



**Local Conference Call
CPFL Energia S/A
Fourth Quarter 2019 Earnings
March 10, 2020**

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

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

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

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

Note that this conference call is being recorded.

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

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

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

Mr. Gustavo Estrella: OK, thank you. Good morning everyone. And thank you for participating in our earnings conference call for 2019.

Let's go to slide 3, where you can see the highlights from fiscal year 2019. I want to start with the capacity expansion of our concession area of 1.2%. A bit



later you'll see in more detail how his growth was led by higher consumption in lower-voltage classes, especially residential and commercial.

Record high results. EBITDA was R\$ 6.394 billion, growing 13.4% compared to 2018. Net income also set a new record, of R\$ 2.748 billion, growing 26.9% compared to 2018. Net debt ended the period at R\$16.8 billion, with leverage measured by the ratio of net debt to EBITDA, as per our financial covenants, of 2.52 times, down significantly from over 3 times at the close of 2018.

For capital expenditures, we closed another year above R\$ 2 billion, at R\$ 2.254 billion, or 9.3% more than in 2018. Because of the growth in our bottom line and the decline in our debt, the company has sent to shareholders a proposal to distribute dividends of R\$ 2.075 billion, or R\$ 1.08 per share. CPFL Piratininga registered, in October 2019, an important tariff adjustment of negative 7.8%, due in large part to the decline in charges, especially with CDE, and, even with this lower tariff, there was a significant variation in our portion B, of 6.2%, driven in large part by the passthrough of IGP-M inflation to our tariffs.

Another highlight, related to our re-IPO in June, is our average daily trading volume, of R\$94 million, which means that we now are optimistic on being included in many local stock indexes. Today we are a component of the IBX-100 and are nearing inclusion in the IBX-50, with the prospects of also being included in the Ibovespa in the coming months.

We also concluded the stock transfer operations of CPFL Renováveis, for payment of R\$4.1 billion, as per the amount disclosed to the market of R\$16.85 per share, with CPFL Renováveis's delisting expected this year.

Another major highlight was the integration of CPFL Renováveis into CPFL Energia, which also was announced to the market during our IPO process. We concluded the process in December of last year, and today CPFL Renováveis already has been integrated into our headquarter in Campinas, São Paulo.

We also launched a comprehensive liability management process to optimize the debt of CPFL Renováveis. We already have optimized R\$ 838 million in liabilities, and we expect to continue this process over 2020 and to obtain a reduction in debt cost and a lengthening of the average debt term of CPFL Renováveis.

Moving on to slide 4, you can see the highlights of our energy sales in the fourth quarter, with the period registering growth in concession area sales of 2.4% and in sales of 4,2%.

In terms of consumption class in the fourth quarter, the highlights were the residential and commercial classes. An important factor was temperature in



relation to the same quarter of 2018, and the slower recovery of the industrial sector.

Let's go to slide 5, where you can see sales in 2019, with expansion of 1.2% in capacity and of 1.3% in sales in concession area. Note that, during 2019, CPFL registered the migration from our market of certain clients to direct connection to the basic grid, which has practically no effect on our results and margins, but obviously affects comparisons of the market in 2019 in relation to 2018.

When we exclude this effect from client migrations of 1.2, consumption in our concession area grew by 1.9%. Upon analysis, once again, the highlight is the low-voltage residential and commercial classes, which basically is the temperature effect, which has a positive effect on residential and commercial consumption, and with a negative effect on the industrial classes of 1.4. If we exclude the migration effect, the industrial class was virtually stable in relation to 2018, down a slight 0.1%.

Moving on, slide 6 shows the performance delinquency and losses, which are two important indicators that we monitored over the past year in the distribution segment. Delinquency posted a significant drop from the third to fourth quarters, from 0.87 to 0.49, which was due to renegotiations that we conducted with certain clients in our area during the fourth quarter.

Excluding the effects from these negotiations, delinquency in the fourth quarter would have been 0.7%, which would represent improvement from the third quarter and be practically in line with the last quarter of 2018.

We are expecting a gradual decline, albeit slow, in delinquency going forward. We are maintaining our intensified collection actions, especially disconnections, with 591,000 disconnections in the fourth quarter, which is the most disconnections ever in a single quarter. We expect to maintain disconnections at a high level over the coming months not to only contain, but also to reduce even further our delinquency rate over the course of 2020.

We also expect losses to remain practically stable, declining slightly in relation to 2018, when losses ended the year at 8.89%. Despite this reduction, we are still above the regulatory limits. This also presents a major challenge, with almost 600,000 inspections conducted over 2019 to identify and combat losses in our concession areas as well.

Moving on, slide 7 shows lots of factors that directly or indirectly affect our generation segment. One is the decline of 21% in the PLD, or spot price, in 2019 in relation to 2018. The average price in the year was R\$227 per MW/h, and the expectation in these early months of the year is for a lower spot price than in 2019, given the weather conditions observed, especially in the Northeast at the start of this year.



GSF increased by 8.3%, surpassing the 91% GSF in 2019. Meanwhile, our small hydropower plants registered a decline of 3% in inflow, which of course affects our power generation over the year.

Wind generation registered a decline of 4.6% in relation to 2018 which is directly linked to wind performance at our farms, which was down a slight 4.9% from the P50 curve in 2018, at 85%, which directly affects our total power generation.

The availability rate improved by nearly 2%, which is very positive, especially at the farms in the state of Ceará and the farms with Suzlon equipment, with our insourcing at the start of last year resulting in significant improvement in the performance and availability of industrial machinery at our farms after the insourcing process.

I will now hand the call over to Pan, who will go into more detail in our financial results.

Mr. Pan: Good morning everyone.

Moving on, Slide 8 shows our EBITDA in the quarter of R\$1.7 billion, for growth of 28.6% on the same quarter last year. In the distribution segment, EBITDA grew by 37.3%, or R\$ 238 million, explained mainly by market share gains, by rate increases under the last tariff revisions and by the capacity expansion of our concession area, as Gustavo mentioned. There also were smaller effects, such as the growth in other revenues and the reduction in the provision for bad debt after various quarters of increases.

In the trading, services and other segment, EBITDA posted strong growth of 108.4%. In the services segment, the highlight was the good performance of CPFL Serviço, which delivered strong EBITDA growth of R\$ 16 million in the fourth quarter. In the trading segment, the lower sales volume was offset by the higher prices, with margin growing by R\$ 8 million.

The next slide shows the conventional generation segment, where EBITDA grew by 6.1%. The main effects were: the effects from the passthrough of inflation to contracts of R\$ 25 million, which was partially offset by the GSF of the small portion of our energy in the free market of negative R\$ 7 million and of another R\$ 1 million.

Meanwhile, at CPFL Renováveis, EBITDA grew by 26.1%, due to: the asset write-offs in the fourth quarter of R\$ 60 million and the higher contribution from wind power, of R\$ 28 million. These effects were partially offset by: the process of integrating CPFL Renováveis into CPFL Renováveis, which generated an expense of R\$ 4 million; the end of the grace period of O&M



contracts, with an expense of R\$ 3 million; and other expenses of R\$ 3 million.

On slide 10, you can see the performance of net income, which came to R\$ 857 million in the quarter, up 27.8% from the prior-year quarter. In addition to the variation of R\$ 387 million in EBITDA, the main effects were: on the financial result, the gain of R\$108 million basically due to the lower interest rates and the lower balance of net debt, for a gain of R\$ 98 million; the variation in depreciation of R\$ 48 million; and the increase in taxes payable of R\$ 260 million, due to the higher net income and to the higher recognition of tax credits in 2019 compared to 2018.

The next slide shows our net income for the year, which set a new all-time record for CPFL. EBITDA grew by 13.4%, to R\$ 757 million. Net income increased by R\$ 582 million or 26.9%. EBITDA growth was led by the Distribution segment, which benefitted from the higher load and higher tariffs, with these factors partially offset by PMSO and PDD. Another highlight was renewable generation, which remained stable in relation to 2018, despite the weak wind conditions. Meanwhile, net income benefitted from the stronger EBITDA and by the improvement of R\$376 million in the financial result due to the lower debt balance and lower debt cost.

Please turn to the next slide, which shows the debt position, with the first chart showing the Net Debt of R\$ 16.8 billion and the EBITDA in the last 12 months of R\$ 6.7 billion, for a leverage ratio of 2.52 times.

The gross debt composition was 63% indexed to the CDI, which helped to reduce the debt cost with the main changes compared to 2018, the lower balance indexed to the TJLP and the higher balance linked to the IPCA index.

The next chart shows our cost of debt over the past few years, in both real and nominal terms, with the lower debt cost in relation to 2018 mainly due to the lower interest rates in the Brazilian economy.

The cash position at the end of the fourth quarter represents a coverage ratio of 0,62x times amortizations in the next year, which is more than sufficient to honor our commitments in 2020. The average maturity term ended the period at 3.18 years.

Slide 14 shows our capex. In 2019, we invested R\$ 2.2 billion, or 9% more than the previous year, which is in line with our plan. By segment, capex was



distributed as follows: in the distribution segment, R\$ 2 billion was invested in expansion projects and systems improvement; in generation and transmission, R\$126 million was invested in renewable energy, R\$21 million in transmission and R\$12 million in conventional generation. in the transmission segment, investments were made in the projects Maracanaú, Sul I and Sul II, which were awarded in auctions in 2018; in the services segment, R\$62 million was invested.

The next slide shows our capex plan for the next five 5 years, with total investment of R\$ 13.5 billion, with R\$ 11.6 billion in distribution, R\$ 1.2 billion in generation with a focus on renewables, R\$ 233 million in commercial and services, R\$ 574 million in transmission.

That concludes my part, so I'll now had the call over to Gustavo.

Mr. Estrella: Thank you, Pan.

Moving on, slide 15 presents our strategic plan for 2020 to 2024, and we believe it is very important for us to share with the market our planning. Basically, it is the same as that currently followed by CPFL, with the main themes safety, growth, new business, operating efficiency, delivering results, etc., but with two main differences, the first of which is digitalization. I think that this theme has in fact guided many of our investments and how we adjust not only our current business, but also any future business. So, this field of digitalization and automation has gained much importance in our strategic plan for 2020 to 2024, as also has our focus on the client. I think that we in the power industry are undergoing a major transformation and that our company must, without a doubt, focus on our customer service, whether in the regulated business or in the nonregulated business in which we currently operate.

These key pillars of our plan are fundamental and will guide our business plan going forward.

And the backdrop to this plan is our sustainability plan, the results of which we are always saying are very important. But also important is how we achieve these results. That's why our sustainability plan guides all our actions involving our triple bottom line, which unites our goals financial, environmental and social goals.

These are the aspirations that truly guide our growth plan and investment plans for the next five years.

So, that was what I want to share with you today. Let's now go to the question and answer session.

Question & Answer Session



Operator: Ladies and gentlemen, we will now begin the question and answer session, which will be conducted in Portuguese with simultaneous translation into English.

To pose a question, please press start one, and to remove your question from the list, press star two.

Our first question is from Gustavo Mielli, from Itaú BBA.

Mr. Estrella: Good morning, Gustavo, good morning, Pan. Thank you for the presentation.

My question is about your distribution. To me, the highlight was the strong volumes that you reported, along with, which for us the big highlight was the good number of losses without any significant increase in Opex, which we thought was very positive.

So, I wanted to ask you, what are your expectations given this dynamic of PDD in line with Opex.

You commented briefly on the number of inspections and the issue of combating losses over the coming periods. Do you think that you truly have room to continue reducing losses with this level of controlled opex or with this significant cut? Perhaps this is the time to cut losses at a slight slower rate in order to maintain the healthy level of opex that you have reported.

If you could comment on this dynamic, I would be very grateful. Thank you.

Mr. Luís Henrique: Hello, Gustavo, this is Luís Henrique from the distribution team, everything OK?

Responding to your question, we are being very selective; on the one hand, we are controlling costs, on the other, we are controlling not just delinquency but other things. And to improve the process, we have adopted, through our analytical center, an artificial intelligence program and a program that adopts the inspection points and disconnect points so that we are able to deliver the best margins between inspection and cutoff points to obtain the optimal results with the lowest inspection and disconnection rates and consequently a much higher average ticket..

So, from this point of view, we have adopted a very disciplined strategy to seek over the coming months precisely this discipline in pursuing a good average ticket, to incorporate intelligence in the selection, supervision of these cutoffs, in order to obtain a slightly higher result with lower costs.



We also have suffered calendar effects on our results, but we must maintain stable or even reduce the investments in concluding installation of the smart meters for group A at RGE Sul, which will enable us to better monitor group A, which has much more energy, which will allow better monitoring and inspection of the person's load.

So, I think that given the sum of things, with the intelligence we are conducting in the commercial area, we are planning to carry consumers over the coming months.

Mr. Gustavo: Thanks, Luís. That's very clear. Thank you.

Mr. Gustavo Estrella: Gustavo, just to complement the point that Luis made, because of our focus on technology and analytics, we are able to be much more successful in combatting losses;

Just to remember, I think that there is in fact this effect that I mentioned, this calendar effect, which affects the calculation of losses when considering shorter periods, which is the case of this quarter.

So, we always look at the quarter as a reference or trend, with of course the loss trend, but given the accuracy of the number as we analyze longer periods, in this case the annual number was slightly larger.

So this is perhaps the only way that we can analyze data. We are seeing the quarter as a trend and as offering more accurate data for determining the annual trend.

Mr. Estrella: Great, that's very clear, Gustavo. Thank you.

Operator: Once again, if you have any question, please press start one. Please wait while we collect the questions.

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

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

I think that this was a very important year for CPFL. First, a year of spectacular and record-high results in terms of EBITDA and net income, accompanied by a consistent decline in our leverage ratio. The year also was marked by our share issue that once again made the company a listed company with a significant share of the exchange.

Most likely, this will prove to be a year of preparation, in which we look to the challenges ahead. So, as we look to our market outlook for 2020, which calls



for continued declines in interest rates and a recovery in the economy, we expect to maintain these results as they were delivered over the course of 2019.

We also have been preparing intensely for our investment program, and Pan has shown that this year how we plan to invest a record R\$ 3 billion and a total of R\$ 13 billion over our planning cycle. So, we are intensely focused on our investments in distribution with marginal investments to expand the base, modernize, improve quality, expand and grow.

So, that covers some of how we hope to operate over the course of 2020.

Once again, thank you and have a good day.

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