**Local Conference Call**
**CPFL Energia S/A**
**Second Quarter of 2019 Results**
**August 14, 2019**

**Operator:** Good morning and thank you for waiting. Welcome to CPFL Energia's earnings conference call for the second 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 on listen-only mode and that soon 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 a guarantee 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.

Now we would like to turn the presentation over to Mr. Gustavo Estrella. Mr. Estrella, you may proceed.

**Gustavo Estrella:** Good morning everyone. Thank you for participating in CPFL Energia's earnings conference call for the second quarter of 2019.

Let's go straight to slide 3 for the highlights in the quarter.

The first is the 0.9% increase in load in our concession areas. Here, I think it's important to mention is the migration of free consumers to the basic grid, connecting directly to the basic grid; with this figure standing at 0.9%. On a same comparison basis, the figure is around 1.5%, which is more or less equivalent to the growth in load we've seen in the concession area in recent years. We'll talk about that in more detail on the next slide.

The second highlight is EBITDA, which was R$ 1.5 billion, growing 9.9% compared to 2018. Net income was R$ 574 million, an increase of 27.4% in relation to the second quarter of 2018. Our net debt registered a significant variation, reaching R$11 billion, with a net debt/EBITDA ratio of 1.93x. Note here that this number already reflects the results of our share offering in June, which resulted in inflow of R$3.7 billion to the Company's cash balance.

We invested R$ 521 million, 23% more than in 2018. Our plan is to invest a total of R$ 2.2 billion in the whole of 2019.

We also had an important impact from the tariff adjustment at RGE (now combined with RGE Sul), with an important increase in parcel B, which basically reflects the variation in the IGP indexes, so the increase in parcel B of the former RGE was 7.14% and in the former RGE Sul was 9.10%. So these were two important impacts from the increase in parcel B exceeding the variation in IPCA inflation.

Lastly, we have the effect from our Re-IPO. So, like I said, in June, we had inflow of R$3.7 billion with a share price of R$ 27.50. And in the ensuing period, which has been just over one month, the stock price has increased by nearly 24% since June 12, which was our pricing date, and the stock has registered strong average daily trading volume of R$108 million.

Moving on to slide 4, quickly on energy sales, like we said before, you can see our load in the concession area grew 0.9%, adjusting here for the impact of the migration of a customer to the basic grid. Just to remind you, this customer has zero margin, therefore, it does not affect our result, but it does affect the perception of growth in energy consumption. So, on comparable basis, load grew by 1.5%.

In sales, you can see the decrease of 0.8%. Here we had a very significant impact this quarter from the calendar effect, with the reading meter calendar causing a negative impact on sales. I think the most important number is definitely load, which is what affects the total of unbilled consumption and the Company's result in the quarter.

In terms of sales by consumer class, and here it's basically sales, which contracted 0.8%, we have the negative performance of the residential, industrial and other segments. We added a table here at the corner of the slide to show the effects from calendar, temperature and migration of the basic grid.

After making these adjustments to each class, the residential class goes from a decrease of 1% to growth of 1.9%, after adjusting for calendar and temperature. In the same analysis, the industrial class goes from -0.9% to growth of 1.4%. And the commercial class goes from an increase of 0.5% to an increase of 2.4%.

So, I think it's important to show this adjustment to give you a more accurate and realistic understanding of energy consumption, which has been consistently posting growth of around 2%, like we've had in the last 2 years.

Another important topic is losses, which were virtually stable compared to 2018, and we've also suffered from the challenges posed by the country's current macroeconomic scenario. To control losses, we maintained our loss, but still with a loss above the regulatory loss. So, this really is a challenge – I'll talk a little more about it when I discuss delinquency – but losses are a challenge at the moment.

When we look here at our market profile, we have 38% coming from industrial consumers, followed by residential consumers with 29%, commercial with 17% and other also with 17%.

Moving on to slide 5, we gave some context in terms of weather and the macroeconomic scenario. So, here you can see two key impacts on our market from two weather related issues: one is rainfall, particularly in the South region, which significantly affects our irrigation market. In April and May we had rainfall above historical averages, which leads to a market and energy consumption marked by irrigation below our expectation; and the other is temperature, whose effect also was more located in the South, where average temperatures this quarter were almost 1 degree above the historical averages, which results, especially in the residential and commercial segments, in lower consumption related to heating.

At the bottom of the page, you can see that indeed we continue to face a scenario of slow economic recovery, with unemployment rates still at high levels, at around 12%, industrial production contracting in the second quarter by 1%, and retail sales growing a timid 0.8%.

All these factors combined somewhat explain the still-low energy consumption levels, of around 2%, as we are reporting this quarter.

Let's go to slide 6, on delinquency. Like I said, we also have a huge challenge in terms of delinquency. Compared to 2018, our PDA in our profit and loss grew by 53.7%, from R$41 million to R$64 million. It decreased slightly compared to the first quarter of 2019, but indeed this is an issue that has been demanding a lot of time and attention from the Company to control our delinquency rates.

As you can see, our main action for collections is disconnection, which registered sharp growth compared to 2018, of over 30%, but even that hasn't been sufficient to control our delinquency rate. Of course this increase in disconnections is recent, so our expectation is for it to have a positive impact over the coming months.

And at the bottom here, you can see a benchmark of our industry peers, which shows a generalized upward trend in delinquency, so it is not just in our concession areas, but in other concession areas in general.

On slide 7, we briefly cover the hydrological scenario, so the expectation here is to end August with reservoir levels close to 44%. The historical average is around 54% for this same month of August. We are a little below, but far from a scenario that is cause for any real concern, at least in the short term.

As you can see, the expectation for the next 3 months is for below-average rainfall, which already is being confirmed, with the expectation for August in the Southeast calling for a hydrological scenario of around 80% of the LTA, and in the South of around 40%. So, this is an aspect of concern, which should drive spot prices slightly higher in the short term, but nothing more.

In the right-hand corner, you can see our expectation for GSF. Remember that these are the most critical months for GSF, July to September, when GSF can reach around 45%, but on average over the year it should stay between 15% and 16% for 2019.

On slide 8, we'll talk a little about our performance and renewable generation, with our 3 main sources:

- First, biomass, with a positive impact of 21 GWh, which here was basically influenced by better weather conditions that led to higher production of bagasse from the sugarcane crop, which consequently led to higher generation compared to 2018.

- At SHPPs, we had an increase of 132 GWh, here basically due to the startup of SHPP Boa Vista 2, which expanded generation capacity, and to the higher generation compared to 2018;

- And, lastly, in wind power, we had a decrease of 67 GWh, which is primarily due to the weaker wind performance. We continue to have winds below the curve of P50, which obviously impacts our generation in the quarter.

For the next slide, I'll pass the call over to Pan, who will give you more details on this quarter's results.

**Pan:** Good morning, everyone. I'm going to try to speak Portuguese and hope you can understand.

We reached R$ 1.5 billion in EBITDA in the second quarter of 2019, an increase of 9.9%. In the distribution segment, EBITDA was R$873 million, increasing 13.8% from the second quarter of 2018.

The main effects were: R$235 million from market growth, with an increase of 0.9% in load net of losses; tariff increases due to the good adjustments based on IGP-M inflation at Paulista and Piratininga; application of the fourth tariff revision cycle at RGE, in June 2018; and a higher adjustment to the concession's financial asset of R$63 million due to the increase in the IPCA.

On the other hand, we had a positive impact of R$93 million in the second quarter of 2018 due to the new RAB adopted under the tariff revision, a factor that did not recur this year. And, last, an increase of R$86 million in PMSO, led by expenses with asset write-offs and related to capex, which are not related to inflation, of R$25 million; an increase in PDA of R$22 million due to higher delinquency. Expenses impacted by inflation came to R$17 million, legal expenses were R$8 million, and pension fund expenses were R$6 million.

In the conventional generation segment, we posted EBITDA of R$334 million in the second quarter, increasing 11.8% on the same period last year. The main effects were: adjustment for inflation of contract prices, in the amount of R$22 million; the higher volume of hydropower and thermal generation, for R$13 million.

At CPFL Renováveis, EBITDA was R$251 million in the second quarter, decreasing 1.9% compared to the same period of 2018. The main effects were: the recovery of tax credits in the second quarter of 2018, of R$17 million; lower generation by wind power plants, of R$16 million; the end of the grace period for the O&M contracts of the wind power complexes; the seasonality of agreements produced a gain of R$25 million, due to the higher allocation of energy in the second quarter of 2019, which, I should remind you, is an effect that should be offset in the coming periods; and lower expenses with GSF.

In the Commercial, Services and Other segment, EBITDA was R$46 million in the second quarter, down 2.3% compared to 2018. The main effects were: in commercial, the lower EBITDA margin due to the lower sales volume; in services, on the other hand, new contracts and operating efficiency gains supported improvement of R$11 million in the result.

Last, net income was R$564 million, a variation of 27.4% compared to the second quarter of 2018. In addition to the variation of R$135 million in EBITDA , the main effects were: on the financial result, the gain of R$34 million basically due to the lower balance of net debt, adjusted for sector financial assets and liabilities, with a benefit of R$22 million; revenue from fines and interest due to past-due payments, and here it is important to note that the deterioration in PDA is offset by this higher financial income; and depreciation, of R$6 million; there was also an increase in taxes due to the improved result.

Next. In the first chart, we show the evolution in the leverage ratio for the purpose of financial covenants. In this calculation, net debt is adjusted in accordance with the proportional interest of CPFL Energia in each of its subsidiaries.

Considering that pro-forma net debt was R$11 billion, pro-forma LTAM EBITDA reached R$5.7 billion, with the ratio of pro-forma net debt to EBITDA ending the second quarter of 2019 at 1.93x.

Note that, excluding the cash from the IPO proceeds, net debt would be R$14.6 billion, for a ratio of 2.67x. The second chart shows the gross debt breakdown. As you can see, 64% of our debt is pegged to the CDI overnight rate, which explains the evolution in the third chart, where you can see the decrease in CPFL Energia's cost of debt.

In the last chart, you can see the cost of CPFL Renováveis's debt. In May, CPFL Renováveis placed R$838 million in bonds, which were used to prepay more expensive debt, seeking to align its cost with that of CPFL Energia.

Next slide, please. Here, we'll talk a little about the Re-IPO. The total offering of 134 million shares was worth R$3.7 billion. We had 58% of investors from Brazil and 42% from abroad and the issue was nearly 4 times oversubscribed.

The related-party committee must have among its members at least one independent member, as required under the Novo Mercado regulations. CPFL now has 2 independent members. The meetings of the committees are only deemed valid upon the attendance of all 3 members.

To show the market our concern for corporate governance matters, such as accountability and transparency, we created a new department called Corporate Governance. The Executive Officer will report administratively to the Legal Vice-President, and functionally to the Board of Directors.

On May 21, CPFL announced a minimum payout ratio of 50%, with ratios beyond 50% depending on a balance between growth and yield.

Thank you.

## 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 ask a question, please press start one, and to remove your question from the queue, press star two.

Our first question comes from Thiago Silva, of Santander.

**Thiago Silva:** Good morning everyone, thank you for the conference call and congratulations on the results. I have two questions. First, regarding the Company's restructuring in terms of generation, I was wondering if you could give us any guidance on the current status and what could be used in the balance sheet, such as accumulated tax losses.

Ad my second question is related to growth via M&A. Recently, the governor of the state of Rio Grande do Sul mentioned that CEEE, for example, is ready to be sold, no further approvals are required and, obviously, since you have a lot of synergy, given the location, I'd like to know if any negotiations exist. I know this is strictly confidential, but if you could talk about M&A in general and about this asset in particular, that would be great. Thank you.

**Gustavo Estrella:** Thiago, thank you for your questions. I'll start with generation. I think that we are on track with our restructuring plan, perhaps the most important short-term action here is the integration of CPFL Renováveis into the CPFL Energia group, which is already taking place. We reached a milestone last week, on August 5, when we actually started the integration process with several employees transferred from São Paulo here to Campinas.

So, the idea is to conclude, by year-end, this restructuring, or integration of employees, and of all the company's processes and systems so that we can carry out this integration process while minimizing as much as possible any risks to the operations of both companies, of course, but particularly of CPFL Renováveis.

Just a reminder, we are still in the process of signing the SPA, which is the stock purchase agreement for the shares currently held by State Grid. So, the goal is to conclude this process in the coming weeks, so that we can focus on the participation of CPFL Renováveis in CPFL Energia to, then, assess the next steps of this process of integration and restructuring.

So, remember that CPFL Renováveis is a publicly traded, listed company, which means that all requirements of the Stock Exchange and of the CVM obviously will be observed during this process. But the goal is to, over the course of 2020, conclude the entire process of restructuring our generation arm.

So I would say that our main near term focus is on integrating CPFL Renováveis into CPFL Energia, and obviously preserving all of the company's activities during this period.

Well, the second topic, regarding M&A, I think that, first of all, specifically about CEEE, we have been monitoring all movements in the state of Rio Grande do Sul regarding the privatization of CEEE. We do not have any new information on this process after the waiver of the need for a referendum, but I, as well as the market, believe that the government is on track to putting the company in a privatization process.

As you said, looking at our strategy to focus on growth, especially within our current businesses, and to maintain leadership, whether in distribution or renewable generation, obviously this asset, because of its geographic location, makes a lot of sense for CPFL and we certainly will consider it should this privatization process begin.

And not just for this asset, I think that the goal is, indeed, to keep our radar open to any investment opportunities in distribution. We have expectations regarding, in addition to CEEE, other assets that could become available on the market, and for each we will adopt a focus and conduct an analysis if, indeed, they make sense for the Company. But, definitely, the group's focus is on growth in distribution.

And on generation, I think that this process of integrating the generation arm is also to better prepare us for this type of growth, so we have, in addition to any M&A opportunities, also growth via the development of new projects, so we are attentive to that as well, I mean, looking at opportunities to address this growth as new opportunities arise.

So, I think that the topic of growth is currently extremely relevant and a priority for the group, and we continue to monitor any opportunities that could become available on the market.

**Thiago Silva:** Excellent. Thank you.

**Operator:** Our next question comes from Marcelo Sá, of Itaú.

**Marcelo Sá:** Hi guys, thank you for the conference call. I have two questions. First regarding the regulatory WACC. ANEEL started a public hearing to discuss the WACC methodology for generation and transmission. I understand that the period for contributions has ended and that ANEEL is ready to disclose, at any moment, the WACC for this segment. So my first question is to understand if CPFL had an opportunity to talk to ANEEL about it, if there was any discussion, and whether it was via contributions or sent in written; and I'd like to understand if you have any expectation in your minds for the distribution WACC for which ANEEL has not submitted any proposal. That is my first question. Thank you.

**Gustavo Estrella:** Marcelo, thank you for the question. I will ask André Gomes, our regulations officer, to answer it.

**André Gomes:** Good morning, Marcelo. Actually, ANEEL now separated the public hearings, so it is discussing generation and transmission, and we are awaiting the opening of the second phase for distribution. So that actually was a request from the distribution segment itself to separate the discussions of the WACC for transmission and generation from the WACC for distribution, which are different segments.

So, we even met with ABRADEE, with director Pepitone, director Limp, and we expect that, in the second half of the year, the discussion of the WACC for distribution will be resumed. There isn't much more information on this matter.

**Marcelo Sá:** That's great. It's just that one of the topics of the WACC proposal for generation and transmission that caught the market's attention was the very narrow window. If I'm not mistaken the proposed window was 5 years. Based on your interaction with ANEEL, do you believe that window could be extended eventually to 10 years, or is it still too early to talk about it?

**André Gomes:** That's why we requested to separate the discussions, exactly because the risks of the distribution segment differ from those of transmission and generation, so that we can separate it and look at distribution as always has been done, in other words, for WACC you have to look at other aspects since the transmission and generation segment provides greater security.

So, there're still many details to be discussed. I think that in this second phase, for distribution, we will be able to discuss even the windows and all that, because, for us, really, there was no second phase as there was for generation and transmission. I think now is the time to discuss that.

**Marcelo Sá:** Excellent. Thank you. I think the next topic is to get a better understanding of what you think about energy pricing. You even mentioned that the expectation is for rainfall to worsen, but not enough to cause a significant increase in the spot price by the end of the year.

So, I'd like to understand what you think in terms of energy prices for next year, if we look at a contract, for example, for 2021 and 2022, what would be the energy price if you closed that today? Thank you.

**Gustavo Estrella:** Marcelo, I'll call Ricardo Motoyama, from our trading house, to answer that.

**Ricardo Motoyama:** Good morning, Marcelo. We have been seeing, as Gustavo said, reservoir levels worse than the 100% average, at around 80% in the Southeast and much worse in the South at around 40%. This cause prices to increase in the short term, and that is what we have seen.

When we look at 2020 and 2021, these prices… we don't usually disclose the prices we are working with, which is not an industry practice, but there weren't any significant variations compared to trading in the last 3 weeks in these long-term prices.

**Marcelo Sá:** That's great, thank you.

**Operator:** Excuse me, just to remind you that to ask a question, please press star one.

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

**Gustavo Estrella:** Ladies and gentlemen, thank you all once again for participating in our earnings conference call. In our view, we delivered very solid results this quarter, with strong growth in net income and EBITDA. I think that the conclusion of an extremely important process for the company, which was the relisting in June, I think that this actually addresses our perspective and further prepares the company for its growth prospects over the coming months.

So, I mentioned here our process of integration with generation, which is an extremely relevant process; I think that we've been preparing the company to, indeed, address this type of growth.

Pan mentioned here the changes we've had not only in our dividend policy, but especially in our related-party committee. These are important advances in terms of corporate governance. I think that this is actually the way to prepare the company for this growth as we always have done, which is transparently, open, with full disclosure by the company, truly seeing the market as an important partner in this growth process and in the new businesses we envisage.

Once again, thank you for listening and have a good day.

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