

**Local Conference Call**  
**CPFL ENERGIA**  
**Results of the first quarter of 2011**  
**May 12, 2011**

**Operator:** Good day and thank you all for waiting. Welcome to CPFL ENERGIA's conference call regarding the results for the first quarter of 2011.

With us today are executives Wilson Ferreira Júnior, President of CPFL Energia and Lorival Luz, vice president for Finance and Investor Relations officer, along with other company executives.

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Before proceeding, we would like to clarify that any statements eventually made during this conference call regarding CPFL ENERGIA's business prospects, operating and financial projections and targets are merely beliefs and assumptions made by the Company's management, based on currently available information. Future considerations do not constitute performance guarantees. They involve risks, uncertainties and assumptions, because they refer to future events, and therefore depend upon circumstances that may or may not occur. Investors must understand that general economic conditions of the industry and other operating factors could affect CPFL ENERGIA's future performance and could lead to results that are materially different from those expressed in such future considerations.

We would now like to pass the microphone over to Mr. Wilson Ferreira Junior. Mr. Wilson, please proceed.

**Mr. Wilson Ferreira Junior:** OK. Hello to you all and to all investors, analysts and those who are following the results of our earnings results for the first quarter of 2011.

I would like to go immediately to page 3, we have the highlights of the quarter. We are starting with this quarter to make a report about our results on two bases: one base that is comparable to the IFRS, in that our balance sheet for last year and 2009 were in IFRS, so the comparison is possible.

And I think it is also important to be able to make an evaluation of what we call "a pro forma regulatory process," which is a process that will become mandatory for the regulatory agency to follow, and where we are also able to

make it a bit more clear in terms of the recurring topics of the company regarding this so-called “regulatory” accounting.

Based on this, there is no change with regard to revenues. Therefore we are announcing here and increasing our revenues based on IFRS of 5%, reaching during the quarter R\$ 3,023 million and going now to compilation of the EBITDA and profits, we will give more details further on when we make the two comparisons.

The EBITDA as reported in IFRS increased 3.9%, reaching R\$ 1,020 million during the first quarter. And in the pro forma regulatory process, where we reached R\$ 896 million, the increase over the same period of last year was 8.1%.

It is important here and we are going to make this even clearer a little later on that the difference between the two EBITDAs we have reported represents exactly the calculation of the regulatory assets and liabilities with the main component of this variation. For the regulatory effect, for the effect of setting tariffs, without any doubt the regulatory EBITDA model is the most appropriate.

Let's go to net income, where we have seen a decline of 4.5%, arriving at R\$ 466 million in IFRS. This decline would be a little less through the regulatory method, of R\$ 380 million, a reduction of 2.3%.

In general, our result is being led... driven mainly by the growth in sales, we will show a bit further down in the presentation, in this case 5.4% on a recurring basis. In the specific case of net income, naturally, due to the start up of the operation of projects and an increase in the CDI rate of interest, we have a small decline during this quarter.

It is important to highlight the tariff adjustments for this quarter that are related to a period of one year and, more recently, that of Paulista of 6.11%, and all the others that occurred during this period — both for the small concessionaires in the state of São Paulo, Santa Cruz with 8%, 6.84% for Mococa, 6.57% for Sul Paulista, 6.42% for Leste Paulista, and 5.22% for Jaguari. All of these increases are based on February 2011.

We already shared in other recent webcasts information about the acquisition of CPFL Energias Renováveis, the creation of this company along with the announcement of the merger of CPFL with ERSAs, as well as the acquisition of SIIF Énergies for R\$ 1,494 million, and we will report about this process.

After these two transactions, we saw our credit rating maintained at AA+, and also we approved during our Shareholders Meeting at the end of the month of April, on April 28, a reverse split and split of our stock as we had previously announced in a proposal.

And finally, here we can see the company was elected for the third time in a row the Most Sustainable Company in the Sector in Latin America for 2011 by

Management & Excellence, and at the end I'll have something more to say about this.

Now we can go on to page 4, where there are details about the market. I always make a reference to the right side, because we had this resolution from the government of São Paulo at the end of 2010, and therefore this is the last month in which we will be reporting on the left side the full values for the month, and on the right side of the amounts that were billed during the month. The comparison was not possible on comparable bases due to the fact that legislation was implemented only during the middle of the period.

We are reporting growth of 5.4% in sales in the concession areas of our distribution companies, and this corresponds to a growth of 1.4% in billed amounts; that is, on the captive market. And it represents an even stronger increase of 18.4% on the free market, of free consumers who are served in the concession area by the Group's distribution companies.

In the lower part of the slide, we can see this growth in detail by segment. Therefore, this demonstrates the vitality of the current moment in Brazil, with higher growth of industry and growth for low tension, captive and free clients of 4.2%, and 5.3% in the residential segment, of 6.9% in the commercial segment and in the other categories... in the other segments, notably the rural area, of 7.4%. In a weighted manner, total growth on the part of the Group was 5.4%.

When we look at total power sales, and the sales billed directly to the consumers and the concessionaires, we see 1.4% growth in the captive market (which is a billed market together with the distribution companies' consumers), and the free market with a 2.3% decline.

It should be remembered our report demonstrates some nonrecurring events, notably the supply of Epasa at the beginning of the year, which already has been concluded. All of this results in growth of total power sales of 0.5% of the portion that is billed directly to consumers.

I think it is important at this moment to offer details about the current market in the country and for the concessionaires in general. On page 5, we have some indicators regarding this current moment of growth. If we take into consideration here the very positive performance in the second half, there are repercussions that can be seen below, and all of the segments, and we have detailed two segments in particular – commercial and residential, which the concessionaires bill directly.

We have here an increase in income of 9.6%; a 14.4% increase in credit; an increase in sales resulting from these two elements for retailers; and an increase in the sales of furnishings and appliances of 16.5%. One can observe the result this brings to power consumption, and we seek to exclude the seasonal effect from this consumption pattern, presenting what we are able to obtain daily in terms of billing and what is the sale of megawatts per hour per day.

One can clearly see a change in the trend as of the second half of last year. However, an important change is seen as of the measurement of megawatts per hour per day as of December of last year, compared to March of this year.

We observed growth in this quarter of 4.4% on a daily base in the residential segment and 5.1%, also on a daily base, excluding seasonal effects, of the commercial segment. This demonstrates in a very clear way the effects stemming from the greater income base, the greater credit base that is positively impacting the residential and commercial segments.

Now let's go to pages 6 and 7, where we can see the variations both in EBITDA, as well as net income. We immediately can see in the upper chart the makeup, based on the regulatory EBITDA, of the effects of the accounting for regulatory assets and liabilities, that go into the tariff in the subsequent moments, not immediately, but in the IFRS accounting process happen simultaneously.

Therefore, based on the regulatory EBITDA for last year during the same period of R\$ 829 million, we add these regulatory effects that are basically related to the subject of regulatory assets and liabilities, the so-called graphic account, mainly the CVA in the amount of R\$ 153 million, which when booked in the IFRS format determines the starting amount for this quarter equivalent to the same period of last year in the amount of R\$ 982 million.

In these R\$ 982 million we have three important variations determining this 3.9% growth, which I referred to at the beginning of my presentation. The first refers naturally to the increase of net revenues of R\$ 81 million, and this increase in net revenues is made up of two positive events.

You will remember I have spoken of the growth of the TUSD, of free consumers billed in the concession area, of 18%, and this corresponds to an increase of 40.6% in TUSD revenues, which totals R\$ 98 million. Furthermore, naturally the startup of our projects, notably Foz do Chapecó and Epasa, bringing in another R\$ 79 million to this position.

On the other side, and a negative way... in January we have an increase or recognition of new Agency fees, and that represents 20% of the increase in sectorial charges in deductions from revenues, a total of R\$ 63 million.

Therefore, the three events (two positive and one negative), which are recognized in the tariff at the following moment, are what have determined this increase in our revenues of about R\$ 81 million.

Next, two lesser-value events, although nevertheless also important for the makeup of the EBITDA. The first of these is the 0.8% increase in cost of power and fees, totaling some R\$ 11 million. We have here details. First, it increased in costs and charges (mainly ESS Fees, Service and System), and connection fees in the amount of R\$ 23 million, an increase of 8.4% for these charges.

On the other side, there is a positive aspect, which is a 1.1% reduction in the cost of power, here specifically linked to the decline that we have seen in the Itaipu exchange rate, which determines a lower cost on a cash basis for the company, which is not reported in the IFRS model.

Finally, we show here the third element of this description, which is the 9.2% increase in operating expenses, or in absolute values R\$ 31 million. It is important to note the startup of these power plants, Foz do Chapecó, Epasa and Baldin. Naturally, because they have entered into operation the revenues point upwards. And we have the costs of these operations, totaling R\$ 10 million.

Also during the first quarter of last year, the result of a short delay in the Epasa concession... of the transfer of Epasa to the Group, a premium paid by Epasa for delayed delivery of power contracts. It should be remembered that at that time, the plant... when we began to invest in the plant... it was already behind schedule with regard to its commitments and they were all covered by the company's operations, with no type of payment defaults whatsoever as we have seen elsewhere in the market.

This bonus that was paid, of some R\$ 6 million, as naturally an event that I forgot to note in the first part of the physical inventory of assets. The distribution concessionaires are undergoing a tariff review process and must conduct this physical inventory of assets. These 10 million here are subsequently recovered through the tariff at the moment the reviews are concluded, but it represents a nonrecurring event because it happened the year before the tariff reviews.

I make a point of noting here that last year (2010), after the first quarter we normally have here in June most of our salary readjustments. At that occasion, we had an average readjustment of 6.1%, which would add R\$ 8 million to the cost of personnel on a quarterly basis.

Having made these comments, it is important to highlight the fact that our recurring costs with personnel, materials, third-party services and others, adjusted for the events that were detailed, were up 6.1%, or quite close to the adjustment that was approved in 2010 for employees, and much lower... or lower than the IGPM for the period, which was 10.9%.

Finally, we are incorporating here especially to give analysts a basis for comparison, which is the regulatory effect for this quarter of R\$ 124 million, which is deducted from the EBITDA in IFRS, and which would therefore lead to a regulatory EBITDA (which will always be the subject of the evaluation on the part of the Agency) of approximately R\$ 900 million, which represents an increase on a recurring or regulatory basis of 8.1%. Therefore, it is a positive result from the market's point of view and also positive from the point of view of the management of the company's operating costs.

Finally, let's go to net income on page 7. Here the same logic is constructed at the left and right extremities — that is, the net regulatory effect of the amounts that we have just calculated of about R\$ 150 million... 120, therefore a net base

of R\$ 98 million referring to the profits of the first quarter of last year, and thereafter in IFRS of R\$ 488 million. We have, as I have said, a decline of 4.5%, therefore reporting net income for this quarter of R\$ 466 million.

Now let's see the evaluation of the main variations that have led to this result. The first of them we have just pointed out: the 3.9% in the company's EBITDA. The second is the worsening financial results of about R\$ 49 million, or 59% on comparable bases with the same quarter of 2010.

This worsening at first came about as a result of the 40% increase in our financial expenses, in the total amount of R\$ 75 million. It is important here to note that practically half of it naturally stems from the startup of the projects that are financed, and obviously as of their startups they began to have financial expenses on their lines of financing. In the case here, R\$ 34 million comes specifically from the financial expenses corresponding to financing for implementation of these projects that now are operational.

On the other hand, the chart on the right shows this. We had here an increase in the Selic rate (that indexes about 59% of our loans), going from 2% during the quarter in 2010 to 2.6% this quarter, an increase of about 30% in this rate. As a result, we have an increase in our financial expenses indexed by the Selic of the other half of about R\$ 36 million, which therefore justifies the increase of total financial expenses — with the startup of operation on one hand, and the increase of the Selic rate on the other.

There is also a positive effect regarding the investment of the company's cash, and increase in financial revenues, that unfortunately was not sufficient to offset the increase in the financial expenses. This 25% increase brought in R\$ 25 million more to the financial balance sheet, which therefore led to an expense increase of 75, a revenue increase of 25, therefore on the earnings result balance sheet the result was the R\$ 49 million seen here.

Moreover, we have an increase of 16.3% in depreciation and amortization, naturally due to the startup of the operations of these projects, detailed here for Foz do Chapecó and Baldin.

And finally, here we have a positive effect of the reduction in income taxes and social contributions in this change of the results... this slight change in the results. It is a result, I would say, that is quite predictable. Higher sales, controlled expenses and an increase in the company's financial expenses that slightly changed its results.

Making the same calculations on the right side, of the regulatory effects in the amount of R\$ 85 million, we would have here net regulatory income of 380, which would correspond to a reduction over the same period of last year of 2.3%.

Very well, now let's go to page 8, where we merely want to re-emphasize the creation of CPFL Renováveis. Here on the left side we are presenting all of our assets that are part of this operation. Our biomass operations, which are linked

today to CPFL Brasil, as well as the acquisition of four wind parks in operation from SIIF Énergies, as well as 22 small hydroelectric power plants coming from Paulista, which was the object of a regulatory split up 10 years ago, plus our small hydroelectric power plants from CPFL Sul.

Besides CPFL Bioenergia, which was precisely the Baldin investment vehicle, and the other wind parks under investment today that participated in the 2009 and 2010 auctions. These assets were... we are here in a merger process with ERSA, which on the other hand has 12 small hydroelectric power plants in operation and one under construction, and four wind parks under construction.

Through this, we have about 648 MW in operation as a result of this merger, plus 600 MW in certified projects, and another 2,641 MW in projects that are under development, which means in the case of the small hydroelectric plants they have been certified for environmental feasibility, along with their executive projects.

In the case of the wind parks, the wind measurements, the land legalization and, obviously, the set of operations for doing the legalization... the authorizations on the part of the Agency regarding these parks, which represents their installed power potential, and on the other hand their capacity factor for determining assured power.

Finally, in the case of biomass this means the feasibility of these projects together with the millers, such as we have here on the left-hand side through CPFL Energia.

Therefore, it is a very satisfactory operation and we will have some more details from the corporate point of view on page 9, stemming from this transaction that we imagined could be concluded by September of this year. On May 4 we filed details of the transaction with both Aneel and the BNDES. We had meetings with these two institutions, good meetings, and we are working now to make feasible all of the regulatory acts that are involved in this transaction.

We also held a meeting with CADE as a part of this process and we understand after the first conversations it will be possible for the final restructuring to occur between August and September of this year. We are speaking about a company in which CPFL will hold a stake of 63.6%, and the current ERSA shareholders will have 36.4%.

It is a company that will have an equity value of R\$ 4.5 billion, and that already has 380 MW to make the projects and construction feasible, with proportional cash funding on the part of the shareholders of R\$ 571 million as shown in this slide.

Now let's go to page 10 where we have some further details about this portfolio in operation, both assets from CPFL Energia, the 22 small hydroelectric power plants, for biomass thermal plants, for wind parks that came from the SIIF operation, for an overall total of installed power through these assets of 493.7 MW, and a value in average megawatts of assured energy of 211 MW-medium.

On the other hand, there is ERSA, with its 11 small hydroelectric power plants, all of them new, built in the last few years, with installed power of 154.5 MW, and, as you can see, we have here a very positive assured energy ratio of 95.4 MW-medium. And this is what determines to a great measure the final configuration of the corporate partnership between CPFL and ERSA, where we have a ratio of 1/3 and 2/3 in average MW, with a higher adjustment for the cash position of the ERSA Group.

We also have more details about the PPAs that all of these projects have, coming from CPFL, 39% in Proinfa. Basically they consist of wind parks acquired from SIIF, bilateral plants involved in CPFL Brasil with 31%, a free market directly with consumers of 8% and to be defined with 16%, besides 5% through auction, which are the most recent wind parks. In the case of ERSA, 56% in the free market, contracts have already been signed with consumers, 32% from Proinfa 32% and 12% from the auctions.

One can see more clearly in this chart below all of the projects in operation coming from all the players, exactly the projects and construction, as I spoke about, being something on the order of 380 MW. The certified 600 MW will naturally be subject to the qualification of these companies, following their strategies in the upcoming auctions. And the overall set of assets under development, totaling 2,741 MW, which naturally gives us an important reserve for growth for this company in the future.

On page 11 I briefly am reporting about the acquisition of SIIF; that is, its holding company Jantus SL in the amount of R\$ 950 million, taking over R\$ 544 million in debt. We also were asked about the qualification of the parks, the capacity factor and their Proinfa prices, because they are parks that have come on stream only very recently, about one year ago. Therefore, there is greater detail about each one of these parks. We have capacity factors varying from 28 to 48%.

Obviously, the acquisition of SIIF also brought with it, besides technical qualifications, more than 20 specialized professionals not only in the development of the parks, but also their operation and maintenance, which is new to us and important within the outlook for the growth in the field of wind power.

Furthermore, we have a portfolio of projects that are currently being made feasible. The one closest to realization is the Quintanilha Machado wind park, and moreover we have 412 MW of already certified projects, which are included in the operation of de CPFL Renováveis, along with 320 MW in projects that are under development, therefore 867 MW.

On the other side, on page 12, we can see here, just to have a notion of the status of the projects under construction, including the projects of the merger that must be concluded before the merger is finalized, all with timetables that are quite advanced, as can be seen. The only exception is the case of Pedra, which is an investment for start up in the second quarter of next year. The



others have values between 54 and 88%, and the Bio Formosa project is in the final phase of construction.

Besides this, we providing details on the expected investment and the capital structure observed and obtained in each one of these projects through the BNDES. Therefore, we are pointing out here not only the financing aspect from the TJLP point of view, but also, in view of this program, the PSI (Investment Sustainability), which we fortunately have been able to obtain in all of the projects, placing a pre-fixed value of 5.5% for some of the former FINAME assets and that were the object of the process to make them feasible.

Therefore, a very positive financial condition with values between 10 and 13 years for each one of these investments that, as I have said, are at an adequate pace of construction.

On the other hand, on page 13, we have our investments that are underway in the field of wind energy, three investments... and in fact two large parks, the Santa Clara and Eurus parks, the Parque Campo dos Ventos and Eurus. Because they were built in different stages, with Santa Clara participating in the first auction and scheduled to start up operations in the second half of next year, its capital structure has been constituted, financing has been obtained, with maturities of 16 years at TJLP + 1.7, an investment of R\$ 801 million contracted through the EPC process.

In the second column we have the Campo dos Ventos II. That is the one that was qualified for last year's auction. And, finally, there are Campo dos Ventos I,III, IV, V and Eurus V, which are projects that are being made feasible to sell power to the free market. They should come on stream together with Campo dos Ventos II. We also have made a decision to contract construction through EPC, with the amounts shown here that represents exactly such contracts, with the financing through the BNDES also in the feasibility process phase.

Now we will go to page 14, merely to see the summary of this timetable of startups, in light of what we have just reported. One can see the movements here between the second and the third quarter of our sugarcane bagasse operations, 75 MW coming on stream now in the second quarter, 40 MW in the third quarter and the last project in the second quarter of 2012 rated at 70 MW.

With regard to the small hydroelectric power plants, in the first quarter of 2013 there is the plant under construction by ERSA more than 20 MW, and the wind parks that are scheduled to go online in the third quarter of 2012, at 188 MW, and in the third quarter of 2013 at 258 MW. This also gives us a possible assessment of contracted power, shown here in dark green, and uncontracted, in light green, which naturally will be the subject of these free market operations.

Obviously, this allows the company to qualify these parks for operations in the A-3 auctions and the Reserve auctions that will be held in the month of July of this year. The company is now defining this strategy and I will shortly share it with the market.

Going now to page 15, so we can give you a report on the company's growth process. of the Group's growth in the power generation area. Already this year, the result of the conclusion of these projects in the proportion of our stake in CPFL Renováveis, here are only the amounts of our ownership stakes. We reach 2,640 MW already at the beginning of the second half of this year.

And naturally, we have plans in the proportion of the investments underway to reach approximately 3,000 MW, just through feasibility, or with the conclusion of the wind parks that are under construction in proportion to our stake in CPFL Renováveis.

Now let's go to page 16 for the purpose of reporting... we will have on this date... today the expectation is July 2011, we will have the A-3 auction for biomass, wind, and natural gas sources. There will be in this auction a PPA for 20 years, and for hydro sources for 30 years. In the Reserve auction, also expected for the same date, there will be biomass and wind sources with a 20-year timeline.

Furthermore, this will mainly benefit our alternatives for CPFL Renováveis, as well as a qualified natural gas project of 224 MW in Espírito Santo, which will participate in the A-3 auction. We are now, evidently, awaiting the possible licenses for this group of hydroelectric plants that will go to the A-5 auction, which should be at the end of the year.

We are continuing working on these projects. Our engineering division together with partners is evaluating the possibilities are participating, particularly, in the large hydroelectric projects that still are left to be built on the Teles Pires River, the Apiacás River and the even larger ones — Parnaíba, Ribeiro Gonçalves and Uruçuí.

Our engineering continues to be mobilized to prospect for opportunities for the company to continue growing in the field of hydroelectric power, in view of the fact that we concluded our last large project, Foz do Chapecó.

Now let's go to the next pages, in order to comment specifically about our debt profile. As can be observed, during the first quarter the debt was somewhat reduced, going from R\$ 7,098 to R\$ 7,068 billion. This is net debt and, naturally, it is impacted by the formation of the company's cash, we seek to put cash and equivalents into it.

You know that at the end of the month of April we paid dividends. Therefore, naturally, the company had more cash on hand, of nearly R\$ 2 billion, and this variation between the net cash position of December and that of March is what determines the decline in the adjusted net debt to R\$ 7,068.

We also try to book for the projects that have started up part of their results in the quarter in which they are verified, and we can see also a decline in the net debt/EBITDA ratio, from 2.38 to 2.24. On the other hand, I always recompose this to facilitate the work of analysts regarding the impact of the projects that are

under construction, but already have contracted debt, but are as yet without EBITDA.

Thus, we will have here, in this case as of now, only the report of the biomass plants that are in a final stage of construction, therefore without EBITDA, and of the wind parks that will be built. In a normalized way, because of the financing, there would have been the opposite: instead of 2.27 it would have been 2.11.

As I said at the beginning we maintained our credit rating after the two transactions, with Standard & Poor's and Fitch Ratings. On the other hands, we have here the composition of our debt and we also have sought to give you details, starting in this quarter, not only its division between the TJLP and the CDI, as demonstrated, but also of the IGP, which is used to index the financing, of the company's Pension Fund debt (the debt deriving from privatization indexed by the IGP for 20 years).

Also, the portion stemming from operations that have become important, pre-established in the PSI Program. The pre-fixed portion we see here has an amount that is 4% of these values. It is important to highlight that despite an increase in the interest rate, the real cost declined a little bit more, to 4.3%.

Finally, we show here on page 18 the repercussion on the company's shares. We had a positive quarter, surpassing not only the Bovespa, which was negative, but also our comparative electric energy index, of 9.73. We closed at 12.6. Our growth was a little better on the Dow Jones, because our ADR was able to count on the currency exchange valuation.

Here we detail a bit of the company with regard to the comparison with the main indexes shown on the right side, and we also performed better than all of these stock market indexes. The good news is that this has also brought an increase in volume and an increase in the company's liquidity. In March, daily trading of our shares was R\$ 35.4 million, about 20 million in New York and 16 here in São Paulo. As a result of these two things, our market cap rose in value, reaching R\$ 22.320 billion at the end of the first quarter.

I'd like to conclude the presentation on page 19 just pointing out, and I think it is very important, that we always highlight this type of recognition because energy companies are long-term enterprises. They are companies that for the large part are involved with communities, have a relationship that is very close and necessary with the question of the environment, its conservation and sustainable activities on its behalf.

Therefore, for this indicator we even try to provide details about how it is calculated, regarding sustainability compliance, the quantifiable compliance related to sustainability as well as risk assessment. This methodology incorporates 150 different criteria to be analyzed by the listed companies, and it is a great honor for CPFL to have the best performance regarding compliance, with an rating over 90%. And it was elected for the third consecutive year as the Most Sustainable Energy Company in Latin America. This is something that

truly honors us and demonstrates we are pursuing the correct strategy as an energy company, carefully watching each one of these dimensions.

These were the comments I had. Now, my team, Lorival, Gustavo, Vassalo, Roberto Castro and Alessandra and I are here and at your disposal to answer questions from analysts and investors. Thank you very much.

### **Question and Answer Session**

**Operator:** Ladies and gentlemen, we are now beginning the question and answer session. To ask a question, please type asterisk (\*) one (1). To remove your question, type asterisk (\*) two (2).

Our first question comes from Mr. Márcio Prado, of Banco Santander.

**Mr. Márcio Prado:** Good day everybody, thank you for the call. I want to make two questions, one more focused on the result, and the other more on the sector, although both are linked to distribution regulations and accounting.

Regarding the results, focusing on the question of the IFRS, we are seeing, not only with CPFL, but also with a series of results from companies reporting profits and EBITDA much higher than the market had estimated, which I think is a result of this moment of transition from Brazilian GAAP to the IFRS.

Therefore the question I want to make is the following: CPFL's net income was much higher in this quarter than analysts had estimated and probably we're going to see a net income in the first half of the year that is stronger, and the second quarter should be something similar.

When CPFL made its analysis regarding the payment of dividends in the past, in general the company had a payout of 95%. I imagine that the analysis for the payout of the dividends was an analysis that was much more focused on the issue of sustainability of that payment, but a coincidence or not, this led to a payout of 95% compared to Brazilian GAAP.

Is it possible that there could be an adjustment in this payout because of the accounting profit that is much stronger in IFRS? Then I would like to speak a little bit about the payout policy, which is if there will be one, as a result of this important accounting difference regarding profits?

And, Wilson, the second question is about this final proposal of Aneel regarding the tariff review cycle, the new regulatory WAAC, some adjustments to Factor X. If you would like to comment regarding what you believe with relation to the previous proposal, what still needs to be done, if it can be done and the outlook that you have regarding tariff review processes which should include Piratininga in the second half? That's it, thank you.

**Mr. Wilson Ferreira Junior:** Ok, Márcio, thank you. First, regarding the results, we have a vision of things that is a little different than yours. The results of this year, if you compare it to last year, even because the regulatory assets and

liabilities are practically equal, and I would even say “slightly less” with the startup of two projects and their expenses. Perhaps this is what has determined that income is a little lower than budget. The difference is not, I would say, significant with regard to net income that would have been calculated if we had not used the IFRS standards.

So I want to say the following: the company’s dividend distribution policy is a minimum of 50%, it is a public policy. We seek... we have done it with a strong 95% base for two reasons. First, because the company’s cash, if it has no use, has a negative arbitrage; so that is the main reason that we are constantly managing our capital structure in order to optimize it.

This creates value for shareholders, who can more appropriately use it, opportunity funding, and allow the company to have a capital structure that obviously more strongly minimizes the payment of income taxes.

On the other hand, evidently one has an acquisition outlook and this is the only condition that we would consider for modifying the payout, not modifying the policy — we will continue to follow the policy.

This type of approach has not been necessary, either because of the fact that the company, because of its own financial rating, has had positive access to the debt market, and I believe the evidence for this are its own costs, which demonstrate such vitality.

Besides the fact that the company also has the possibility to use the capital markets, it is not used it until today — but it could in the case of a large-scale acquisition — and also comprise a funding alternative for such an acquisition.

Now at this moment, even with the IFRS effect, what would be the case here if you were to look at a difference of about R\$ 80 million. We do not see at this moment any need to change what we are doing. It is evident that the future will tell us in a more adequate manner.

So just remember, in this last quarter, due to the results of the second half of last year, in order for us also to offer shareholders, all shareholders, an outlook of lower volatility on our balance sheets, we also recognized about R\$ 200 million of the Cesp Foundation deficit in the year of 2008, in a manner that allows us to work within a corridor and eliminate, or strongly mitigate, any volatility deriving from the Foundation’s results.

As a result, we have here, without any doubt, a policy of great respect and that pays a lot of attention to the majority, the minority shareholders, the entire shareholding base of the company. And we understand that this is the appropriate policy. We are always applying the policy in a way that manages our capital structure in the best way.

Let’s look at it on the other side with regard to your second question about Aneel. I have even had the opportunity to tell some reporters that our vision is the following, Márcio. I believe that this process has a very positive interaction. I

think that the tariff review policy process was that which had the highest number of contributions involving not only the agents, the object of the review process; that is, the distributors directly represented and through their association, but also civil society, contributing in an important matter to this process.

For me this is a demonstration that the subject of energy, the subject of the price of energy, is something that has been a topic of concern, attracting everybody's attention, but not in the exclusive sense of speaking as follows: we have to lower it at any cost. I think that the signal sent by the process that, in the final analysis, means that it went in the closest direction... it went in the direction in which the distribution company itself indicated, always making very clear the needs of this sector and for this energy business segment specifically to be sustainable.

I always like to remember the following: over the past two tariff review cycles, the contribution of the distribution companies... the participation that the distribution company had in the privatization process so that the final tariffs today were reduced by about 50% to 25%. If there was one sector that contributed to lower prices over this period, in fact it was distribution, the only one that contributed in an objective manner.

All of the other components, for a number of different reasons, had increases regarding participation and increases at times in real terms that were higher even than inflation itself. The only one that was lower than inflation, and much lower in this case, was distribution.

Why did this happen? One, because as a result of the privatization process and as a result of the tariff review process itself, there was an incentive on the basis of a price cap, so that there was an increase in productivity. This occurred, in fact, and this productivity can be shared with consumers in the form of a reduction in the participation of the distribution companies in the end price for energy.

It is also true that during the course of this period we saw a significant ramp up in transmission, but not because the price of transmission increased, but because the transmission system, in order to be stronger, more reliable with regard to the supply of power, practically tripled in size.

This increase in the share of transmission in great part was due to be increase in a structure that is being used to integrate Brazil, to supply all consumers more reliably.

On the other hand, we also have had an increase in generation that is practically in line with the generation index (the IPCA inflation index). What rose, probably more than was expected, were the taxes and fees, mainly because the principal tax, the ICMS, is treated differently by the states. But it is an important amount, and now it is higher even than the distribution share, which renders a public service.

Then there is the change in the PIS/Cofins regime, which also was a factor for

the increase. Without, finally, speaking about the increase in the charges over this period of time, which showed the highest increases among those that are within this chain.

So, does tariff modicity need to be pursued? Yes. The instrument for pursuing it should be focused exclusively on distribution? Of course not. I'd like to delve a bit deeper answering these two topics. The first is because I think that there has been sensitivity, changing the change of direction; that is, there is a prospect here of an increase in the WAAC, recognition that Factor X has improved. I think there is a correction of the regulatory annuities base, a set of important recognitions that are contained in these technical notes.

What is our view? One, they are not sufficient. It is our understanding that there is room for greater recognition with regard to the WAAC in order to make this service sustainable. If the WAAC... we should not confuse the WAAC proposed by one concessionaire 15 years ago that must pass...

I was asked yesterday: do you think that the exchange risk should be removed? My reply was the following: I have no doubt that we are undergoing a more adequate moment from the point of view of the exchange outlook, without judging the value, whether it should be 1.60, or 1.80, or whatever. But it is the following: we have had over the course of three tariff cycles, at the moment of privatization, a little afterwards, we saw a detachment from the "band," remember? From 1.20 and 1.30, the dollar went to 2.

Then on the eve of the election of President Lula the dollar went nearly to 4, and we had the crisis in 2008 when the dollar went up to nearly 2.50. It is evident ...that the dollar, yes... when the tendency is towards stability; but there have been fluctuations in some important moments of the economy.

It is only important to say this, look, in terms of regulatory aspects there was an evolution in this area, creating the CVA. But it is also important to remember the following: these companies have working capital and sustain the exchange variation, bringing this variation to the consumer practically divided up over 12 months, because it will be applied on the anniversary of the tariff and charged to the Selic.

You know that when the exchange rate detaches for whatever reason, whether endogenous or exogenous, the Financial System also enters into a greater level of entropy as do financial costs for financing working capital, for advance payments on dollar securities or in the case of power purchases themselves, they move higher.

I remember back in 2008 we tried to obtain shorter maturities for credit operations from banks. We even opened a longer maturity of two years at 125% of the CDI (inaudible 56:17) and naturally we carried this position to the consumers. We honored at that time not only the exchange variation but also dispatched our thermoelectric plants at 100% of the CDI.

Therefore, I would say the following: there is room for a discussion in the sense

of bringing this WAAC to a value that is more appropriate and it is different than the WAAC that is being applied as an assumption, for example, for the generation and transmission auctions, for a very simple reason – first, these auctions will occur in the future. Therefore, you must be looking at a single position for the future. These projects will not have tariff reviews during the course of their useful life. Thus, the amount you achieved in the auction will be applied as a permanent rate of return, which is practically the same as a long-term bond indexed to the IPCA.

It is different from those who have been here 15 years, who every four years submit to a review process to capture these imperfections, these variations in terms of the market. One cannot confuse the application of a WAAC for a future auction with the setting of a WAAC for a working concessionaire, because this company already has undergone greater variations and because it will have to submit every four years to this review. On the other hand, I believe there is room for this discussion to evolve.

With regard to Factor X, I also believe there is recognition that this reduction of the participation of the distribution companies, as I have said, in the total tariff of about 50% to something today around 25%, presupposes investments that were made to increase productivity, reliability, automation, more sophisticated information systems and systems to manage losses.

For each one of these elements there is an investment to be made, obviously in the condition of privatization a more bloated situation, investments in voluntary retirement, and so forth, with shorter maturities.

When we speak in terms of systems, in technology, in automation, we are speaking about larger investments with shorter rates of returns. The Factor X is an instrument that must slightly share market gains, but it also must be an estimate to make investments feasible in order to improve quality, productivity and technology.

Obviously, if you have achieved or captured these gains over the period of one year, you make these investments unfeasible and all consumers lose. Therefore, I believe that there was recognition here on our part. I believe that we have still not reached the point we would judge to be equilibrium, however, it has been going as has the WAAC, in the right direction.

Finally, I believe it is important to recognize, for example, the topic of other revenues that are still the subject of a big difference in understanding on the part of the concessionaires because, in the first place, this is non-operating revenue and, in the second place, it is not recurring revenue for the company.

Ideally, none of the companies would exceed their demand, none of the companies would have low-power factors, and the systems, whether for company billing purposes or placing reserves in substations, for the protection of reserves, in the case of reserves for example for the reactive power factor, it would not have to be done. This would be the ideal situation not the real situation.



Obviously, for each one of these aspects there is an action, or there is a loss for the concessionaire, or there is a cost for the concessionaire, or there is risk the concessionaire will not collect. How many companies do we have in this position who entered into bankruptcy and did not pay what they exceeded?

How many companies did not have a low power factor and discuss this in the courts? We must hire a lawyer, sometimes we don't collect, sometimes we have to delay the payment; that is to say, it is not certain revenue, it is not net revenue, it is not revenue to be shared, and it never even was, even during the privatization time, considered because, obviously, one expects, just as our exchange rate is stabilizing, just as our inflation rate has gone from 80% to 6%, that everything requires time to become stabilized.

When we reach this situation there is nothing more to share. Therefore, we shall move in a certain direction, just as do the other elements of this stability situation, recognizing that there are forces in effect leading to stability.

I think that in a general manner, just to summarize, management has encouraged the interaction process and I believe that, as a process, there is still room for discussion that we believe is necessary to be followed in order for us to have a balanced and sustainable industry.

Finally, it should be remembered the sector is important because of what it collects regardless of overdue payments. It is obliged to pass along everything to the generators, the transmitters along with fees and taxes. It does not have the option of payment default; that is, everything that is billed by the concessionaire is delivered back down the chain without payment interruptions. But it also is a growth indicator.

If today we have, and we look at this as Brazilians, a process that is very stable, safe, I would say "precise" from the point of view of the auctions, in great measure it is due to the qualification these concessionaires had in the sense of developing planning systems for the future market. On the other side, a long-term security known as "PPA" was established, which is considered by the financing agents and particularly the BNDES, as a Triple A paper.

It is only Triple A because the sector is in sustainability, in balance. If not, it wouldn't be. That is why it is necessary, and why I am very proud of the very large participation of society in the process of interaction with the Agency, because it has demonstrated how much society appreciates this stability.

I think that Aneel was sensitive to this and I believe that with the correct arguments, with a deeper discussion, that we can reach this stability and consolidate what we have worked towards in the past few years into a sustainable sector that grows and can work efficiently and with tariff modicity.

**Mr. Márcio:** Perfect.

**Mr. Wilson:** Excuse me, I took a long time. But I believe that it was an

important answer for you, Márcio, and for all of you.

**Mr. Márcio:** Thank you, Wilson. And I only wanted to make one comment about the first part, and if you could comment at some point during this call to leave some room for the others. What I want to say about the question of payout is only the following: the volatility of your results will increase as a result of the end of the CVA.

You had a very stable policy both in the first semester as well as the second half. In order to maintain the dividend per share at a more stable level, perhaps you would have to increase the volatility of your payout policy precisely to counterbalance the increase in the volatility of the results.

Therefore, it's sort of counter-intuitive. But it is to maintain a more stable dividend policy and perhaps this dividend policy must be less stable, afterwards if you could please comment a little bit about this. Many thanks for your response.

**Operator:** Ladies and gentlemen, we are reminding if you want to ask a question all you need to do is press asterisk one (\*1).

**Mr. Wilson:** it seems that we do not have any more questions. So I will complement what I said regarding Marcio's question. Without any doubt, and we are betting on this, because the IFRS does not permit adequate reporting of regulatory assets and liabilities, it generates this volatility. Again, our policy is to have a minimum of 50%, and we have paid out 95%.

If it were to be necessary for us to be (and we try to be) a company with one strategy for growth and on the other hand to offer liquidity in the form of adequate dividends to our shareholders, evidently we are going to be watching this volatility carefully.

At this moment now, as I have observed, it does not compromise in any way what we have been practicing. It is evident, and time will tell, and we will be following this. The policy certainly will not need to be changed, and we do not believe that the IFRS can cause volatility to the point that it would compromise the 50% (policy).

The payout may have to be adjusted as a result of very high volatility, we're going to have to monitor this. The company's intention, however, is to comply with this policy. Secondly, to the point that we adequately manage our capital structure, according to the aspects I have mentioned, there is a high payout. But the company evidently will follow this up and monitor the results in an adequate manner. Is there another question?

**Operator:** Ladies and gentlemen, our next question comes from Mr. Vinicius Canheu, of Credit Suisse.

**Mr. Vinicius Canheu:** Hello Wilson, good afternoon. My question is with regard to the auctions. In previous earnings presentations you even have passed along

a bit of an idea of what would be the demand to be contracted in these auctions. I want to know if you could give us an idea about this, what is the expectation for the A-3?

Furthermore, regarding the auction, not specifically the demand but rather regarding competitiveness, after a long time natural gas is returning to the auction, you have a supply contract as do some of your competitors, as well. In view of the fact that the sources are going to compete against each other, and that during the last auctions what we saw was mainly quite competitive wind power, do you see that there is any room for competitive natural gas at the price level that we have seen in the past years gaining relevant space today in the A-3?

**Mr. Wilson:** Vinicius, let's go by parts here. The first answer to you is the following: our evaluation is something like 1,200 MW-average for the A-3. Your question is intriguing with regard to the competitiveness factor. We understand that the price should go up a bit during this auction, and this could bring about higher competitiveness between gas and wind sources.

I believe that gas is something important for us to achieve consolidation while it is a source in this option for thermoelectric power. That is one of the reasons even for us to have... we have been developing this type of project and fortunately we have one that has qualified for it.

There is an expectation, and we should always remember that especially during the last wind energy auction we made a significant price reduction. However, we underwent a moment in which many plants were set up in Brazil and they had to obtain many orders in order to be feasible. Therefore, the logic naturally, I would say of the auction itself, led to this. It put both the builders as well as the suppliers in checkmate. I believe that the demands were met and the plants received their orders.

On the other hand, we also have a surplus of equipment, which is the result of the crisis in Europe that is very strong in the field of wind power. The situation is normalizing. We see a little bit of growth in United States, and I think that it is somewhat a result of the subject of Fukushima as well as the direction being taken towards renewable sources as is very much present here in the strategies of the companies.

I imagine that this auction... I believe that we are going in the right direction once again we are placing energy into the market at a modest price, at a competitive price, the competitive process makes this happen. But I think that the situation that we had... this is a personal guess on my part... the situation that we had the last time should not repeat the way it happened before. I think that at that some moment we will see rationality, especially to be able to avoid tripping up on the challenges that are yet to come.

Yes, it's interesting that we have qualified project managers, not only from the technical point of view but also financially so that we are able to produce the project with tariff modicity, and especially so that the project is carried out, and

executed, — initiated, concluded and implemented — like we have done. We know that today this is not exactly what is happening on average.

We are speaking about something that is rather small, but undesirable. I believe that the players have an obligation to maintain their projects on the rational level so that they are concluded and the power can be delivered to the consumer market.

**Mr. Vinicius:** Thank you, that's fine. Than just to close the sources question, we spoke about gas and wind, about biomass, despite the fact that all the potential, mainly in your concession area, the presence has been very timid in the past auctions. Now the impression is that the moment has arrived for growth? Or not? And as you said, there is quite a lot of wind power and perhaps now is the moment to migrate for gas-fueled thermal power?

**Mr. Wilson:** I believe that even because of the fact that it might be possible to increase the price for wind power, and the biomass plants are performing increasingly better, which is something that we have seen with some of our plants, and because we are going to have more time to produce energy — the harvests were five months, they went to 6 months in now are closing in on eight months. This will make biomass energy more competitive.

More than this, we are also beginning to evaluate alternatives for burning straw tips, and this also creates a greater level of competition, more competitiveness for biomass. I think that at the end of the day it's going to be a good fight — between wind, biomass and gas — each one with their predicates and I think that the competitive environment created will make each one of them feasible.

**Mr. Vinicius:** Thank you very much, that's fine.

**Operator:** We are now ending this question-and-answer session. I would like to pass the microphone to Mr. Wilson Ferreira Junior for his final comments.

**Mr. Wilson:** I think that we could have another quarter with good results. I am satisfied being able to share with you the development of a very clear strategy on the part of our company. This strategy at this moment is to expand the outlook for the renewables. We have over the next few months the important mission of setting up this platform, to make this platform as competitive as the company's other businesses.

I believe it is important that in this agenda, and I want to highlight that here, we have positive interaction with the Agency with regard to having another tariff cycle, so that we can in some way be proud of the benefits, the productivity enhancements, the sharing of results with the consumers, and on the other hand the stability of the sector through the distribution companies.

I believe that these are the two main messages of this moment where the outlook continues to be strong. I always like to say that the tariff review process is a moment when the major players, the large market agents, once again have

the challenge of showing their competence. We are now preparing for this moment.

Integration is important, and the articulation we have achieved is of fundamental importance. But at the moment the process is concluded, there is a new level of efficiency that is required and we are working quite hard to make this happen.

On the other hand, it is also the moment to be clearer about potential consolidation. We view this process very optimistically because it could bring new advantages to a Group that is focused on this strategy — consolidation and distribution, the growth of generation, now strengthened by the renewable sources, without ignoring the large power plants and our thermal plants that we began building last year.

Finally, I see this potential of the Brazilian market, in the growth of the free market. We also must use the capacity that we have developed as the market leader in the field of sales to the free market.

So, together with the Brazilian economy, the prospects for Brazil, there is a very positive scenario for the future of CPFL Energia. I would like to thank the analysts and investors once again for your attention at this conference. Many thanks.

**Operator:** The CPFL Energia conference call is over. Thank you all for much your participation and have a good afternoon.

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