

**Operator:** Good morning ladies and gentlemen. We would like to welcome everyone to CPFL ENERGIA 2Q09 Second Quarter Earnings Results conference call.

Today we have here with us the executives **Mr. Wilson Ferreira Júnior**, CEO of CPFL Energia and **Mr. José Antonio de Almeida Filippo**, Financial Vice-President and Head of Investor Relations, and other officers of the company.

This call is being broadcasted simultaneously through the Internet in the website: [www.cpfl.com.br/ir](http://www.cpfl.com.br/ir). In that address you can also find a banner through which the presentation will be available for download. We inform that all participants will only be able to listen to the conference call during the company's presentation. After the presentation, there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this conference, please press \*0 for an operator. It is important to mention that this teleconference is being recorded.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of CPFL ENERGIA management, and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CPFL ENERGIA and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to **Mr. Wilson Ferreira Junior**.  
**Mr. Wilson**, you may proceed.

**Mr. Wilson Ferreira Junior:** Ok. So a very good morning to all and it is a pleasure to be with you to discuss CPFL Energia's second quarter results.

I will immediately move to **page 2**, where we have the highlights of this second quarter. We have on the first line the reported results, that is we are reporting an increase of 15% in our net revenues to reach 2,657 million for the quarter.

Also an Ebitda of R\$ 691 million, which compares with the second quarter of last year with a 3.7% decline. The bottom line shows a net income of 289 million, again corresponding to a decline of 11.5% in relation to the same period last year.

In these results we have two non-recurring items. The first relates to the alignment of processes at CPFL Serviços. And in this result we are reversing R\$ 8 million in costs which were deferred from operations over the past five years as from the startup of the Company's ERP management systems.

As a result this saw a reverse entry of about R\$ 8 million, having a direct impact on the Ebitda here, such that on a recurring basis the Ebitda figure would have been R\$ 699 million, corresponding to a decline of 2.1%.

Also for this quarter, we have here the imposition of a fine related to our DEC and FEC indicators for 2003 and 2004, as a result of a recent decision by ANEEL. In this respect we actually managed to obtain a small reduction in relation to the representation against us with respect to what we had in the past - 2003 and 2004. This reduction of 19 million fell to 16 million, and these values are restated against the Selic, for which reason we have already booked this volume to the financial expenses of the Company.

If we compare the profit in recurring values, not only due to the effect of eliminating these service costs but also with respect to the imposition of the fine, then we would have reported a net income of 307 million and not 289 as reported. And these numbers are important for analysts to be able to make their forecasts.

We would like to particularly point to a highlight in this second quarter. In the first place, the growth in the market. We saw growth both in the captive and in the free markets, important growth in the light of the economic crisis which is beginning to show significant signs of recovery.

Thus we recorded a growth in sales of 1,6% to the captive market and 16% to the free market. We'll be talking about the captive market shortly, driven in particular by sales to the residential and commercial segment. And in the free market as with other sector players, driven by the energy sales through the Adjustment Auction.

It is important to emphasize, and the revenue figure underlines this, an increase of 15%. We were directly impacted by tariff readjustments for CPFL Paulista and RGE, something in the region of 18 to 20%.

But as everyone knows, these higher readjustments are due by and large to the reposition of Parcel A values, basically covering foreign exchange variations since last September up to the beginning of this year, although today the dollar appears to be at more realistic levels.

But also the dispatch of thermal energy, these values practically account for more than half of the readjustment in these two items. So the readjustments are much more for offsetting or for reimbursing the Company for anticipated values, than for application on future values.

Other highlights in the quarter were the issue of R\$ 1 billion in debentures, already a market benchmark, at an average rate of 110.3% of the CDI. A

complex issue, unique in Brazil, a simultaneous issue of seven companies, averaging 110.3%, notable here being CPFL Geração, at 109.8% and we shall also be giving details of this a little later on.

I would like to highlight the decision taken at the extraordinary general meeting of our board yesterday in the distribution of R\$ 572 million, that is the integral profit for the first half, in the form of dividends to be paid normally on the last day of September.

And finally, to mention that the Company was elected by Management & Excellence as the most sustainable company in Latin America and the second in transparency in the capital markets. These then are the important highlights of this second quarter and which we shall now discuss here in greater detail.

I would like to make special mention here of Comphania CPFL Paulista, one of our subsidiaries, the largest distributor, being recognized by Abradee as the best Brazilian distributor in the 2008 ranking.

Well let's move on the **page 3** where we can begin to go into more detail on the way the market performed, highlighting on the left hand side the performance of the residential and commercial segment with important growth rates of more than 5%, 5.4% in the residential segment and 6% in the commercial segment.

And they are all impacted by a market scenario which is reported here and which continues being consistent over time. In this context, I mean payrolls growing by 7.5% in São Paulo, 3.4% in Rio Grande do Sul. Sales of furniture and household appliances growing 7.6% in São Paulo, 6% in Rio Grande do Sul. Retail sales up 9% in São Paulo, 3% in Rio Grande do Sul.

And also higher temperatures in the second quarter, notably 20% higher in the Sorocaba and Campinas region in São Paulo, and almost 12% in Ribeirão Preto.

All these variables positively impact the residential and commercial segment which as you know are segments served in low voltage and for this reason bear a higher tariff.

On the other side also, as further evidence of improved incomes, is daily residential consumption. We have here during this period, in comparison with the second quarter of last year, a growth of 2.9% in daily residential consumption, getting close to 6 KWh per customer per day. It's an important measure for evaluating the increase in residential segment consumption.

Also significant - and I'm going to get into greater detail later - we also had important growth in the number of customers served by the Company, a growth of 2.5%.

On the right hand side, we have here, and I would say, perhaps, with greater clarity, the light at the end of the tunnel with respect to activity in the industrial segment where our business fell 9.7% year on year. You can see in the state of

São Paulo, 13.8%, in the state of Rio Grande do Sul, 10.5, this is the total consumption of consumers in the concession area.

I'm going to look in detail at the captive market and then move on to the free market. But the curves show what took place during the period.... the yellow curve would be equivalent to the industrial performance in the country, which shows that really we hit the lowest point in the trough at the end of the first quarter but are now well on the road to recovery.

And the same applies to the concession areas served by the CPFL Energia group, with rather stronger momentum, but not much, where we already have a recovery as can be seen from the graph.

Another item of data which supports this thesis is requests for increase in demand from our customers. About 100 customers requested an increase in demand, an increase of 1.58%. At the same time only 54 requested a reduction representing a decline of 1.43%, and thus a positive net balance in the region of about 0.15% or 10.8 MW.

So we are really talking about a slower recovery process in industry but one that is already occurring and very clearly shown in this graph.

In the following graph on **page 4**, we have... here is a greater breakdown of energy sales. Thus, in the middle we have concession area sales. Dark green, the captive consumers, that is those, served and billed by the concessionaire, that increase of 1.6% that I mentioned. And in light green the free consumers served in the concession area by our networks which enable the Company to fix a tariff for the use of the distribution system.

These larger consumers, as can be seen, reported 12.1% lower consumption. Overall then in the concession area, captive and free markets reported a reduction of 1.8%. This compared with the graph underneath for the performance in Brazil as a whole of a 2.4% fall in the period, but already in recovery mode as we have shown.

On the right hand side sales to the free market growing about 16.3%. And here the principal element determining this increase is sales by the Company via the so-called "Adjustment Auction", an opportunity which the Group optimized to the full thus resulting in a higher volume of sales to the free market, reaching 2,548 thousand GWh.

The sum of the yellow part, that is the free market and the dark green part, the captive market, is what determined total energy sales ... a growth of 4.4%, to reach 11,811 thousand GWh.

The bit below is worth going into in greater detail, - we have already talked about the residential and commercial segments and here is the industrial segment falling by 7%. The industrial consumers billed by the concessionaire, and therefore the captive industrial consumers.

Note that with a decline of 7% the tendency is slightly better than the major industrial consumers. And the other segments amounting to 5.8%.

On **page 5**, we show the numbers for these results, before going into detail, of the performance of each one of the segments. Beginning with the segment which is most representative in our distribution results, accounting for 63% of company Ebitda.

The segment shows a decline of 8.6% in this quarter, due basically to an increase of 1.6% in sales, albeit a small one in our portfolio. A reflection of the tariff readjustment of the companies, and here clearly the remaining effect of the so-called “tariff reviews”.

Ladies and gentlemen, as you will remember our tariff reviews were only provisional, becoming final, in particular in the cases of Paulista and RGE, in the month of April, and which incorporated here the remaining effects of the so-called “reduction in the reference company”, with a retroactive impact of two years. This makes this effect a little worse in terms of the fall in the distribution segment Ebitda of 8.6%.

It is worth mentioning that we had non-recurring expenses of 4 million last year, which distorts this analysis a little bit. But the numbers are of this order, a fall of 8.6%.

In the other two segments – the generation segment, a growth of 10.2%. This is directly impacted by the startup of the 14 de Julho HPP, which accounts for the larger part of this increase, and for the contractual readjustments in IGP-M, which under the current scenario are lower.

Finally, in the last line, we have a line for the segments for commercialization in the free market and services, which reported a decline of 5.3%. But affected directly by that non-recurring expense, of deferred expenses which were fully recognized in the past five years in our CPFL Serviços balance sheet of R\$ 8 million. This then would make recurring Ebitda 5.2% positive.

So in the generation and commercialization segments, a positive performance. In the distribution segment, a negative performance driven more especially by the definitive offset of the tariff reviews.

This then establishes this new breakdown with the commercialization and services area participating with 10% of the Group and the remaining 27% relative to electric energy generation with the consolidated Ebitda margin of 28%, post all effects of the tariff review.

We will now take a closer look at the Ebitda and profit figures on **page 6**, Ebitda. As mentioned, we are reporting R\$ 691 million for second quarter Ebitda with basically an increase of 16.2% in net revenue, driven largely by the tariff adjustments, by higher volume of 4.4% in the free market and captive market, the net of this and the reset of the tariff reviews of Paulista and RGE, the

Company's largest operations. This is the intrinsic effect for the Company, thus basically the effects of Parcel B.

Finally the increase in TUSD revenue, in spite of billed TUSD volume being lower, the result of a reduction in consumption of the free consumers, we have a nominal increase of this tariff, which permitted the increase of 5.3% in TUSD revenue of R\$ 10 million. These are the positive events which are recognized here in the net revenues of the Company.

On the other side of the equation, the costs associated to this revenue. There is an increase of 30.2% in energy costs and charges amounting to R\$ 369 million. Basically all the costs recognized in a definitive form in the tariff readjustment, in particular those two about which we have already spoken at the outset of the presentation – the recognition of the foreign exchange effect and the recognition of energy dispatch.

And we also have incorporated here the cost of Itaipu, with a readjustment of 8.7%, and a 25.2% higher FX average effect in IRT (Tariff Adjustment Indexes) in addition to an increase of 56.5% in charges for use of the system, given the higher order of thermal. Note that the values are significant but they are impacts of the current macroeconomic scenario and should not be repeated going forward.

We had, and here in the form of manageable costs, an increase of 6.8% in our costs and expenses. Here it should be pointed out that we have a recurring effect of only 2.6%, here we are discounting the effect of the disposal of property last year of 4 million, of the appropriation, as mentioned, of costs in the previous periods that were deferred in CPFL Serviços of 8 million. And the additional costs involved with the startup of 14 de Julho HPP.

Factoring out these non-recurring effects, we would then have the recurring O&M cost growing by 2.6%, against an IPCA, which is the principal indexer for these expenses, of 4.8%. Thus we continue, despite the crisis, with a relative gain in costs for personnel, material, third party services and others.

We now turn to **page 7**, a greater detailing of the net income. It begins with this reduction in Ebitda reported of 3.7%, of 27 million. A gain of 11% in the financial result occurs as a result of the reduction of 13.6% in financial revenues, naturally due, as can be observed in the box at the side, to the Selic of 2.8% in the second quarter of 2008, against 2.4%. Thus cash invested was remunerated at a lower rate.

The other side is the upside, a reduction of 12.4% in financial expenses, totaling R\$ 24 million. This arises from the reduction of 72.8% in expenses from monetary and FX restatement, 37 million and it has an off-set in the ANEEL fine related to the DEC and FEC indicators totaling 19 million.

So a positive result... the financial result... but less positive due to the fine, but it is not recurring, as already mentioned, and it reflects an operation by the concessionaire in 2003/2004.



Add in to these effects the private pension entity, R\$ 22 million, against the actuary's forecast. The increase in depreciation and amortization of 4 million, through the activation of new assets, both generation and distribution. And obviously, the counteracting effect of a reduction in income tax and social contribution against last year in particular for account of the reduction in Ebitda already described.

With all this we arrive then at R\$ 289 million of net income and accumulating for the first half to R\$ 572 million, which can be seen in the following page, **page 8**, the decision being taken to distribute 100% of this net income in dividends, thus equivalent to R\$ 1.19 per share. And characterizing in the quotation... of the share of CPFE3 over the past twelve months, a yield of 7.6%.

Ranking the Company, on the basis of the last five years, as one of the largest dividend payers of all the shares listed on Bovespa. And if we look at the situation since the IPO, in September 2004, then we are talking about nearly five years and a dividend yield of 71.3% of the Company's launch value, an investment that has undoubtedly posted a great return.

Moving on now to **page 9**, where we can point here to some effects of operational efficiency – a permanent objective and more particularly with the focus on distribution.

As can be seen from the boxes on the upper left hand side, there was an increase in delinquency rates in economic activity throughout Brazil and in São Paulo in particular. This can be seen in a variation in the general delinquency rate from 5.7% to 7.7%.

It is only natural that there has also been an increase in delinquency in the energy sector, however of much more modest proportions, practically imperceptible. The increase from 1.38% to 1.45%, is slightly up for the Group as a whole. It is very clear that the increase in delinquency rates occurred in the state of São Paulo, with an increase of 0.12% percentage points from 1.09% to 1.21%.

However in Rio Grande do Sul we actually saw a reduction of 0.4% percentage points from 2.81% to 2.41%. So the delinquency, at the most delicate moment of the economy – and we are clearly moving away from the worst of it – had only a very slight impact on Group delinquency levels.

Important to observe, at the bottom, the economy in growth mode, allowed the Company to add 2.5% to its customer base to reach the total of 6.5 million consumers served by the Group through the intermediary of 8 distributor concessionaires.

And continuing the program for greater efficiency there was an average growth in productivity as measured by customers per employee of 7%. With total energy sales now a little more stable, we also saw a growth of 2.5% in average productivity in sales per employee.

No question that these results were recognized by the market. On **page 10** we can see the Abradee recognition in its most recent award in July. Where Paulista was again recognized as the best Brazilian distributor, a feat achieved five times by this concessionaire. But we also had RGE being recognized as the best concessionaire in the south of the country and also in the area of social responsibility.

Important to point out here that for the first four places in the Abradee Award at national level, three are part of the CPFL Group - Paulista, Piratininga and RGE. These are three of the four companies that reported the best performance among the 64 Brazilian companies that are monitored by Abradee.

On **page 11** we would like to share with you a vision of the two main investments with work in progress in the generation area - the Foz do Chapecó hydroelectric power plant, work on this 74% complete.

This is a very important fact, the Company's estimated total investment here is R\$ 1,328 million, and in the first half alone we invested nearly R\$ 200 million. So we have already reached the R\$ 908 million mark with this. And this data is important even in deciding what is to be done at the next stage in leveraging the Company.

The outlook is that the plant will go into operation in the second half of 2010 and bring in revenue of R\$ 290 million annually. As everyone knows we operate with margins in the generation area higher than 85%, this should already give you an idea of the Ebitda which will accrue to the Group, practically 10% of the value verified for the entire Group today.

Which gives the generation area greater muscle, and with it we will reach more than 2.2 thousand MW in installed capacity, already ranking the Company among the three largest generation companies in the Brazilian private electricity sector.

On the right is the Baldin biomass plant, also an investment which we began at the end of last year, 68% of which is already complete. The project goes into operation in the first half of next year. An investment of about R\$ 100 million, of which R\$ 28 million already expended. So we have here... it will start operating in March 2010. A plant being constructed at a fast rate and CPFL Bioenergia's first project.

Here on **page 12**, for information purposes only, the next auctions planned. The A3 Auction will take place now in August, with sales expected at between 300 and 500 average MW. And where there will be as energy sources, principally thermal plants fired by natural gas and biomass. We expect to participate in this auction as energy purchasers.

In the Reserve Auction in November 09 we expect between 400 and 600 average MW of wind-powered electric energy. We should be there participating with a project for which we are in the final stages of prospecting. So we will be



going into this auction with CPFL Energia making its debut in the wind power sector.

The A-5 Auction, to be held in the final quarter of the year with sales already expected to be between 900 and 1,300 thousand average MW, naturally depends on volumes indicated by the distributors – this is our Group's estimate, when we shall have the participation of thermal and some hydro plants as well.

And the most anticipated auction of all, the structuring auction of the Belo Monte hydroelectric power plant, 11 thousand MW being forecast from this plant, which should also take place at the end of the fourth quarter of the year. And where CPFL Energia has a dedicated team already focused on the auction - and our expectation is that we should take part in this auction as well.

Moving on, we have on **page 13** some information on the value-added services area. This activity was hard hit principally in the first quarter of the year in view of the crisis, but clearly already with an outlook for recovery.

During this second quarter, we concluded 69 new contracts which were signed in this second quarter for an amount of about R\$ 20 million in sales, however we only billed 6% of this, that's just R\$ 1 million. The remaining 94% sits in the Company's portfolio to be billed in the coming months.

And with this, in spite of the crisis we managed to maintain the Company on a growth trajectory pari passu with the same quarter of last year - even with the crisis we have been able to report a growth of 8.2%.

Below just to show the expansion of our network for receiving our accounts and services - CPFL Total which continues growing with about 50% more service points, practically hitting the 1.5 thousand mark and 84% more transactions, which shows the efficiency of these new points. And in terms of gross revenues, we grew 124%, reaching R\$ 3.5 million.

I am now going to turn to **page 14** just to mention our debenture issue led by Filippo, in the financial area. As I have said, a very big challenge for a joint issue involving seven companies - Paulista, RGE, CPFL Geração, CPFL Brasil, CPFL Jaguariúna, Leste Paulista, Sul Paulista and Jaguari.

This issue was completed on July 1 of this year with a maturity of two years, as I said, in the weighted average value of these transactions, an issue of R\$ 1 billion and an average remuneration of 110.3% of the CDI.

This issue has been assigned a rating from Standard & Poor's of 'brAA+' on the national scale, including all our concessionaires... including CPFL Energia, sorry. And each one of the concessionaires 'brAA', in the case of RGE, and the rest with 'brAA+'.

The offering was 100% taken up by the market, and corresponds to an important success, and the Company capitalizes itself to make its immense growth program a viable proposition.

Talking of financial debt, if we move onto **page 15** where there is a breakdown of the net adjusted debt which amounted at the end of this quarter to a little more than R\$ 6 billion. Leaving the Company with a capital structure of 55% third party capital, 45% shareholder's equity. And reaching as I said, an adjusted net debt/Ebitda ratio of 2.17.

But just to remember that it incorporates principally the net debt, fruit of investment in progress, more especially Foz do Chapecó. And excluding this investment where we have been working since the end of 2006, early 2007, and now in the final stages, with 75% of the work completed, if we exclude the effects of this debt, given that it still accounts for zero Ebitda, we would have an adjusted net debt/Ebitda ratio of 1.92 instead of 2.17 - which is close to what we understand as being healthy.

The debt breakdown on **page 16**, showing here CDI with 57%, and the TJLP with 31%. And here lie the principal reasons for the fall in our financial expenses, that is, the variation of the Selic, TJLP, and also the IGP-DI, which is the indexer of our expenditures with Fundação Cesp.

All of them on a quarterly comparative basis with a decline - Selic from 2.8% to 2.4%, TJLP from 1.5%... in fact it is about 1.6%, it was 6.2% per annum and fell to 6%. And the IGP-DI was even negative, -0.1%.

This means that the real cost of our debt is reaching its lowest level since the Company was founded, reaching 7%, 11.8% nominal. And the financial expenses against Ebitda of the Company also putting in an extraordinary performance, a reduction of practically 20%, coming from 0.31 times to 0.24 times.

On **page 17** we have our share performance for the accumulated period in 2009. These prices to the close of business on August 10, we have here a growth of CPFL Energia of 21.5% against the index for the sector of 40.1%, and Bovespa of 51.3%. This is due principally because last year, the Company's share price remained very strong, in the past twelve months about 6% appreciation, against 13.6% for the electric energy sector and 0.4% for the Bovespa.

Performance in New York is directly influenced by foreign exchange variation, also by the recent appreciation of the Real against the dollar, this being the reason why we reached 52.9% against a Dow Jones of 6.4%.

And emphasizing here the increase in the volume, the recovery in the Company's volume, amounting to about R\$ 30 million daily practically two-thirds of this on the Bovespa, and one third in New York.

But already increasing market share in relation to the total trading volume on the Exchange, which reached 0.32% in the first quarter and has already returned to 0.43%. This maintains the Company positioned in the market,

participating in the principal stock indexes of the São Paulo and New York exchanges.

I am ending here on **page 18**, where we show the recognition received, as I have mentioned already, by Management & Excellence, both in the part which relates to the most sustainable companies in Latin America - in first place, and in the ranking for transparency – second place.

This is what I have for the second quarter. I, together with personnel from my area, accompanied by Filippo, am at your disposal to answer any questions you may have. Thank you very much.

### **Q&A Session**

**Operator:** Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (\*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press (\*2) star two.

Our first question comes from **Ricardo Cavenagh** of **Raymond James**.

**Ricardo Cavenagh:** Good morning to all. I have two questions, the first relating to demand. How do you see the pace of demand recovering in the industrial segment over the next few quarters? And do you expect to see the growth in the commercial and residential sectors continuing over the next quarters?

And the second question is related to the annual and final tariff review for CPFL Piratininga, what are your expectations on this front?

**Wilson Ferreira Junior:** Perfect. I'm going to start with the second part. In the specific case of CPFL Piratininga, as with the other concessionaires, it has its definitive remuneration base in place, so there is no carry-over effect from the past.

But the concessionaire has .. by October, it is subject to the so-called public hearing 'AP52' process, in other words the resolution which contemplates a new limit for the Company's manageable costs.

So, it is only natural that we should have some kind of effect, I would say slight, this methodology has resulted in reductions in the region of 3 to 4% in the reference company. And this being provisional, it has to be recognized for two years previously.

CPFL Piratininga is our third largest distributor, I would say that the effect as a whole should not be significant and will have to be made naturally recognizing the two years.

On the issue of total energy sales... in the context of our best estimates for the year, we are imagining something... this number of 4.4%, which we have been

speaking about just now, should be somewhere in the region of 3.8%. We are working with an outlook for something about 4%, although it should be slightly less, around 3.8%.

On the particular issue of the residential segment, a growth in the order of 3.6... sorry, in the residential segment of 5.3 and in the commercial segment of 4.8%. And we still have the industry segment, falling a bit, today estimated at close to 9, should report a decline of about 4%. Which will make the overall increase in total consumption of the order of 3.8 to 4% in the year...

**Ricardo Cavenagh:** Thank you very much.

**Wilson Ferreira Jr.:** (inaudible X 39:54) industrial performance .

**Ricardo Cavenagh:** Fantastic, thanks.

**Operator:** The next question comes from **Márcio Prado** of **Santander**.

**Márcio Prado:** Good morning Wilson, good morning Filippo, good morning to all. I would like to come back to the theme of sector consolidation, particularly in the electric energy distribution sector, which is emerging it seems from the worse point in the financial crisis and the credit crunch.

I would like some comments on your vision on, if indeed, despite the efficiency, whether sector consolidation would seem to be something which can be expected to happen.

On many occasions I have seen the BNDES giving credit to some less efficient distributors. So I would like to hear if you think that this consolidation process is something which really lies in the future and less in the present. If you could also comment on Brasiliana, which is always an issue which raises the consolidation issue.

And a second question on this, although quicker to answer, if you could comment in terms of financial leverage, on the possibility of an eventual opportunity for acquisitions, from the point of view of net debt/Ebitda, from the point of view of the breakdown of capital, equity in relation to the total capital of the company. What are the levels with which you are comfortable with at CPFL Energia? Thanks.

**Wilson Ferreira Jr.:** Of course, Márcio. Beginning with the first question – the process of consolidation I would say clearly has much to do with the financial question, but especially the signals that the regulations send from the point of view of incentives for efficiency. And in this case, for sure, this is a sector which is one of scale – the smaller operations will have greater difficulty in meeting the benchmarks stipulated for each Regulatory Agency cycle.

By this I mean, evidently that we have a sector with 64 operations, 64 distributors. And I continue believing that at the end of this process which is

being concluded now with the last definitive tariff reviews – where you have a reset, as mentioned just now – not only of the regulatory remuneration base, where there was a small reduction for the majority of companies in this new cycle, but I believe now with a greater need for investments, there is a clear need for BNDES intervention, although we are talking about organic expansion.

On the other hand, you have a reduction in the so-called reference company in values which amount from 3 to 6% of a reduction in the limit established in previous real terms. This forces the Company to operate more efficiently and if unable to do so – and many are unable to operate below this limit – then it destroys shareholder value.

It is important to focus on the fact that in the capital structure established by the Regulatory Agency also, we have a structure which is 56% index-related debt, in real terms, very low, about 6%, even below that value, and we are operating a tiny bit below, slightly below. Although in our case it is the group consolidated value, not specifically distribution-related, but this is another challenge.

So these signs, in conjunction with what is being developed now, which is the cost, the price level established by ANEEL, that is going to determine the net remuneration base, clearly signaling consolidation.

It is only going to be possible to operate efficiently in this sector if you have an appropriate capital structure, drawing on resources at a lower cost than established by the benchmark, and this leaves very few companies able to do so.

And secondly, the Company should be able to operate at levels of O&M, personnel, material, third party services and others, below this reference company which is falling, as I have said, between 3% and 6% in real terms in this cycle. And still have the means to ensure organic growth, which all of you please note in this new cycle, is growing more than depreciation taking the average of all Brazilian concessionaires.

And this is occurring because in the past cycle, the companies were affected by the last remaining impacts of rationing, and this meant that there was a reduction in demand for investments, given that the network for a time had spare capacity.

But now no longer, I mean, the signs of economic recovery have determined higher investments, be they in modernization for upgrading efficiency, be they in new substations, transmission lines, which will make this recovery in economic growth a viable proposition.

So it is also important, where price levels are stipulated, that the company make these investments at below ANEEL reference levels.

I have brought up three points although there are more. But just to make it clear, with this process at an end, it is natural that a further wave of consolidation will occur in the same way as at the end of the last cycle.

The groups were waiting for these definitions, and I believe that consolidation is not far away... but just a ahead a little in view of the delay in concluding the tariff reviews. However, this movement is a real one and necessary so that we can have modest tariffs and a homogenous quality service – there still exist big differences in performance among Brazilian concessionaires – and consolidation is unquestionably an instrument for bringing this about.

Just a comment on Brasiliana. Brasiliana depends on the BNDES resuming the process. I am in no doubt that, given the economic crisis itself, the impact which this crisis had on financial assets, including, shares, the interest itself or difficulties of liquidity in the market, resulted in this process being put on the back burner. And we have no news that the process is being resurrected, at least in the short term. This is the information I have.

**Márcio Prado:** Thanks Wilson. With respect to some comment on the leverage levels what in the event of an acquisition would you be comfortable with? Thanks.

**Wilson Ferreira Jr.:** We are working here on the assumption of an acquisition that brings Ebitda. Today as you have seen our leverage is around 1.9%. The Company would double this, if it were for a short period.

If it were leverage to make an acquisition feasible and to create value with prospects for capturing synergies, we could get to something in the region of 3 to 3.5 times - obviously as long as this was for a short period. And, in such a way to be able with the new Ebitda, particularly through synergies, reduce this to a ceiling at which we believe we can operate efficiently, of around 2.5 times.

**Márcio Prado:** Perfect. Thanks.

**Operator:** The next question comes from **Vinicius Canheu** of **Credit Suisse**.

**Vinicius Canheu:** Hi, good morning Wilson, good morning Felipe... Filippo, sorry. I have two questions. This first is on Belo Monte. You mentioned in your presentation the outlook for Belo Monte... the auction for Belo Monte to occur in the fourth quarter of this year.

I would like to know what are... as you put it "the real chances of this taking place before the end of the year", since we have heard from some that it is possible and others, not.

I mean, what would be the impediment to this happening this year, if there is an impediment? And what is... given the importance of the project, what is CPFL Energia's level of interest in participating in the project and what might be the maximum stake in a project of this size?

The second question, on a different matter, remembering that provision which was made at the beginning of last year, on the recalculation of a tariff pass-



through, the seasonal part of a contract, principally CPFL Paulista, if there is any update on the process. What is the position of the provision that CPFL made at that time for 186 million?

**Wilson Ferreira Jr.:** Perfect. In relation to Belo Monte, something which delayed the schedule this year was precisely that court injunction and overruled last week.

Objectively, it is possible for this project to get off the ground, in our opinion I think by the very end of the year, probably between November and December. We've not stopped our studies although clearly the court injunction was critical to a series of studies in particular linked to the environmental question.

So for that reason, I believe that the original schedule that the government reckoned at around September and October, should be pushed back to something between November and December. Yes, I believe it is still possible to have this project ready by the end of this year.

Naturally we are talking about a challenging project due to its size of 11 thousand MW. As I said, with the startup of Foz do Chapecó and Baldin we will move up to a capacity in the region of 2,250. I would say this: it will be a challenge for the Company to take a stake, with a view to taking on something up to 2 thousand MW, which would be a maximum stake... in the region of 20%.

This means that as with other projects, a consortium will have to be set up with in particular the need for an effective participation from the Eletrobrás group with respect to the government stake.

So it would be reasonable to imagine that, as with other projects, you could have the private sector with 51%, two or three groups with stakes ranging between 15 and 20%, and the other 49% in the form of a government stake, notably Eletrobrás. What will be very important in a project such as this is the participation of Eletrobrás among other things, on account of the command of the information on this project that companies of the group have.

And obviously, having the challenge of a project of this size – the first in the state of Pará, of a size of 11 thousand MW, a project to be executed over five to eight years, naturally with implications from the environmental point of view requiring maximum knowhow, undoubtedly the knowledge acquired by Eletrobrás will be fundamental to this project going forward.

With relation to the question on subcontracting, the information... we really made a provision last year and we did this at all our concessionaires. This is still being looked at by ANEEL, and there is still no final ruling, for which reason we have done nothing with our provision.

This process also has implications. You know that as a follow through to this and pending is the question with ANEEL linked to the effects of voluntary and involuntary exposure, and for this reason I believe the project will only be evaluated after this new ruling on voluntary exposure.

**Vinicius Canheu:** OK. Thanks.

**Operator:** Please let me remind you that to ask a question just press (\*1).

The next question comes from **Subhojit Daripa**, of **Morgan Stanley**.

**Subhojit Daripa:** Wilson, Filippo, good morning. The question is a simple one, please could you talk a little – working in CPFL Energia in conjunction with controlling shareholder Camargo, pension funds etc., in this context of falling interest rates, if you have had any internal discussion on the subject?

Or if you could give an idea s to how the internal discussion is going, principally with respect to the pension funds, not only Previ, but also Sabesp, in short the other pension funds making up the Board?

Is there greater or lesser interest, or indifference, with respect to additional investments in infrastructure, more especially the electricity sector, acquisitions, new projects, in short ... to work with a wider investment horizon in this sector, given that fixed income investments are clearly not offering major returns for these people that have this actuarial target to meet etc.? Thanks.

**Wilson Ferreira Jr.:** Subhojit, thanks for the question. Obviously I cannot speak for the funds, but perhaps I can share with you a little of the results of our own debenture issue, where we had a larger participation on the part of the pension funds than we have typically seen in terms of our previous debenture issues, which clearly indicates interest in securities of good quality and with a remuneration in the region of 110% of CDI, exceeding their actuarial cost, with no additional risk.

We can verify from the movement, including linked to demand, this through the newspapers, of private equity funds in the infrastructure area. Evidently they are looking for opportunities that have a fixed yield with a low risk. Undoubtedly the electric sector is a real alternative, because, whether in greenfield projects, or in projects of companies such as ours, you have a long-term Multi-Year Plan.

And if you have a company with a recognized track record, the risk, whether in the form of the share, in the company's bonds, or in a greenfield investment, becomes very low, and we believe that this is occurring.

Our own fund is a challenge, because it is a fund that is still in the process of formation, seeking opportunities or securities that carry an actuarial yield, given that you have no indexers of the IGP type in the market today, although they are looking for an actuarial cost of IGP+6. So I am in no doubt that electricity sector securities, particularly in generation, are opportunities that are going to be increasingly in demand from these funds.

**Subhojit Daripa:** And in this context, Wilson, I mean, does it occur to you...have you had discussions internally in the sense that in the new

investments you could adopt strategies or differentiated structures, such as financing using a mezzanine structure, etc., precisely to be able to attract more equity from this type of investor that is naturally drawn to the electricity sector?

**Wilson Ferreira Jr.:** I'm going to ask Filippo to answer this question.

**José Antônio de Almeida Filippo:** Subhojit, in fact, in the company we are looking for these kinds of structures, but at times they are not tax efficient. What we do is always to raise funds in those operating vehicles that are going to make use of the resources and with the guarantee of the holding company, which in a way gives an outward looking profile to securities linked to the holding. So this is the line that we have sought to pursue, always prioritizing the aspect of maximizing fiscal advantages and tax efficiency for company balance sheet purposes as well.

**Subhojit Daripa:** I understand. And just to conclude, if you, Filippo, were to place this 110 of CDI that you raised from the debenture issue in the curve, how much would this be in remuneration in real terms if I use an index such as .. for example, IGP-M, which is the natural hedge you have, it would work out at IGP-M plus how much?

**José Antônio A. Filippo:** This very much depends on the market at the time, this is a difficult one to calculate...today perhaps IGP-M, Subho ... to give you a more practical position, we have begun to see securities in the market today of IPCA plus spread. I don't think we have seen issues with IGP-M so it's not in the money and any reference index today is perhaps not the best idea.

In respect of IPCAs, we are seeing out there companies issuing in the region from 7... 8% plus IPCA, and we understand that our 110 would be below that. In other words, today any currency that is not CDI, builds in a premium that makes it better to be in CDI, and during the maturity of the security which you have in CDI, you can be looking for an IGP-M, or as you said, IPCA, at some point in time when the market is favorable.

We do a lot, we have already done this on occasions, seeking to... swap CDI for pre-fixed, and even IGP-M for CDI, you must have followed some operations in the past like this. So it seems to us that, at this time the most appropriate action whereby you avoid the built in premium, it is better to look to the CDI. And over the maturity of the debt, through your treasury area, attempt to swap into another indexer or even pre-fixed, to maximize any windows of opportunity in the market which may appear.

**Subhojit Daripa:** Excellent, thanks.

**Operator:** Excuse me ladies and gentlemen, since there are no further questions, I would like to invite **Mr. Wilson Ferreira Junior** to proceed with his closing statements. Please go ahead, sir.

**Wilson Ferreira Jr.:** Very well, again I would like to thank analysts and investors for taking part in this conference call. I would like to reiterate here our

confidence in this recovery in energy sales, or the recovery of Brazilian economic growth, notably in some industrial sectors which have begun to show this more clearly.

And obviously, the positive repercussions that this recovery can bring to the CPFL platform, given that, in particular, seven of its eight distributors have already completed their tariff reviews and all the company's energy and generation volumes are sold over the long-term, indexed to the IGP-M.

And especially that we have the prospect very soon of the startup of operations at Foz do Chapecó, which will add about 30% to our company's capacity perhaps within a term of about nine months, practically a year from now. We are also in the final stages of the project together with Bioenergia.

I think it important to emphasize that we have this time specifically mentioned the future energy auctions, which will also be an important gauge of the extent of this recovery. We are talking about a collective signal for the distributors, of their needs two to three years hence, and which will be important for the feasibility of new projects or opportunities for projects in the generation area, and the total coverage of the perspectives for the sale of energy from the distributors over the long-term.

These are important indicators with which we shall be involved. CPFL will be very much present in each one of the distributors, very probably purchasing, as a major distribution group, but also participating whether through Belo Monte or through the Wind Power Auction, so that we can expand our generation.

I think it important...we haven't talked of it but I think it important just to emphasize the free market, despite the fall in sales of the order of 12%. This market reported a reduction of about 4% in total Brazilian energy volume and there now appears to be the prospect for new growth in view of fresh activity or from a recovery of these large consumers.

In each one of these segments - distribution, generation and commercialization – the Company is well placed. We hope to be able to share with you in the next quarters the success of the strategy which we are implementing. Once again I would like to thank all for taking part today. Goodbye for now.

### **Conclusion:**

**Operator:** That does conclude the CPFL Energia audioconference for today. Thank you very much for your participation, have a good day.