal suppliers since 2002, in order to verify compliance with issues of quality, environment, occupational health and safety and social responsibility, as required under the Integrated Management System.

Relations with power suppliers follow the norms for the industry and are formalized in long-term contracts. The CPFL group's power suppliers include Cesp, Furnas, Itaipu, AES Tietê, Duke, Tractebel, Petrobras, Queiroz Galvão, Santa Clara, Copel, Chesf, Guaraniãna and CPFL Geração notwithstanding.

Circa 137 of CPFL's suppliers of materials and services account for 80% of total resources purchased.

When tendering for the acquisition of materials made from natural resources, such as the wood used in cross arms and posts, only suppliers registered with the applicable environmental authorities, such as Ibama, are permitted to bid, and the contracts contain clauses requiring suppliers to fully comply with environmental legislation. CPFL helps in this by providing suppliers with technical assistance, for example, in providing training in chainsaw operation, the use of elevated platforms and tree pruning.

**Suppliers: Long-term Commitments****Contracts contain clauses on**

Prohibition of child labor

Environmental preservation

Occupational health and safety

Quality Management and Social Responsibility audits

**Survey of Progress regarding Corporate Social Responsibility**

Completion of the Ethos questionnaire

**Meetings with Suppliers**

Dissemination of CPFL's Sustainability and Corporate Responsibility Policy

## Assessment of Environmental Impacts

**The Serra da Mesa Basic Environmental Project comprises 17 different programs for promoting environmental conservation in the surrounding areas and compliance with existing legislation.**

CPFL Energia practices a rational and logical environmental policy that takes environmental issues into account from the earliest stage of project development through to construction and operations. Environmental research and management have successfully identified the impacts of the company's activities, provided guidance for the measures to be taken by the companies and fulfilled a preventive role as instruments of corporate planning.

Environmental precautions can be divided into those relating to generation and those relating to distribution.

**ENVIRONMENTAL PROGRAMS AT THE SMALL HDYROELECTRIC GENERATORS (PCHS)**

The group's PCHs are relatively old, and their upgrading involves certain environmental programs, such as:

- Reforestation with native species at the São Joaquim, Dourados and Monjolinho power plants, now in the final stage of attainment and maintenance of self-sustainability



Program for Restocking Rivers and Reservoirs

| Pedreira | São Paulo

- Restoration of the forests surrounding the Americana-SP reservoir, involving the planting of 100,000 seedlings in an area of approximately 50 hectares on the banks of the Salto Grande reservoir in the municipality of Americana. The reforestation is in its final stages of observation, having already reached self-sustainability. It is scheduled to be completed in 2005 and handed over to the São Paulo State Department for the Protection of Natural Resources – DPRN. CPFL Centrais Elétricas concentrated its efforts on what were considered to be the more degraded areas, with the least potential for independent regeneration
- Restocking of rivers and reservoirs in the water basins located near the PCHs with 390,000 newly-spawned native fish species in 2004
- Environmental education, including visits of school children from the public schooling system to the hydroelectric plants and support for the School Ship Association project in Americana, involving approximately 15,000 participants, the majority school age children
- Environmental diagnosis for managing the water basin supplying the Americana facility. Complementing previous studies on aquatic plant management, the environmental diagnosis succeeded in consolidating all the information on how the water basin works and what impacts it suffers, which will be used to plan for recuperation of the river Atibaia and the reservoir itself. The accumulation of aquatic plants in hydroelectric power plant reservoirs is partly the result of the energy generation activity itself, but the proliferation of such plants is also caused by the huge volumes of pollutants discharged into the rivers by urban centers.

### GRI

The information on programs for producing and releasing alevins, mechanisms for surmounting dams (fish ladders), tree planting in urban areas, donating seedlings, reforestation, wood certification, environmental education and sponsoring research and development are for GRI Environmental Performance Indicator EN 27, which calls for broad objectives, programs and targets for protecting and restoring native ecosystems and species.

**GRI**

Information on how the impacts on local fauna and natural habitats are managed is for GRI Environmental Performance Indicators EN7, EN25, EN26 and EN14, as well as SO1 (see the definitions of the performance indicators in the GRI Reference Index at the end of this report).

**PCHs: Impacts on Biodiversity**

The electricity generated by CPFL Centrais Elétricas uses water resources drawn from the water basins of the rivers Tietê, Grande, Sapucaí-Mirim and Piracicaba, along which 19 small hydroelectric power plants have been built. Given the size of these power plants, the reservoirs are relatively small and the use of water to generate electricity does not significantly affect the local ecosystems. The impact on local biodiversity is insignificant.

Although these power plants do, to some extent, interfere with nature, since they change a small stretch of river into a lake, it is the dam itself that causes the greatest degree of interference, since it prevents the fish population from migrating upstream to spawn, although in many cases this is minimized by the construction of migratory fish channels.

Note that, given the size of these power plants and the way they operate (run-of-stream) the area occupied by the reservoir is usually the area that is flooded anyway during the rainy season, and has little effect on the spawning grounds. The fish species that used to inhabit the regions close to the PCH locations continue to inhabit the edges of the reservoirs, except where that have become extinct due to predatory fishing or have been forced to migrate by the pressure from local populations. In many cases local agricultural activities and cattle-raising has been seen to have resulted in the elimination of waterside vegetation and the fauna that used to live there.

It is not possible, however, to quantify these impacts in their entirety, since these hydro-electric plants were constructed at a time when environmental legislation did not require that environmental impact studies be carried out. This was only introduced by the Conama Resolution 001/86.



### ENVIRONMENTAL INITIATIVES FOR GENERATION PROJECTS

Every new generation project creates a specific department for managing the environmental issues which are particular to each one. CPFL Geração participates in the preparation of the basic environmental projects, in order to ensure that its policies are being complied with and that environmental commitments are built into the projects themselves.

Decisions are made by each project's environmental committee, comprised of representatives from each partner in the project and the environmental manager.

The proper execution of environmental projects is absolutely key to the process of obtaining environmental permits and for the future of power generation itself. This is the stage where the heaviest environmental spending occurs. CPFL Geração and its partners have invested R\$ 189.4 million by December 2004 on social programs and on physical and biotic aspects of the natural ecosystems surrounding the projects, as detailed below:

- Barra Grande hydroelectric power plant: R\$ 102.3 million
- Campos Novos hydroelectric power plant: R\$ 65.4 million
- Ceran - Rio das Antas complex: R\$ 16.6 million
- CEFC - Foz do Chapecó Energy Consortium: R\$ 5.1 million.

**By December 2004, CPFL Energia and its partners have invested R\$ 189.4 million in environmental projects relating to generation projects under construction.**



**GRI**

Environmental decisions regarding plants under construction are taken by the projects' Environmental Committees, comprised of representatives from each of the contractual partners and the projects own environmental manager. The following initiatives are currently being executed in connection with the socio-economic impacts of the projects:

- 1) Relocation of and compensation for the affected population
- 2) Reinforcement and revitalization of neighboring communities
- 3) Reinforcement of the communities' service infrastructure
- 4) Integrated initiatives for soil and water conservation
- 5) Social communication

(GRI Social Performance Indicator S01)

**GRI**

The information on the Basic Environmental Projects for power plants under construction is for GRI Environmental Performance Indicator GRI EN29, concerning productive facilities operating or planning to operate in or around protected or threatened areas.

**Biodiversity and the New Projects**

At the larger hydroelectric power plants, the interruption of the migratory patterns of fish swimming upriver to spawn, due to the disruption to their natural habitat by the dam, is considered to be the main cause of the reduction in the fish population and in the number of migratory species existing prior to the formation of the reservoirs. Moreover, some dams are used to regulate the level of the water both upstream and downstream, so adjoining lakes can no longer be used as breeding grounds, since they remain at practically the same level all year round. Some of the tributaries, or even the main river itself, where the strong currents used to keep the spawn in suspension, end up being flooded, with survival being threatened by the quality and pressure of the water.

**Basic Environmental Projects for Power Plants under Construction**

These projects, known as PBAs, are plans for the measures to be taken to mitigate the impact caused by each hydroelectric project, as identified in each project's EIA-RIMA - environmental impact study - approved by Ibama.

**1 - Barra Grande Power Plant**

The Barra Grande project is located on the river Pelotas, on the Stateline between the states of Rio Grande do Sul-RS and Santa Catarina-SC, although considered to be part of the Atlantic rain forest, it is not officially in any federal, state or municipal conservation area. Only the existing APPs (Areas of Permanent Preservation) as defined in the Forestry Code (law 4,771/66) and subsequent legislation will be affected, as can be seen from the table below:

Use of Land	Total SC (ha)	Total RS (ha)	Total Reservoir
Primary vegetation	1,382.58	694.87	2,077.45
Regeneration	2,034.55	2,539.34	4,573.89
Sarandi (scrub)	76.78	74.33	151.11
Reforestation	9.16	43.81	52.97
Grazing/agriculture	752.95	486.97	1,239.92
Exposed soil	28.42	14.71	43.13
Total	4,284.45	3,854.02	8,138.48

Barra Grande's PBA consists of six separate programs (Socio-economic and Cultural; Hydrology; Climate and Quality of Water; Geotechnology; biotic context; and physical and managerial context), which are divided into 26 individual sub-projects. *(read more about these in the chapter 4)*

**2 – Ceran Complex – Monte Claro, Castro Alves and 14 de Julho Power Plants**

The vegetation in the areas flooded by the three power plants, located on the river das Antas is part of a seasonal and deciduous forest, based on calculations from over-flights in 2000. All of the flooded vegetation is in an area of permanent preservation on the banks of the river das Antas. Along the river banks the vegetation is made up largely of Sarandi, short trees with thin trunks. To compensate for the flooding and to comply with CONAMA resolution 004 of September 18<sup>th</sup> 1985, a protective strip, 100 meters either side of the reservoir will be established, resulting in 1,519 hectares of permanently preserved area.

Flooded / removed area – ha	Monte Claro	Castro Alves	14 de julho
Recent woodland	56.40	70.88	252.22
Intermediary woodland	12.70	233.13	5.20
Without vegetation	3.30	7.00	24.07
<b>Total</b>	<b>72.40</b>	<b>311.01</b>	<b>281.49</b>

### 3 - Campos Novos Power Plant

Throughout the area destined to be flooded, the original native tree coverage of mixed swampy woodland together with seasonal and deciduous forest have given way to secondary forests, and scrub, grazing land and agriculture. The result of the action of man has been to form a veritable mosaic of uses and occupation of the land. The power plant will not invade protected or sensitive areas, although it will interfere with two threatened species: 7,545 m<sup>2</sup> of Paraná Pine (*Araucária Angustifólio*) and 21,980 Dicksonia Tree Ferns (*Dichsonia selloncionia*). To compensate, a strip not less than 30 meters on either side of the 210 km of river will be preserved as an area of permanent preservation (APP) totaling 1,753 hectares, practically the same as the area to be flooded, which will have an average width of 83 meters.

Area to be Flooded – ha	Campos Novos
Advanced secondary forest	555.82
Secondary forest	433.19
Thick secondary growth	453.03
Secondary growth	362.45
<b>Total</b>	<b>1,804.51</b>





CPFL Community Kitchen Garden | Socorro  
| São Paulo

### ENVIRONMENTAL MANAGEMENT IN POWER DISTRIBUTION

CPFL Paulista plans its activities with respect for the environment, continued improvements in its working practices and respect for environmental legislation. At this time, 100% of the transmission lines and 75% of the distribution lines have already been certified by the environmental authorities, despite the fact that such certification is not a legal requirement. The same process of environmental certification is under way at CPFL Piratinga.

When erecting new overhead transmission lines of up to 138Kv, the CPFL group's policy is to avoid significant alterations to the environment and to the quality of life of the surrounding communities. The area underneath the distribution lines in urban environments is put to a diversity of uses, such as communal kitchen gardens, ornamental plants and shrubs, gardens, landscaped areas or fast-growing plants or vegetables. In rural areas, CPFL avoids to the extent possible any negative impact on farming, and the only restriction it imposes on the use of the swathes beneath the transmission lines, is on any agricultural or husbandry activity that could compromise the safety of the power grid.



## Principal Impacts Caused by Power Transmission and Distribution Activities

### CPFL Paulista and CPFL Piratininga

The impacts of CPFL's power distribution activities are monitored by its Environmental Management System, implemented throughout both concession areas and ISO 14001 certified. Power transmission and distribution have few implications for the environment and biodiversity, any impacts being usually restricted to pruning or felling trees when building or performing maintenance on infrastructure installations.

CPFL's distribution activities in the state of São Paulo are concentrated in both economically developed regions and regions with advanced agriculture. Consequently the company's transmission lines rarely cross areas of virgin vegetation. In addition, the company has internal guidelines for avoiding such areas when planning for electricity expansion projects.

Any damage to plants or trees underneath transmission lines in either rural or urban areas is more than compensated for by the planting of native species seedlings, always in quantities greater than those removed, thus creating new areas of vegetation to assume the ecological functions of those suppressed.

In situations where it is impossible to prevent damage to the local flora, fauna and soil conservation, the company invests in compensatory activities such as reforestation and forestry management.

### EN1 Breakdown of Materials use (except water) by type\*

Material category	Unit	CPFL Paulista			CPFL Piratininga		
		2004	2003	2002	2004	2003	2002
Distribution transformers	Nº	3,949	3,970	4,607	2,170	1,922	787
Concrete posts	Nº	22,444	20,222	25,682	10,622	7,170	2,588
Cables	Meters	2,705,843	837,313	630,238	1,814,429	1,201,824	590,338
Cables	Kg	350,124	631,557	837,112	221,138	149,682	81,081
Meters	Nº	175,004	163,450	146,370	86,854	78,330	30,402
Public lighting units**	Nº	678,728	337,513	526,315	181,942	136,535	69,034

#### Notes:

\* The above table contains the principal items of inventory purchased by each company and represent 90% of total acquisition value. They are used in the maintenance and expansion of the electric system.

\*\* Bulbs, relays, reactors and reflectors

### Waste Treatment and Disposal

CPFL classifies and determines the disposal of each category of waste material, in accordance with legislation and utilizing the best possible technical solution. In 2004 133,500 mercury and sodium vapor bulbs and 1,700 kg of broken lamp bulbs and sockets were sent for decontamination and recycling.

## GRI

The information on the environmental impact of generation and distribution activities is for GRI Environmental Performance Indicators EN7, EN25, EN28 and EN14.

## GRI

The information on waste products is for GRI Environmental Performance Indicator EN11.

**Non-recyclable materials sold as scrap by the CPFL group distribution companies**

Material	Unit	CPFL Paulista			CPFL Piratininga		
		2004	2003	2002	2004	2003	2002
Ferrous and non-ferrous metals	Ton	488	679	630	303	343	321
Distribution transformers	Un	1,069	1,744	2,117	363	264	306
Reflectors	Un	13,357	22,388	7,399	11,091	24,943	3,581
Cross arms	Un	18,846	22,424	29,869	7,773	6,789	3,794
Wooden and concrete posts	Un	10,438	12,740	18,516	2,862	4,926	2,386
Iron posts	m	495	692	726	0	3	17
Ladders	Un	160	805	248	55	34	287

During 2002, 22.1 tons of equipment containing PCB (polychlorinated biphenyls) was removed from CPFL substations and sent for incineration. The substitution of equipment in 2003 and 2004 was not significant, however, any equipment that was substituted, has been stored in an appropriate and duly authorized place until a suitably sized cargo is gathered and incinerated, which should occur in 2005.

Under its Waste Management Program – Decontamination and Disposal of Bulbs; burnt street lighting bulbs, containing sodium vapor and mercury vapor, are collected by CPFL and sent for decontamination and subsequent recycling (mercury, aluminum and glass) by an outsourced company licensed by Ibama for this purpose. This reduces the risk of contamination of landfills and economizes on the use of new raw materials.

**Decontamination of Bulbs by CPFL Energia group companies**

Year	N° bulbs substituted	N° bulbs decontaminated	% Decontamination
1999	118,887	17,833	15
2000	194,780	77,912	40
2001	96,282	48,141	50
2002	261,476	165,101	63
2003	141,771	91,857	65
2004	186,897	147,270	79

The organic waste produced at the administrative offices is sent via the public refuse collection system, mainly to landfills in the municipalities and regions where they are located. Campinas, where the company is based, is responsible for the bulk of such waste. The volume of waste is estimated by the number and capacity of skips removed daily.

CPFL introduced a selective waste collection system at the head office in 2002, in an effort to reduce the volume of material sent to landfills and increase the amount of materials selectively recycled. Other group companies are gradually adopting selective waste collection systems.

In April 2004, CPFL started measuring the volume of material separated by selective waste collection, through a partnership between CPFL, the Campinas municipal authorities and the Dom Bosco garbage collectors cooperative, organized with the help of the authorities and supported by the local business community. The result has been an increase in income for the Dom Bosco garbage collectors.

**GRI**

No significant spillages, leakages of chemicals, oils or fuels occurred at CPFL Energia during 2004, due to the rigorous control exercised over equipment, proper maintenance and new forms of prevention, as well as training and education for employees in matters of safety and the environment. **(Information for GRI Environmental Performance Indicator EN13).**

**Volume of waste generated at the Campinas (SP) head office**

Material	Destination	Un	2004
Ordinary refuse	landfill	m <sup>3</sup>	1,036.80
Paper	Coop/recycled	kg	15,818.80
Cardboard	Coop/recycled	kg	10,282.22
Plastic	Coop/recycled	kg	13,445.98
<b>Total</b>			<b>39,547.00</b>

CPFL Energia also operates what it calls a Reverse Supply Chain, which consists of sorting through the material removed from the distribution or transmission installations due to wear and tear or substitution, for eventual recuperation, re-use or sale.

All the company's locations are authorized, through their works department, to reclassify material and dispose of it as they see fit. The correct disposal of waste material is especially monitored when closing down or de-activating an installation.

Examples of material that can be recovered or recycled include: tools (belts for climbing poles, couplings), insulators, single phase switches and distribution transformers, all of which need to conform to CPFL's technical specifications. During 2004, 50% of all distribution transformers examined were recuperated. **(The information on the Reverse Supply Chain is for GRI Environmental Performance Indicator EN 2).**

Seedling Nursery | Jaguari hydroelectric power plant | Pedreira/São Paulo

**Urban tree-planting and Reforestation**

As part of the policy of maintaining harmony between the urban distribution network and the tree population, CPFL runs two nurseries producing approximately 160,000 seedlings per year, both for its own use and for donation. Over 46,000 seedlings, selected for their suitability for electricity lines, were donated in 2004 to 20 municipalities in CPFL's concession areas. The donations were part of the company's program for encouraging the planting of trees, in

**46,625 seedlings, selected for their suitability for proximity to electricity lines, were donated to 20 municipalities in the group's concession areas during 2004.**

partnership with municipal authorities, NGOs and neighborhood associations. The company also offers a manual on how to plan for and execute urban tree-planting, as well as promoting increased environmental awareness among employees and the surrounding communities.

The company further sought to compensate for the impact of its power distribution activities in 2004 by providing maintenance services and 146,558 seedlings for the native species reforestation projects in the São Paulo state municipalities of Jaboticabal, Guará, Rio das Pedras, Campinas, Americana and Mogi-Mirim. The company also concluded the delivery to DEPRN-State Department for Protection of Natural Resources, process SMA 66,001/99, a total of 50,000 seedlings planted, and also concluded the process SMA 81,453/98, receiving certification for the 19.65 hectare Legal Reserve at its Esmeril PCH.

RGE has now launched the second phase of the Hardwood Forest Program and the third phase of the Reforesting the Araucária Pine Campaign, in partnership with the State Environmental Department – Sema. The company used its operational network and Sema's agencies to distribute 8 tons of Araucária seeds and 20,000 instruction booklets throughout the mountain region of Rio Grande do Sul. 20,000 hardwood seedlings and another 10,000 booklets were distributed to RGE customers. These campaigns are part of this CPFL group distribution company's Environmental Management Program. Sema also awarded RGE its Environmental Reparation Seal, reserved for companies who invest in environmental conservation programs as a condition of the environmental permits their activities require.

#### **Certified wood**

The Certification requirement is intended to ensure that the wood used in the power distribution infrastructure comes from sustainable forestry projects. Its source needs to be substantiated with a certificate of origin issued by Ibama. The instrument currently used is the ATPF – Authorization to Transport Forestry Products, which is scheduled for gradual substitution by the SOF – Seal of Forestry Origin.



## Impact Management

CPFL's Environmental Management System permits the monitoring and identification of any alteration to the natural ecosystem caused by the installation or operation of its equipment or assets, including telecommunications, automation, transmission lines and distribution network substations. The real or potential alterations identified include:

- a) Suppression of vegetation during installation or maintenance of infrastructure: this includes the pruning and, whenever necessary, removal of trees. These activities, depending on the severity, can damage fauna, flora and even soil conservation
- b) Use of forestry products: the main consumption of wood is for the manufacture of cross arms;
- c) Branch lopping remnants: these pose minimal threat to soil contamination. The main problems are irregular dumping in Areas of Permanent Preservation (APPs) or into rivers and lakes.
- d) The use of pH soil correction, fertilizers and agrochemicals: CPFL uses these products in the nurseries, in maintenance work on reforestation projects, and on its gardens and internal patios. These are products that, if improperly handled, can pose a threat to the physical and biotic aspects of natural ecosystems, causing damage to plant and animal life as well as to human health.

**Impermeable surface as a % of owned or leased land (Information for GRI Environmental Performance Indicators EN23 and EN24).**

Company	Total land area – m <sup>2</sup>	Total Constructed area – m <sup>2</sup>	Constructed / Total area – %	Total flooded area small hydro reservoirs – m <sup>2</sup>
CPFL Paulista	3,742,095.24	142,637.02	3.81%	Not Applicable
CPFL Piratininga	6,015,156.10	44,298.08	0.74%	Not Applicable
CPFL Geração	5,113,591.17	39,305.19	0.77%	18,570,000
<b>Total</b>	<b>14,870,842.51</b>	<b>226,240.29</b>	<b>1.52%</b>	<b>18,570,000</b>



## CPFL Energia Stimulates the development of internal scientific research.

### ENERGY EFFICIENCY, RESEARCH & DEVELOPMENT PROGRAMS

A workshop was held in 2004 at CPFL's Campinas head office for employees in the technical, operating and administrative areas, for the purpose of presenting the company's R&D activities and to obtain input and receive internal suggestions for developing new technologies. The aim of the workshop was to disseminate a culture of R&D throughout the company, and augment the plans for raising the number of employees with master's degrees and doctorates.

CPFL Paulista and CPFL Piratininga together, contributed R\$ 9 million in 2004 to the Energy Sector Fund and will contribute a further R\$ 13.5 million in 2005. These funds are invested in applied technology projects and are available to the company itself for its own R&D projects. Eligible projects include technology, software, insulating materials, conductors, optics, specific parts of equipment or advanced technology systems or processes (Read more about R&D in the chapter on Management and Operating Performance of the Distribution Companies).

#### GRI

R\$ 5.3 million was invested during 2003 in CPFL's Industrial Energy Management program, which involves 350 companies from varied locations within its concession areas and which has achieved energy savings for several industries, such as the 1,542 MWh/year savings for Ripasa between May and September 2004 (**GRI Environmental Performance Indicator EN17 – Energy Efficiency**).



## PACT AGAINST ENERGY WASTE

CPFL has signed a cooperation agreement with Fiesp – the São Paulo State Federation of Industries for the next step in the "Efficient Industrial Use of Infrastructure" program.

One of the aims here is to analyze projects submitted by members and affiliates of the Fiesp/Ciesp system, besides CPFL's own projects, for inclusion in Aneel's War Against Energy Waste program. The agreement was signed on June 23<sup>rd</sup> 2004 at Fiesp's head office in São Paulo.

### **Renewable Sources (The Information on Renewable Energy Sources and Cogeneration are for GRI Environmental Performance Indicator EN17).**

In 2004 CPFL Paulista inaugurated the pilot plant of its low cost solar heating project, which consisted of installing, monitoring and assessing the performance of 210 solar heating panels for use by residential power consumers in the city of Americana (SP).

#### **Results**

- reduction of peak demand: 32.85 kW
- energy saving: 46.64 MWh/year

#### **Co-generation**

For years now CPFL has practiced a pioneering policy of encouraging the use of alternative sources of energy.

The CPFL Co-generation Program, designed for the alcohol and sugar mill industry in Brazil, has resulted in major investments in generation and has consolidated CPFL's leadership, experience and technology in the field of technical, economic and financial solutions for the problems posed by these projects. An Internal Co-generation Committee exists to work full time with clients on these projects.

The CPFL Energia group has accumulated information of fundamental importance for making better use of alternative sources of energy, by developing methodologies and computer programs for identifying the regions with the highest technical and economic potential for generating additional energy, and by analyzing all the regulatory, credit and tax implications of the new energy sector model.

### **Water consumption (Information on internal water consumption is for GRI Environmental Performance Indicators EN5, EN12, EN20, EN21 and EN22).**

CPFL consumes minimal quantities of water in its internal administrative activities. Its only real use is to supply the basic requirements of employee hygiene, office cleaning and air conditioning. There is no material effect on the environment.

However, 100% of the power produced by CPFL is hydroelectric, harnessing the energy potential of water resources. Making effective use of these resources is subject to the authorization and control of the responsible authorities, with priority being given to public service and the multiple use of the reservoirs.

## **GRI**

CPFL did not register any incidents or receive any sanctions during 2004 for non-compliance with any declarations, conventions, international treaties or national, sub-national regional or local environmental legislation. A special indicator was introduced to monitor the question of fines and infractions and is reported on a monthly basis to the board. **(This information is for GRI Environmental Performance Indicator EN16).**





**Total water consumption (Information for GRI Environmental Performance Indicator EN 5).**

CPFL Energia	Water companies-m <sup>3</sup>	Wells-m <sup>3</sup>	Total-m <sup>3</sup>
2004***	107,668	40,623	148,291
2003**	98,281	23,225	121,506
2002*	58,254	29,191	87,445

\* CPFL Paulista's consumption only

\*\* Consumption of CPFL Paulista and CPFL Piratininga

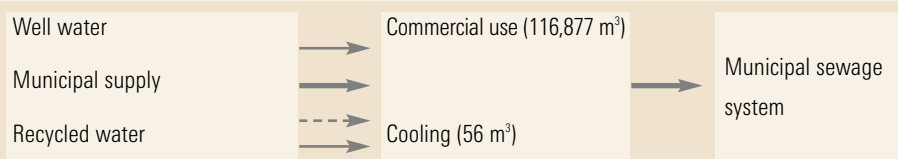
\*\*\* Consumption of CPFL Paulista, CPFL Piratininga and CPFL Geração

The above totals refer to the consumption of water for administrative activities and are supplied by two sources: municipal water companies and CPFL's own wells.

**Significant water discharges (Information for GRI Environmental Performance Indicator EN 32).**

All water consumed by the company is returned, after use, to the municipal sewage systems of the municipalities where its operations are located. Losses are considered to be insignificant (water used on plants or to top up the cooling towers of the air conditioning system at its Campinas head office) and do not cause any material impact. In practice, all the company's effluents are delivered to the public water and waste management systems and nothing is discharged into rivers or lakes.

**Sources of water, forms of consumption and disposal of effluents**



**Note:** The above Figure shows the water sources for CPFL (subterranean sources, municipal sources, the closed circuit air conditioning system at head office); the uses to which the water is put (commercial or administrative use and for the air conditioning system) and the disposal of water after use (collection and treatment by the municipal water and waste management authorities).The arrow with the broken line represents the sporadic use of water for topping up the closed circuit air conditioning system.

**Occupation of the Soil**

**Location and size of land owned, leased or managed in biodiversity-rich habitats (information for GRI Environmental Performance Indicator GRI EN6).**

Biodiversity is the variety and variability of living organisms and the ecological systems in which they occur. Diversity can be defined as the number of different items and their relative frequency. In the case of biological diversity, these items are organized on many levels, ranging from entire ecosystems to the chemical structures that are the molecular basis for hereditariness. The term biodiversity thus encompasses different ecosystems, species, genes and their relative abundance, according to the definition provided by the US Congress Science and Technology Commission (Office of Technology Assessment – OTA).

**GRI**

The Serra da Mesa hydroelectric power plant has the largest reservoir in Brazil, by volume, with a total area of 1,784 Km<sup>2</sup>. It was also the first infrastructure project in the country to receive authorization from Congress to make contact with indigenous communities. Serra da Mesa's Program for Managing the Indigenous Question was created as a means of reconciling the operation of the power plant with the right of the Avá-Canoeiros Indians to remain on their reservation, measuring 38,000 Km<sup>2</sup> in the upper reaches of the river Tocantins, in the Midwest of the country. The agreement reached between the two companies involved in the project – Semesa and Furnas – with Funai – the National Indian Agency is currently being reviewed. Meanwhile, all social obligations provided for in the first version of the agreement continue to be adhered to. **(Information for GRI Human Rights Indicator HR12).**

An advanced Funai outpost, located in the region of the Serra da Mesa power plant attends to the Indians' needs and provides a channel for communication between them and the company whenever necessary. **(Information for GRI Human Rights Indicator HR13).**



Emergency medical team

Of all the company's locations in the state of São Paulo, the only large area that could be considered "rich in biodiversity" is the Serra do Mar state ecological reserve. This covers 315,390 hectares and contains escarpments, some promontories, parts of the Atlantic plateau and a limited amount of coastal plain.

Most of the São Paulo state rivers that flow into the Atlantic ocean have their source in the Serra do Mar reserve which is the largest single remnant of the original Atlantic rain forest, and is home to a variety of associated ecosystems (SMA/CEAM 1992) that contribute towards the region's biological diversity. The Serra do Mar state reserve was created by State Decree 10,251 on August 30<sup>th</sup> 1977.

The environmental impact, however, of CPFL's transmission lines that cross this reserve is considered insignificant: the Pedro Taques line (Cubatão – Praia Grande), 20 km; the Praia Grande line, 1.5 km; the Baixada Santista – Capuava line, 10 km. The total is 56.7 hectares, virtually nothing compared with the size of the reserve.

On the coastline the company's transmission lines also pass over some mangrove swamps which can be considered ecosystems and rich in biodiversity. The extension is 16 km and the area of interference 28.8 hectares, which also can be considered insignificant.

### Transportation

#### **Significant environmental impacts of the transportation used by the company (Information for GRI Environmental Performance Indicator EN34).**

The logistics of transporting CPFL's inventory is handled by an outsourced service company, whose truck fleet averages 31,293 km per month delivering material to all corners of the company's concession areas. The standards for emission of diesel fumes are the same as for CPFL's own truck fleet and the company is required to submit an analysis of exhaust emissions once every six months.

The emission of diesel fumes (particulate matter) by CPFL's own truck fleet is monitored on a semi-annual basis according to its Internal Diesel Vehicle Maintenance Plan, ensuring compliance with State

Decree 8,468/76, regulating Law 997 of May 31<sup>st</sup> 1976 on the prevention and control of environmental pollution, as well as Ibama Ruling 85 of October 17<sup>th</sup> 1996, which introduced controls over the emission of pollutants by diesel vehicles, set permitted standards of emission and established the need for a program of self-inspection and correct fleet maintenance.

#### Breakdown of Environmental Expenditures by Type – R\$ 000 (Information for GRI Environmental Performance Indicator EN 35)

CPFL Energia – Consolidated	2004	2003	2002
Investments related to Company operations*	35,977	27,504	11,072
Investments in external projects/programs**	694	670	0
<b>Total environmental investments</b>	<b>36,671</b>	<b>28,174</b>	<b>11,072</b>

#### Notes:

- (1) CPFL Geração started including the new hydroelectric power projects (Semesa, Campos Novos, Barra Grande, Foz do Chapecó and Ceran) in 2003.
- (2) Investments related to company operations: investments, monitoring the quality of waste/effluents, decontamination, spending on new non-polluting processes, environmental audits, environmental educational programs for employees and other expenditures on increasing and improving the quantity and quality of environmental aspects of the company's production/operations.
- (3) Investments in external projects/programs: decontamination, conservation of natural resources, ecological campaigns and socio-environmental community education.

#### Emissions

Substances contributing to the greenhouse effect	Substances depleting the ozone layer	CPFL Energia's activities	Impact of CPFL's activities in 2004 regarding the following emissions
CO <sub>2</sub> -Carbon dioxide			Alcohol 285,279 L
CH <sub>4</sub> -Methane		Fuel consumption	Diesel 2,415,002 L
CO-carbon monoxide		Alcohol, gasoline, diesel	Gasoline 1,766,416 L
SO <sub>2</sub> -Sulphur dioxide			
HCFC (R22)	HCFC (R22)	Air conditioners	584 air conditioners
N <sub>2</sub> O-Nitrous oxide			Alcohol 285,279 L
NO <sub>2</sub> -Nitrogen oxide			Diesel 2,415,002 L
NM VOC- Non-Methane Volatile Organic Compounds	N <sub>2</sub> O-Nitrous oxide		
HC-Hydrocarbons	NO <sub>2</sub> -Nitrogen oxide	Fuel consumption	Gasoline 1,766,416 L
		Alcohol, gasoline, diesel	

Note: Does not include RGE

#### GRI

The information on Emissions is for GRI Environmental Performance Indicators EN8, EN9, EN10 and EN30 (see the definitions of the performance indicators in the GRI Reference Index at the end of this Report).

In order to improve the environmental record of its activities and comply with legislation, CPFL invested R\$ 134,600.00 during 2004 in the substitution of the refrigeration unit of the air conditioning system at COS –Systems Operations Center/Campinas, which used to run on CFC. It was replaced with a chiller, which runs on 407-C gas and does not damage the ozone layer which is considered ecologically correct.

### Energy

**Direct energy use by primary source – in joules (Information for GRI Environmental Performance Indicator EN3).**

	Type of fuel	2004	2003	2002
CPFL Energia	Diesel	92,514,359,153,645	86,823,993,344,000	81,922,848,150,000
CPFL Energia	Gasoline	61,577,265,381,721	56,814,570,036,000	53,155,504,080,000
CPFL Energia	Alcohol	6,603,150,454,400	8,685,173,097,600	14,817,754,640,000
CPFL Energia	Electricity	87,512,994,000,000	89,421,708,973,569	159,173,203,211,781

**Note:** Does not include RGE

Amounts in liters were converted into calorific power equivalents, according to the following ratios:

Gasoline: 1 liter of gasoline is equivalent to 34,960 kJ

Diesel: 1 liter of diesel is equivalent to 38,350 kJ

Alcohol: 1 liter of alcohol is equivalent to 22,520 kJ

These figures refer to the company's own fleet – operational vehicles and management's cars

### Own consumption of electricity converted from kWh to Joules (1J=2.77x10<sup>-7</sup>)

The information on own consumption of energy is partly for GRI environmental Performance Indicator EN 19, since it includes part of the fuel used on business trips. The other items in EN 19 do not apply)





Fitness Center | Head Office | Campinas | São Paulo

## Assessment of Social Impacts

The public listing of CPFL Energia and the future of the electricity sector were the themes touched upon at one of the working breakfasts hosted by the president of the company in 2004 for employees from the engineering department.

Meetings such as this are frequent and varied at CPFL and are a practical sign of CPFL Energia's Human Resources principles and their cornerstones of transparency and ethics, productivity, professional and personal satisfaction, social responsibility and equal opportunities.

The primary goal of human resources management for 2004 was to source, develop and retain professionals with the skills and performance needed to further improve the organizational climate.

The results were successful: 97% of the company's employees and managers participated in a company climate survey carried out with HayGroup consultants in 2004, which focused on professional pride and employee satisfaction with management. The result was a general favorability index of 76%, the highest since 1999. The company gained 13 percentage points over the previous survey and was elevated to the select group of companies with the best Hay results in the market. In other words, CPFL became a benchmark of organizational climate (these figures do not include RGE)

Another fact indicating the satisfaction and pride of employees was the selection of CPFL, for the third year running, as one of the best companies to work for in a survey organized by Exame and Você S.A. magazines and based on Great Place to Work® Institute methodology and criteria. The high point was the sharp rise in scores for "Balance between Professional and Personal Life", "Impartiality" and "Respect and Team Spirit". In the two previous years, the only group company to have successfully submitted to the ranking was CPFL Paulista.

These results reflect employee recognition of the different programs currently under way.

In 2004 CPFL invested heavily in training and professional development, through technical courses, seminars, workshops and specialization courses. This is the company's way of equipping itself for the complexity and dynamism of its management, distribution, trading and power generation activities, which demand increasingly higher technical and managerial qualifications in pursuit of excellence and corporate growth.

**CPFL Energia was elected one of the best companies in Brazil to work for by *Guia Exame* magazine and by its own employees.**



### GRI

Information on training and other professional development programs is for GRI Labor Practices and Decent Work Indicator LA17.

This is one of the explanations of the manner in which personnel turnover, averaging 6.9% in 2004, represents a balance between retention and attrition, making way for the renovation of CPFL professionals. At year-end, the group had a total of 5,517 employees, compared with 5,393 in 2003.

Productivity at CPFL Energia's subsidiaries, defined as the number of consumers per CPFL employee, was 1,090 at CPFL Paulista, 1,162 at CPFL Piratininga and 762 at RGE. Installed capacity per employee at CPFL Geração was 7.5 MW/employee.

## GRI

Information on the Value of Diversity is for GRI Labor Practices and Decent Work Indicator LA10.

### CENSUS HELPS PROMOTE DIVERSITY

In 2004, CPFL held a Census of its Human Resources on the Intranet, which involved all employees, outsourced workers, interns and traveling inspectors. The purpose was to update the personal and professional records of workers and their dependents, but it also made it possible to take a new look at the CPFL Energia workforce from the point of view of diversity. After the census was completed, an action plan was drawn up to improve personnel management and specifically to emphasize the value of diversity and to create a program specifically for this purpose.

This policy of inclusion and respect for differences translated immediately into effective measures regarding recruitment and selection procedures. CPFL Energia hired 436 new employees during 2004; more than 60% of the hires were the result of the CPFL Value of Diversity program, for reasons of gender, ethnic grouping, age bracket or physically challenged.

Respect for people's differences, the value of diversity and prevention of all types of harassment and discrimination are the key concepts behind the CPFL Value of Diversity program launched in December 2003.

It is the company's understanding that the value given to diversity must become a corporate principle. Much remains to be done, in practice, to overcome the barriers facing professionals from different segments of society to gain entry to the CPFL companies. But the program marks CPFL Energia's commitment to put the principle into practice in its recruitment and selection procedures.

The Internal Social Responsibility Management and Corporate Ethics Committee has the responsibility for formalizing the program and monitoring for compliance.



**CPFL Volunteer Work Program**

This program was created with the goal of promoting volunteer work and coordinating employee initiatives in such a way as to create the greatest possible value for society. It represents CPFL Energia's approach to the importance of voluntary contributions towards the building of a fairer and more equitable society.

**MANAGEMENT TRANSPARENCY**

Top management is deeply committed to transparent dealing. All the company restructuring and organizational change programs are first negotiated with union representatives of the professional categories working in the CPFL group of companies.

Employees have a Workers' Representative Council, with representatives chosen directly by them, as well as an Informal Employee Group (GIC) which follows, together with top management, the implementation of the action plans resulting from the Climate Survey.

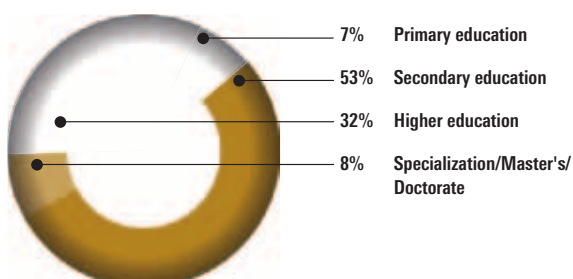
All the companies have workers' representative councils, with representatives chosen by employees in free elections. The company bylaws establish that the chairman of the workers' representative council is also a member of the board of directors, with full participation and voting rights. Employees are also represented on the Board of Trustees of the Fundação Cesp, responsible for managing the employee benefits at CPFL Paulista, CPFL Piratininga, CPFL Geração de Energia, Centrais Elétricas and CPFL Brasil, including the Supplementary Private Pension Plan.

**EMPLOYEE PROFILE**

The employee profile at CPFL Energia is as follows:

- Average age: 36 years
- Average length of service: 10.4 years

**Academic background**



**GRI**

The Policies, guidelines, corporate structure, assessment of the impacts and the procedures for dealing with human rights issues in the organization's operations and for monitoring these procedures, the support for action to eliminate child labor and procedures for handling internal complaints – all of these issues are dealt with in the Code of Ethics and are part of the compliance with SA 8000 standards and the Corporate Responsibility and Sustainability Policy **(Information for GRI Human Rights Indicators HR1 and HR10).**

**GRI**

The information on management commitment to transparency is for GRI Labor Practices and Decent Work Indicator LA 4 and LA 13

**GRI**

One of the 19 directors of CVPFL is a female. **(This information is for GRI Labor Practices and Decent Work Indicator LA11).**

**Breakdown of workforce by employment type and contract (Information for indicator GRI LA 1)**

Company	No contract termination date			With contract termination date			Outsourced workers			Interns			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002	2004	2003	2002
CPFL Paulista	2,917	2,948	3,006	1	3	7	160	101	115	72	35	34	3,150	3,087	3,162
CPFL Piratininga	1,055	1,012	1,139	0	0	0	12	23	9	15	3	0	1,082	1,038	1,148
RGE	1,407	1,318	1,299	0	0	0	223	0	0	41	41	37	1,671	1,359	1,336
CPFL Geração	9	97	110	0	0	0	0	17	0	3	0	1	12	114	111
CPFL Centrais Elétricas	105	0	0	0	0	0	0	0	0	1	0	0	106	0	0
CPFL Brasil	33	0	0	0	0	0	0	0	0	3	0	0	36	0	0
CPFL Energia	5,526	5,375	5,554	1	3	7	395	141	124	135	79	72	6,057	5,598	5,757

**Employee Profile 2004**

Company			Age					Ethnic group					Total
	Male	Female	Up to 25	26 to 35	36 to 45	46 to 55	Over 55	White Braz	Afro Braz	Mixed Descent	Asian	indigenous	
CPFL Paulista	2,515	403	227	889	1,319	473	10	2,636	91	175	15	1	2,918
CPFL Piratininga	916	139	37	352	479	183	4	909	33	101	10	2	1,055
RGE	1,111	296	391	671	246	92	7	1,320	77	5	5	0	1,407
CPFL Geração	5	4	0	1	5	3	0	8	0	1	0	0	9
CPFL Centrais Elétricas	92	13	2	14	46	39	4	95	2	4	4	0	105
CPFL Brasil	24	9	1	13	12	6	1	32	0	0	1	0	33
CPFL Energia	4,663	864	658	1,940	2,107	796	26	4,999	203	286	35	3	5,527





**Net job creation and average employee turnover (Information for GRI Labor Practices and Decent Work Indicator LA2)**

Hired/Released	CPFL Energia		
	2004	2003	2002
Hired	436	216	381
Released	324	328	458
Turnover	6.8%	5.1%	7.6%

**Employee Benefits (Information for GRI Labor Practices and Decent Work Indicator LA12)**

All CPFL group company employees enjoy the following benefits, in addition to those provided for by labor legislation: supplementary private pension plan; medical/hospital/dental assistance; meal tickets; food tickets; personal loans; death benefits; group life insurance; assistance with pharmaceutical drug purchases; reimbursement of expenditures on bone and organ implants; support for people with disabilities. These benefits are available to all employees. Head office workers can also use the fitness center, open 14 hours a day or frequent the sports centers for volleyball and indoor soccer. At other locations arrangements are made for all employees to be able to frequent local fitness centers. Reciprocal agreements are also made with universities and commercial establishments.

**Percentage of employees represented by independent union organizations (Information for GRI Labor Practice and Decent Work Indicator LA3)**

Company 2004	N° employees	N° Unionized	% Unionized
CPFL Energia	5,517	3,536	64
%	<b>2004</b>	<b>2003</b>	<b>2002</b>
CPFL Energia	64%	70%	66%

**Average N° of hours of training per employee and job category (Information for GRI Labor Practices and Decent Work Indicator LA9).**

Program	2004	2003	2002
Development/training	63.40	47.37	85.07
Professional recycling	89.37	62.01	26.57

**GRI**

The support for worker employability is based on skills defined by the company. CPFL Energia is preparing a preretirement program plus a program designed specifically for the management of the retirement process, both scheduled to be implemented during the second half of 2006 (Information for GRI Labor Practices and Decent Work Indicator LA16).

## Principal Awards Received for Social, Ethical and Environmental Performance

(Information for GRI Social Performance Indicator S04)

### National Quality Award Foundation

- CPFL Paulista – first electric sector company to reach the finals of the National Quality Award

### IstoÉ Dinheiro

- Best electric power and gas company in Brazil

### EuroMoney Magazine

- CPFL Energia - Latin American Equity Deal of the Year

### IASC Award – Aneel Consumer Satisfaction Index

- CPFL Paulista – Highest ranking in Brazil out of all distribution companies serving over 400,000 customers
- CPFL Paulista – Aneel Consumer Satisfaction Index – IASC Award for the Southeastern region, distribution companies serving over 400,000 customers
- CPFL Piratininga and RGE – ranked among the top three companies in the Southeast and South of Brazil, respectively

### Social Report Award

- Distinction for the 2003 Annual Report, awarded by Aberje (Brazilian Association of Corporate Communication), Apimec (Capital Markets Analysts and Investment Professionals Association), Instituto Ethos (Corporate and Social Responsibility Institute), Fides (Corporate and Social Development Institute Foundation) and Ibase (Brazilian Social and Economic Research Institute).

### Abradee Awards - Brazilian Association of Electricity Distributors

- CPFL Paulista – Best Social Responsibility Management
- CPFL Piratininga – Best Economic and Financial Management
- RGE – Rio Grande Energia – Best Customer Ranking in Brazil



### Exame magazine

- CPFL Energia – Highest score among 10 model companies in Exame magazine's Guide to Corporate Citizenship
- CPFL Energia – One of the 150 best companies for you to work for in Brazil

### ABQV – Brazilian Quality of Life Association

- IX National Quality of Life Award for CPFL Energia, for the CPFL "More Quality in your Life and More Respect for you as a Person" Program

### Aberje- Brazilian Association of Corporate Communication:

- Aberje Award – Brazil and São Paulo – Investor Relations Category, for the 2003 CPFL Energia Annual Report, published in 2004
- Aberje Award – Southern Brazil – Investor Relations, for the 2003 RGE Annual Report, published in 2004

### B2B

- B2B Quality Standard – Category: Public Utilities – Private Concession Holders – for CPFL Energia

### FIESP Estadual

- Conservation and Rational Use of Energy Award for CPFL Energia

### Top Consumer Award

- For RGE, awarded by the Consumidor/Teste magazine, the Consumer Rights Association and the National Consumer Education Institute

### GRI

CPFL and its subsidiaries invite external evaluation of their operations and results in order to obtain parameters for comparison (**GRI Social Performance Indicator S04**).



## Annual Social Report 2004 – Ibase Model\*

### CPFL Energia S.A.

<b>1 - Basis for Calculation</b>	<b>2004 Value (R\$ 000)</b>			<b>2003 Value (R\$ 000)</b>		
Net Revenues (NR)	6,736,253			6,057,069		
Operating Result (OR)	584,244			(198,365)		
Gross Payroll (GP)	159,836			147,302		
<b>2 - Internal Social Indicators</b>	<b>Value (000)</b>	<b>% of GP</b>	<b>% of NR</b>	<b>Value (000)</b>	<b>% of GP</b>	<b>% of NR</b>
Food	19,436	12%	0%	15,966	11%	0%
Mandatory payroll taxes	104,278	65%	2%	96,708	66%	2%
Private pension plan	17,237	11%	0%	15,591	11%	0%
Health	13,883	9%	0%	10,997	7%	0%
Occupational safety and health	779	0%	0%	846	1%	0%
Education	1,049	1%	0%	837	1%	0%
Culture	0	0%	0%	0	0%	0%
Training and professional development	4,387	3%	0%	2,735	2%	0%
Day-care/allowance	330	0%	0%	240	0%	0%
Profit/income sharing	19,016	12%	0%	17,253	12%	0%
Others	1,660	1%	0%	1,246	1%	0%
<b>Total – Internal social indicators</b>	<b>182,054</b>	<b>114%</b>	<b>3%</b>	<b>162,420</b>	<b>110%</b>	<b>3%</b>
<b>3 - External social indicators</b>	<b>Value (000)</b>	<b>% of GP</b>	<b>% of NR</b>	<b>Value (000)</b>	<b>% of GP</b>	<b>% of NR</b>
Education	1,338	0%	0%	1,500	0%	0%
Culture	3,626	1%	0%	1,934	0%	0%
Health and sanitation	195	0%	0%	426	0%	0%
Sport	0	0%	0%	0	0%	0%
War on hunger and malnutrition	0	0%	0%	0	0%	0%
Others	1,149	0%	0%	824	0%	0%
Total contributions to society	6,308	1%	0%	4,684	0%	0%
Taxes (excluding payroll taxes)	3,063,101	524%	45%	2,339,842	0%	39%
<b>Total – external social indicators</b>	<b>3,069,410</b>	<b>525%</b>	<b>46%</b>	<b>2,344,526</b>	<b>0%</b>	<b>39%</b>
<b>4 - Environmental indicators</b>	<b>Value (000)</b>	<b>% of GP</b>	<b>% of NR</b>	<b>Value (000)</b>	<b>% of GP</b>	<b>% of NR</b>
Investments related to Company operations	35,977	6%	1%	27,504	0%	0%
Investment in external projects/programs	694	0%	0%	670	0%	0%
<b>Total environmental investment</b>	<b>36,671</b>	<b>6%</b>	<b>1%</b>	<b>28,174</b>	<b>0%</b>	<b>0%</b>

Regarding annual targets for reducing residues, general

consumption used in production and increased efficiency in the use of natural resources, the company:

<input type="checkbox"/> without targets	<input type="checkbox"/> fulfilled 51 to 75%	<input type="checkbox"/> without targets	<input type="checkbox"/> fulfilled 51 to 75%
<input type="checkbox"/> fulfilled 0 to 50%	<input checked="" type="checkbox"/> fulfilled 76 to 100%	<input type="checkbox"/> fulfilled 0 to 50%	<input checked="" type="checkbox"/> fulfilled 76 to 100%

\* Ibase Model: Brazilian Institute of Social and Economic Analyses

<b>5 - Staff indicators</b>				<b>2004</b>				<b>2003</b>
N° of employees at end of period				5,517				5,393
N° of employees hired during period				431				237
N° of outsourced employees				4,370				3,970
N° of interns				136				80
N° of employees above 45 years of age				1,089				848
N° of women working at the company				920				700
% management positions occupied by women				10.84%				7.14%
N° of Afro-Brazilian employees working at the company				410				nd
% management positions occupied by Afro-Brazilian employees				0.00%				nd
N° of employees with disabilities				95				280
<b>6 - Information on business responsibility</b>				<b>2004</b>				<b>Targets 2005</b>
Ratio of highest to lowest compensation at company				94.46				94.46
Total number of work-related accidents				67				20
Company-sponsored social and environmental projects were decided upon by:	<input type="checkbox"/> executive office	<input checked="" type="checkbox"/> executive office and management	<input type="checkbox"/> all employees	<input type="checkbox"/> executive office	<input checked="" type="checkbox"/> executive office and management	<input type="checkbox"/> all employees		
Health and safety standards at the workplace were set by:	<input type="checkbox"/> executive office and management	<input type="checkbox"/> all employees	<input checked="" type="checkbox"/> all + Cipa	<input type="checkbox"/> executive office and management	<input type="checkbox"/> all employees	<input checked="" type="checkbox"/> all + Cipa		
As regards trades union freedom, the right to collective negotiation and the internal representation of employees within the company:	<input type="checkbox"/> don't get involved	<input type="checkbox"/> follow the OIT standards	<input checked="" type="checkbox"/> encourage and follow OTI	<input type="checkbox"/> don't get involved	<input type="checkbox"/> follow the OIT standards	<input checked="" type="checkbox"/> encourage and follow OTI		
Company pension plan covers:	<input type="checkbox"/> executive office	<input type="checkbox"/> executive office and management	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> executive office	<input type="checkbox"/> executive office and management	<input checked="" type="checkbox"/> all employees		
Profit-sharing program covers:	<input type="checkbox"/> executive office	<input type="checkbox"/> executive office and management	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> executive office	<input type="checkbox"/> executive office and management	<input checked="" type="checkbox"/> all employees		
In the selection of suppliers, ethical standards and social/environmental responsibility of the supplier:	<input type="checkbox"/> not considered	<input type="checkbox"/> suggested	<input checked="" type="checkbox"/> required	<input type="checkbox"/> not considered	<input type="checkbox"/> suggested	<input checked="" type="checkbox"/> required		
In relation to volunteer work by employees, the company:	<input type="checkbox"/> don't get involved	<input type="checkbox"/> support	<input checked="" type="checkbox"/> encourage and follow	<input type="checkbox"/> don't get involved	<input type="checkbox"/> support	<input checked="" type="checkbox"/> encourage and follow		
Total N° of customer complaints/criticisms:	to company 646,987	to Procon 1,937	to the courts 488	to company 614,638	to Procon 1,841	to the courts 283		
Total N° of customer complaints/criticisms attended to/resolved	to company 100%	to Procon 100%	to the courts 37.29%	to company 100%	to Procon 100%	to the courts 37.30%		
<b>Total Value-added for distribution (R\$ 000):</b>				<b>In 2004: 4,933,045</b>				<b>In 2003: 3,915,789</b>
Distribution of Value-added:				63.89% Government				62.94% Government
				8.99% Employees				9.90% Employees
				5.37% Shareholders				0.00% Shareholders
				21.47% Third parties				34.75 % Third parties
				0.28% Retained				(7.59)% Retained

**7 - Other information**

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This company does not utilize child labor or slave labor.



## The 10 Principles of the Global Compact

### HUMAN RIGHTS

- 1 Principle 1:** Companies should support and respect the protection of internationally proclaimed human rights
- 2 Principle 2:** ensure that their own corporations are not complicit in human rights abuses

### LABOR

- 3 Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- 4 Principle 4:** the elimination of all forms of forced and compulsory labor
- 5 Principle 5:** the effective abolition of child labor
- 6 Principle 6:** the elimination of discrimination in respect of employment and occupation

### ENVIRONMENT

- 7 Principle 7:** Businesses should support a precautionary approach to environmental challenges
- 8 Principle 8:** undertake initiatives to promote greater environmental responsibility
- 9 Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

### CORRUPTION

- 10 Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

In the following pages of the Reference Index, the GRI indicators with CPFL Energia information relating to compliance with the Principles of the Global Compact are marked in their respective colors.

## GRI Reference Index

<p><b>1.1</b> Statement of the organisation's vision and strategy regarding its contribution to sustainable development <b>9</b></p>	<p><b>7, 8, 33, 105</b></p>	<p><b>2.17</b> Decisions not to apply GRI principles or protocols in the preparation of the report</p>	<p><b>161-165</b></p>
<p><b>1.2</b> Statement from the CEO (or equivalent senior manager) describing key elements of the report</p>	<p><b>Flyleaf, 8</b></p>	<p><b>2.18</b> Criteria/definitions used in any accounting for economic, environmental, and social costs and benefits</p>	<p><b>Flyleaf</b></p>
<p><b>2.1</b> Name of reporting organisation</p>	<p><b>Cover, 168, 169</b></p>	<p><b>2.19</b> Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information</p>	<p><b>Flyleaf</b></p>
<p><b>2.2</b> Major products and/or services, including brands if appropriate</p>	<p><b>Flyleaf, 14, 48, 66, 86</b></p>	<p><b>2.20</b> Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report</p>	<p><b>30-37, 102-143, CD</b></p>
<p><b>2.3</b> Operational structure of the organisation</p>	<p><b>Flyleaf, 14-18, 48-55, 66-68, 86, 87</b></p>	<p><b>2.21</b> Policy and current practice with regard to providing independent assurance for the full report</p>	<p><b>156</b></p>
<p><b>2.4</b> Description of major divisions, operating companies, subsidiaries, and joint ventures</p>	<p><b>48-55, 66-68, 86, 87</b></p>	<p><b>2.22</b> Means by which report users can obtain additional information and reports about economic, environmental, and social aspects of the organisation's activities, including facility-specific information (if available)</p>	<p><b>166, 169</b></p>
<p><b>2.5</b> Countries in which the organisation's operations are located</p>	<p><b>Flyleaf, 48-55, 66-68, 86, 87</b></p>	<p><b>3.1</b> Governance structure of the organisation, including major committees under the board of directors that are responsible for setting strategy and for oversight of the organisation</p>	<p><b>22-24</b></p>
<p><b>2.6</b> Nature of ownership; legal form</p>	<p><b>Flyleaf, 14, 15, 16, 48-55, 66-68, 86, 87, 168</b></p>	<p><b>3.2</b> Percentage of the board of directors that are independent, non-executive directors</p>	<p><b>Not Applicable.</b></p>
<p><b>2.7</b> Nature of markets served</p>	<p><b>Flyleaf, 48-55, 66-68, 86, 87</b></p>	<p><b>3.3</b> Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities <b>7</b></p>	<p><b>22-24</b></p>
<p><b>2.8</b> Scale of the reporting organization</p>	<p><b>Flyleaf, 46, 48-55, 66-68, 86, 87, 154</b></p>	<p><b>3.4</b> Board-level processes for overseeing the organisation's identification and management of economic, environmental, and social risks and opportunities</p>	<p><b>22-29, 30-37, 107-112</b></p>
<p><b>2.9</b> List of stakeholders, key attributes of each, and relationship to the reporting organization</p>	<p><b>7, 8, 104-159</b></p>	<p><b>3.5</b> Linkage between executive compensation and achievement of the organisation's financial and non-financial goals (e.g., environmental performance, labour practices)</p>	<p><b>22-24</b></p>
<p><b>2.10</b> Contact person(s) for the report, including e-mail and web addresses</p>	<p><b>166, 169</b></p>	<p><b>3.6</b> Organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies</p>	<p><b>22-29</b></p>
<p><b>2.11</b> Reporting period (e.g., fiscal/calendar year) for information provided</p>	<p><b>Cover e Flyleaf</b></p>	<p><b>3.7</b> Mission and values statements, internally developed codes of conduct or principles, and polices relevant to economic, environmental, and social performance and the status of implementation</p>	<p><b>104,105</b></p>
<p><b>2.12</b> Date of most recent previous report (if any)</p>	<p><b>Flyleaf</b></p>		
<p><b>2.13</b> Boundaries of report (countries/regions, products/services, divisions/facilities/joint ventures/subsidiaries) and any specific limitations on the scope</p>	<p><b>Flyleaf</b></p>		
<p><b>2.14</b> Significant changes in size, structure, ownership, or products/services that have occurred since the previous report</p>	<p><b>Cover, 7, 8, 12-24</b></p>		
<p><b>2.15</b> Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period and/or between reporting organisations</p>	<p><b>Cover, 7, 8</b></p>		
<p><b>2.16</b> Explanation of the nature and effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods)</p>	<p><b>Cover, 14</b></p>		

3.8	Mechanisms for shareholders to provide recommendations or direction to the board of directors	22-24
3.9	Basis for identification and selection of major stakeholders	30-37, 104, 105
3.10	Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group	22-24, 60-64, 128-132, 156-157
3.11	Type of information generated by stakeholder consultations. Include a list of key issues and concerns raised by stakeholders and identify any indicators specifically developed as a result of stakeholder consultation	104-159
3.12	Use of information resulting from stakeholder engagements	33-37
3.13	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	107-112, 102-159
3.14	Externally developed, voluntary economic, environmental, and social charters, sets of principles, or other initiatives to which the organisation subscribes or which it endorses	62, 118-121, 160
3.15	Principal memberships in industry and business associations, and/or national/international advocacy organisations	118-127, 160
3.16	Policies and/or systems for managing upstream and downstream impacts	104-106, 109, 130-132
3.17	Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities	74-85, 102-159
3.18	Major decisions during the reporting period regarding the location of, or changes in, operations	Flyleaf, 7, 8, 14-18
3.19	Programmes and procedures pertaining to economic, environmental, and social performance	7, 8, 102-159
3.20	Status of certification pertaining to economic, environmental, and social management systems	113

## ECONOMIC

### Customers

EC1.	Net sales	93
EC2.	Geographic breakdown of markets	46

### Suppliers

EC3.	Cost of all goods, materials, and services purchased	95
EC4.	Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements	95

EC11.	Supplier breakdown by organisation and country	132
-------	--	-----

### Employees

EC5.	Total payroll and benefits (including wages, pension, other benefits, and redundancy payments) broken down by country or region	46
------	---	----

### Providers of Capital

EC6.	Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed	99
EC7.	Increase/decrease in retained earnings at end of period	97

### Public Sector

EC8.	Total sum of taxes of all types paid broken down by country	46
EC9.	Subsidies received broken down by country or region	130
EC10.	Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group	124
EC12.	Total spent on non-core business infrastructure development	122

### Indirect Economic Impacts

EC13.	The organisation's indirect economic impacts	127
-------	--	-----

## ENVIRONMENTAL

### Materials

EN1.	Total materials use other than water, by type	139
EN2.	Percentage of materials used that are wastes (processed or unprocessed) from sources external to the reporting organization	141

### Energy

EN3.	Direct energy use segmented by primary source	150
EN4.	Indirect energy use	Not Applicable.
EN17.	Initiatives to use renewable energy sources and to increase energy efficiency	64-65, 71, 144, 145

EN18.	Energy consumption footprint (i.e., annualized lifetime energy requirements) of major products	Not Applicable.
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EN19.	Other indirect (upstream/downstream) energy use and implications, such as organisational travel, product lifecycle management, and use of energy-intensive materials	150
-------	--	-----

### Water

EN5.	Total water use	145, 147
------	-----------------	----------



EN20.	Water sources and related ecosystems/habitats significantly affected by use of water	145
EN21.	Annual withdrawals of ground and surface water as a percent of annual renewable quantity of water available from the sources	145
EN22.	Total recycling and reuse of water	145
<b>Biodiversity</b>		
EN6.	Location and size of land owned, leased, or managed in biodiversity-rich habitats	148, 157
EN7.	Description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, freshwater, and marine environments	132, 134, 139
EN23.	Total amount of land owned, leased, or managed for production activities or extractive use	143
EN24.	Amount of impermeable surface as a percentage of land purchased or leased	143
EN25.	Impacts of activities and operations on protected and sensitive areas	132, 134, 139
EN26.	Changes to natural habitats resulting from activities and operations and percentage of habitat protected or restored	134, 139
EN27.	Objectives, programmes, and targets for protecting and restoring native ecosystems and species in degraded areas	133
EN28.	Number of IUCN Red List species with habitats in areas affected by operations	Not Applicable.
EN29.	Business units currently operating or planning operations in or around protected or sensitive areas	136
<b>Emissions, Effluents, and Waste</b>		
EN8.	Greenhouse gas emissions	149
EN9.	Use and emissions of ozone-depleting substances	149
EN10.	NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions by type	149
EN11.	Total amount of waste by type and destination	139
EN12.	Significant discharges to water by type	145
EN13.	Significant spills of chemicals, oils, and fuels in terms of total number and total volume	140
EN30.	Other relevant indirect greenhouse gas emissions	149

EN31.	All production, transport, import, or export of any waste deemed "hazardous" under the terms of the Basel Convention Annex I, II, III, and VIII	Not Applicable.
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EN32.	Water sources and related ecosystems/habitats significantly affected by discharges of water and runoff	147
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**Suppliers**

EN33.	Performance of suppliers relative to environmental components of programmes and procedures described in response to Governance Structure and Management Systems section (Section 3.16)	131
-------	--	-----

**Products and Services**

EN14.	Significant environmental impacts of principal products and services	134, 139
-------	--	----------

EN15.	Percentage of the weight of products sold that is reclaimable at the end of the products' useful life and percentage that is actually reclaimed	Not Applicable.
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**Compliance**

EN16.	Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, sub-national, regional, and local regulations associated with environmental issues	145
-------	---	-----

**Transport**

EN34.	Significant environmental impacts of transportation used for logistical purposes	148
-------	--	-----

**Overall**

EN35.	Total environmental expenditures by type	149
-------	--	-----

**SOCIAL****Labour Practices and Decent Work****Employment**

LA1.	Breakdown of workforce, where possible, by region/country, status (employee/non-employee), employment type (full time/part time), and by employment contract (indefinite or permanent/fixed term or temporary)	154
LA2.	Net employment creation and average turnover segmented by region/country	155
LA12.	Employee benefits beyond those legally mandated	155

**Labour/Management Relations**

LA3.	Percentage of employees represented by independent trade union organisations or other bona fide employee representatives broken down geographically OR percentage of employees covered by collective bargaining agreements broken down by region/country	155
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<b>LA4.</b>	Policy and procedures involving information, consultation, and negotiation with employees over changes in the reporting organisation's operations (e.g., restructuring)	<b>153</b>
<b>LA13.</b>	Provision for formal worker representation in decision-making or management, including corporate governance	<b>111, 153</b>
<b>Health and Safety</b>		
<b>LA5.</b>	Practices on recording and notification of occupational accidents and diseases, and how they relate to the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases	<b>111, 112</b>
<b>LA6.</b>	Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees	<b>111</b>
<b>LA7.</b>	Standard injury, lost day, and absentee rates and number of work-related fatalities (including subcontracted workers)	<b>112</b>
<b>LA8.</b>	Description of policies or programmes (for the workplace and beyond) on HIV/AIDS	<b>111</b>
<b>LA14.</b>	Evidence of substantial compliance with the ILO (Guidelines for Occupational Health Management Systems)	<b>111</b>
<b>LA15.</b>	Description of formal agreements with trade unions or other bona fide employee representatives covering health and safety at work and proportion of the workforce covered by any such agreements	<b>111</b>
<b>Training and Education</b>		
<b>LA9.</b>	Average hours of training per year per employee by category of employee	<b>155</b>
<b>LA16.</b>	Description of programmes to support the continued employability of employees and to manage career endings	<b>155</b>
<b>LA17.</b>	Specific policies and programmes for skills management or for lifelong learning	<b>151</b>
<b>Diversity and Opportunity</b>		
<b>LA10.</b>	Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring	<b>152</b>
<b>LA11.</b>	Composition of senior management and corporate governance bodies (including the board of directors), including female/male ratio and other indicators of diversity as culturally appropriate	<b>153</b>
<b>Human Rights</b>		
<b>Strategy and Management</b>		
<b>HR1.</b>	Description of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results	<b>153</b>
<b>HR2.</b>	Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors	<b>153</b>
<b>HR3.</b>	Description of policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring	<b>153</b>
<b>HR8.</b>	Employee training on policies and practices concerning all aspects of human rights relevant to operations	<b>153</b>
<b>Non-discrimination</b>		
<b>HR4.</b>	Description of global policy and procedures/programmes preventing all forms of discrimination in operations, including monitoring systems and results of monitoring.	<b>153</b>
<b>Freedom of Association and Collective Bargaining</b>		
<b>HR5.</b>	Description of freedom of association policy and extent to which this policy is universally applied independent of local laws, as well as description of procedures/programmes to address this issue	<b>153</b>
<b>Child Labour</b>		
<b>HR6.</b>	Description of policy excluding child labour as defined by the ILO Convention 138 and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring	<b>153</b>
<b>Forced and Compulsory Labour</b>		
<b>HR7.</b>	Description of policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring	<b>153</b>
<b>Disciplinary Practices</b>		
<b>HR9.</b>	Description of appeal practices, including, but not limited to, human rights issues.	<b>153</b>
<b>HR10.</b>	Description of non-retaliation policy and effective, confidential employee grievance system (including, but not limited to, its impact on human rights)	<b>153</b>
<b>Security Practices</b>		
<b>HR11.</b>	Human rights training for security personnel	<b>112</b>
<b>Indigenous Rights</b>		
<b>HR12.</b>	Description of policies, guidelines, and procedures to address the needs of indigenous people	<b>147</b>
<b>HR13.</b>	Description of jointly managed community grievance mechanisms/authority	<b>147</b>
<b>HR14.</b>	Share of operating revenues from the area of operations that are redistributed to local communities	<b>Not Applicable.</b>

## Society

### Community

- S01.** Description of policies to manage impacts on communities in areas affected by activities, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring  
**104, 113, 114, 128, 134, 136**
- S04.** Awards received relevant to social, ethical, and environmental performance  
**114, 156, 157**

### Bribery and Corruption

- S02.** Description of the policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption  
**105**

### Political Contributions

- S03.** Description of policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions  
**105**
- S05.** Amount of money paid to political parties and institutions whose prime function is to fund political parties or their candidates  
**105**

### Product Responsibility

- S06.** Legal decisions regarding anti-trust legislation and monopoly control  
**110**
- S07.** Description of policies, procedures, management systems and mechanisms of conformity for the prevention of unfair trading practices  
**107**

## Product Responsibility

### Customer Health and Safety

- PR1.** Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring  
**109**
- PR4.** Number and type of instances of non-compliance with regulations concerning customer health and safety, including the penalties and fines assessed for these breaches  
**In 2004 CPFL Paulista and CPFL Piratininga were subject to four judicial proceedings for electric shock. The processes are being analyzed.**
- PR5.** Number of complaints upheld by regulatory or similar official bodies to oversee or regulate the health and safety of products and services  
**In 2004 there was no record of this type of complaint.**
- PR6.** Voluntary code compliance, product labels or awards with respect to social and/or environmental responsibility that the reporter is qualified to use or has received  
**156, 157**

## Products and Services

- PR2.** Description of policy, procedures/management systems, and compliance mechanisms related to product information and labeling  
**Not Applicable.**
- PR7.** Number and type of instances of non-compliance with regulations concerning product information and labeling, including any penalties or fines assessed for these breaches  
**Not Applicable.**
- PR8.** Description of policy, procedures/management systems, and compliance mechanisms related to customer satisfaction, including results of surveys measuring customer satisfaction  
**129**

### Advertising

- PR9.** Description of policies, procedures/management systems, and compliance mechanisms for adherence to standards and voluntary codes related to advertising  
**129**
- PR10.** Number and types of breaches of advertising and marketing regulations  
**129**

### Respect for Privacy

- PR3.** Description of policy, procedures/management systems, and compliance mechanisms for consumer privacy  
**110**
- PR11.** Number of substantiated complaints regarding breaches of consumer privacy  
**110**

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CPFL Energia Financial Statements – 2004 (pdf – English and Portuguese)  
 Annual Report 2002 and 2003 (pdf – English and Portuguese)  
 Corporate Governance Guidelines – English and Portuguese  
 Institutional CPFL Energia Video – English and Portuguese

### Reader Opinion Poll

Postage pre-paid in Brazil









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