



**Local Conference Call
CPFL Energia S/A
First Quarter 2018 Results
May 16, 2018**

Operator: Good morning and thank you for waiting. Welcome to CPFL ENERGIA'S first quarter 2018 earnings conference call.

Today we have with us **Andre Dorf**, CEO of CPFL Energia, **Gustavo Estrella**, Chief Financial and Investor Relations Officer, and other company executives.

The presentation is available for download on the Investor Relations website of CPFL Energia, at: www.cpfl.com.br/ri

We inform you that during the presentation all participants will be on listen-only mode and, soon afterwards, we will start the question and answer session, when further instructions will be given. If you need any assistance during the conference call, please dial star zero to request assistance from the operator. Note that this conference call is being recorded.

Before proceeding, we would like to clarify that any statement made during this conference call regarding the business prospects of CPFL ENERGIA and its operating and financial projections and targets are beliefs and assumptions of the Company's management and based on currently available information. Forward-looking statements are not a guarantee of future performance. These statements involve risks, uncertainties and assumptions since they refer to future events and, therefore, depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions and other operating factors may affect the future performance of CPFL ENERGIA and cause its results to differ materially from those expressed in such forward-looking statements.

Now we would like to turn the presentation over to **Mr. Andre Dorf**. **Mr. Dorf**, you may proceed.

Mr. André Dorf: Good morning everyone. Welcome to yet another earnings conference call. Today, we will deal with the results of the first quarter of 2018.

As usual, we will have a brief presentation that shows a few numbers and highlights of the quarter, and then open for the questions and answers session.

Starting with the slide on the highlights, in the first quarter we saw an increase of 3.7% in the load measured in our concession area, most notably in the industrial segment. We will then show the growth in each segment. Our net operating



revenue also grew 15% and EBITDA rose 14%, another important highlight of our operating performance.

The company's net debt ended the quarter at R\$15.6 billion, a leverage of 3.31 times the EBITDA in the previous 12 months. We also had a significant amount of funds raised in the quarter, R\$2.8 billion, at very competitive costs.

Moreover, in the first quarter we had a large volume of investments, R\$426 million, in diverse business segments of the company, especially in the energy distribution segment. We concluded tariff adjustment at CPFL Paulista in April, so after the end of the quarter, with an average impact of 16.90% to be perceived by consumers. Likewise, we concluded the review at RGE Sul, with an average impact of 22.47% to consumers.

As for other important topics, you are following the developments in the electricity sector in Brazil, the issue of Generation Scaling Factor (GSF) has been on the agenda for some quarters now, being discussed by all companies, agents and regulators, and now with greater emphasis on the Eletrobras issue, whether due to the possible sale of the six distributors or its privatization. We also have the draft bill for the reform of the sector's regulatory framework, which involves the modernization and improvement of the regulatory framework, also quite important for the future of the electricity sector in Brazil, and more recently, topics related to consolidation in the distribution segment with a possible change of control in some companies.

On page 4 we talk about the EBITDA in the first quarter. On top left, we have the breakdown of our EBITDA of almost R\$1.4 billion in the first quarter. The distribution segment accounted for 58% of the EBITDA generated in the period, while conventional and renewable generation accounted for 41%, while 1% came from trading, services and others.

In the bar charts we can see the evolution of EBITDA by segment. Starting from the top right, we see there was a significant growth in distribution EBITDA, very positively impacted by the effects on revenue and cost, so EBITDA grew almost 27% from the prior-year period.

In conventional generation, we posted 10% growth, largely due to the recognition of reimbursements of GSF from prior periods. EBITDA from renewable generation, at CPFL Renováveis, declined by 3.7%, mostly due to lower wind speeds in the period. For the second straight year, we had winds below the expected curve when compared to the historic average, so we are convinced that this is something outside the curve seen this year and last year.

In trading, services and others, we had a stronger downturn, of 44%, not in absolute terms but in percentages. Here very much due to lower margins in trading.



On slide 5, we have the highlights from the distribution segment. As I said, we had an increase of 3.7% in the load in our concession areas and sales grew 2.9%. Here we have a time lag between sales and verified load, which explains this difference, and we had, as I mentioned as a highlight here, the growth of 5.8% in the industrial segment, with 5.6% at CPFL Paulista and 7.8% at CPFL Piratininga. These are heavily industrialized areas and this is also a proxy for growth, of activity in our concession areas. Here we have a very positive highlight in the first three months of the year.

On the subject of losses, we registered slight growth, we had in the first quarter of last year 9.23%, which improved up to the fourth quarter of last year to 9.01%, and now we also had a small improvement to 8.87% in the first quarter this year.

On the top right chart we show the evolution of sales, the highlight being customers in the free market who are growing by almost 13%. In the pie chart below, we have the breakdown of our market by consumer segment. Here we can see residential accounts for 30%, industrial 35%, commercial 17% and rural, municipal governments and others with 18%.

When we compare our growth in our regions with the market in general, we also notice in this quarter a higher growth than those shown here. So, if we compare the entire concession area of CPFL with the growth in Brazil, we see much higher growth of 2.9%, compared to 0.7% for Brazil. Likewise, if we compare our distributors in the Southeastern region with overall growth in the Southeastern region, we have the same growth of 0.7% for the market and 3.3% for CPFL.

In the South, we have growth of 0.2%, against 2% for CPFL, also much higher. The most important chart in this slide is on the bottom right, which shows the breakdown by consumption segment, with the highlight being the industrial segment, and other consumption segments growing 3.6%, highly positively impacted by the rural segment in the South. We had less rainfall in the South and, hence, a greater need for agricultural irrigation in the South, positively impacting the rural segment through RGE Sul.

On page 6, a recurring topic in periods of crisis, which is default. Here we still notice an improvement in the company's default indicators. On the top chart we have the evolution of our allowance for doubtful accounts as a percentage of gross revenue, which stood at 0.41%. There's something worth noting here: we changed the calculation methodology, from based on Aneel's accounting manual to the IFRS. If we were to calculate using the Aneel manual, it would be 0.43%, thus very close to the 0.41% by IFRS, therefore we have moved past the peak of 0.90% of our gross revenue, registered back in the second quarter of 2016.

Still, we haven't put brakes on measures to combat fraud and default. We still have a high volume of expenses in these initiatives. One such example is the collections initiatives we have on the bottom right chart, which shows that in the



first quarter of 2018 alone we had 417,000 disconnections for lack of payment or fraud.

On the chart to the left, we see total bills overdue as a percentage of revenue. Remember that these are bills overdue over 90 days, which also registered a slight recovery to 0.97% of gross revenue.

On slide 7, we have some highlights related to the energy generation business. The first highlight is a negative one related to wind generation. As I mentioned, wind power generation was below expectations at 32%, largely due to lower wind speeds. Here we also have a chart showing the prices, the evolution of the differences settlement prices (PLD), showing high volatility. We have always been talking about the PLD volatility, in this chart we can see the breadth of variation from over R\$500.00 to almost R\$100.00 in a short period of time.

On the right, we show the evolution of installed capacity, which improved slightly by 0.8% in this comparison period due to new entries at CPFL Renováveis. On the graphs below, we can see the reservoir levels in the National Interconnected System, here with less concern compared to previous years. We had better flow this quarter compared to previous periods, however, still below historic averages, but April ended, vide the chart to the left, with average reservoir level at 46%, higher than in the more critical years and, thus, presenting no supply risk in 2018.

I now turn the presentation over to Gustavo Estrella, who will talk about the economic and financial results of the period.

Gustavo Estrella: Talking about the first quarter results, it was a quarter with very positive results. Just a reminder that we see the results already accounting for the merger of RGE Sul since the beginning of last year, so it's a single comparison base.

Here we see net revenue growth of 15.1%, EBITDA up 14.3%, and net income increasing 80.7%. If we look by the group's business segments, the highlight is the distribution segment, which posted growth of R\$167 million this quarter compared to 2017. The major effect here, as André already showed, is the recovery in energy consumption. We once again observe significant growth in our concession areas, which obviously brings a significant effect to the results. Added to this are the effects of tariff revisions, not the tariff adjustment of 2018, but the one in 2017, which affects the comparison in the first quarter of 2018.

The concession financial asset also had a positive effect of R\$16 million, and the highlight in Opex, with PMSO down R\$62 million, with special mention here of legal and judicial expenses, by R\$39 million, and our allowance for doubtful accounts, already mentioned earlier, with a decline and a positive result of R\$21 million.



Moving on to conventional generation, a variation of R\$29 million, here the big effect is the variation in GSF, we have the seasonality issue related to GSF, but here it is mainly due to a change in the accounting criteria for GSF, specifically in Baesa, where we started accounting on the accrual basis, and here it results in a positive effect this quarter, which is partially offset throughout 2018 but this quarter it is a positive effect of R\$21 million.

As for trading, here it's basically our effect of margin loss in comparison with 2017, which results in an effect of R\$32 million on the group's trading arm.

For renewable generation we have a total variation of R\$9 million, there was a rally here of positive and negative effects, with the main negative impact being the performance of our wind farms, especially due to lower winds compared to what we had in 2017, with an effect of R\$36 million in our results. Partially offsetting this effect is the participation in short-term auctions in MCSD, where sale prices are higher than those in the 2017 contracts and thus bring a positive effect of R\$12 million to our results. Besides, there was also the operational startup of the Pedra Cheirosa project, which increased EBITDA by R\$11 million.

Moving on to profit, there's a positive variation of R\$129 million in financial results, mainly due to the interest rate reduction, which brought us a R\$158 million decline in our financial expenses, split here as R\$143 million from interest rate reduction, and the reduction in leverage, which includes regulatory assets and liabilities, which also affect our financial results, with a positive variation of R\$15 million.

Now to slide 9, a snapshot of our debt. Our leverage ratio was 3.31 times net debt/EBITDA in the quarter. Here we had a slight increase compared to the end of last year, where the big variation, despite the improvement in EBITDA from 2017 to 2018, is the one in net debt, mainly explained by the variations in regulatory assets and liabilities. These assets we incorporated now in the tariff review of companies and which start receiving during 2018, but it entails a negative effect on the group's total leverage when comparing December 2017 and March 2018.

Regarding costs, these continue in a downward trajectory, so we ended the quarter with a nominal cost of 7.6%, significantly lower compared to previous years' quarters. As for debt composition, we historically have a very large exposure in CDI and this year we carried out a swap for fixed rate, taking advantage of this interest rate reduction. So we now have a very limited exposure to CDI and much more to fixed rate. So with this low interest rate already locked in for 2018.

Moving on to slide 10, we have our profile and the company's liquidity. We closed the quarter with a little over R\$3 billion in cash, as we see in the graph. This cash is sufficient to cover all the dues in 2018 and it was influenced by the funds we raised at the beginning of January, when we raised R\$2.8 billion in a 3-year



funding operation. As such, we have extended the debt and refinanced the company in the short term.

What we're doing today, as usual here in the group, is to already work on the refinancing in 2019, and we expect that in the coming months we can have the 2019 maturities addressed.

Now onto slide 11, we have a snapshot of the conclusion of the tariff adjustment process in our 2 distributors, CPFL Paulista and RGE Sul. I believe that with such a very positive result, from the viewpoint of results, Paulista recognized the net remuneration base of practically R\$5.2 billion while regulatory WACC remained at 8.09%, and here we demonstrate the evolution of regulatory EBITDA. The third cycle with regulatory EBITDA of R\$662 million, and for this cycle R\$1.33 billion. We will start feeling the impact of this 56% growth as of April, which is when we had the tariff review process.

The analysis is similar for RGE Sul, with an additional challenge given that the company was acquired at the end of 2016, and so the challenge was a process to form a pre-review tariff base of only a year, which was 2017. We recognized practically R\$2.4 billion in the remuneration base, which was an even higher increase in regulatory EBITDA, from R\$239 million to R\$435 million, up 82% compared to the third cycle. Once again, the effects will be felt as of May 2018.

André Dorf: Well, having said that we end the presentation and move on to the question and answers session.

Question and Answer Session

Operator: Ladies and gentlemen, we will now begin the questions and answers session. To ask a question, please press star and one, *1. To remove your question from the queue, please press star two.

Our first question is from Bruno Varella, Solana Capital.

Mr. Bruno: Hello Dorf, Estrella, good morning. I have 3 questions I'd like to discuss with you. The first thing is to better understand the dynamic of the losses of RGE Sul. There was a decline of around 60 basis points in non-technical losses, but an increase of 75 bps in the technical ones. I wish to understand if they were connected, and what this strong increase in technical losses from one quarter to the other means.

The second point would be: there was a big impact of R\$770 million in trade payables on the consolidated cash flow. It's another point where I'd like to understand what caused such a huge impact. And lastly if you could perhaps talk a little about how the consumption is at the distributors in the second quarter, until the end of April.



André Dorf: Thank you Bruno, good morning. I'll let Luiz, our VP - regulated operations, answer starting from the third one, about the consumption of distributors at the end of the quarter, so April and May.

Mr. Luiz: Hello, it's Bruno right? Hello Bruno, how are you? With regard to consumption, April also came in a little above what we expected, also due to temperatures, so at all distributors we had consumption a little higher than what was in our budget. In other words, this trend continues, as Gustavo said, of a recovery-like consumption, although discreet, but you can actually notice a rebound in consumption, especially in industry, and I think that was also already commented upon. And residential also due to the temperature. I believe this has a big influence, and we had high temperatures in April compared to the historic average for this month.

Regarding losses, I'd like you to repeat the question because I believe you were questioning the technical issue, correct?

Mr. Bruno: Yes, actually, I'd like to know why you had an increase in technical, but also had a strong decline in non-technical. So I'd like to know if they are related somehow given these opposing movements and what would have caused it, if they are isolated movements, what would have caused this increase in technical losses?

Mr. Luiz: Ever since we acquired the company we have been reassessing and recalculating all this information, not only of losses but also of other technical information, and this assessment now, including the measurement process we have for frontiers, measurements at substations, we are recalculating this whole technical loss issue. So, the technical loss, also taking into account load seasonality, which also interferes with technical losses, we are recalculating all of it.

Actually, overall it doesn't suffer so much interference, but we are better calibrating between what is and isn't effectively technical.

Mr. Bruno: OK, got it.

Mr. Luiz: This is within Aneel's rules, as this too underwent some changes. Today we calculate, for example, in high voltage by measurement and no longer by load flow. There are several procedures being adopted so that we can arrive at a more adequate number, more correct, let's say, within this segregation of what is technical and what is not.

André Dorf: Before letting Gustavo answer the second question, just a general comment on consumption, Bruno. We recorded stronger growth in the fourth quarter of last year in general consumption at the distributors, in our concession areas, growth that was still pretty strong in the first quarter, but which did not repeat with the same vigor in April and May, so we have seen some slowdown,



still growing but at a slower pace compared to prior periods, and apparently this is a sign being noticed in diverse sectors of the economy that had very strong growth in the first quarter, but weren't able to maintain the same pace in April and May.

Mr. Bruno: OK.

Mr. Gustavo: Bruno, talking about the variation in trade payables, this is basically cash management we do especially at the end of each year by postponing payment to some suppliers. Here basically, if we have some cash restriction in one company or another, we carry out this kind of operation and we did it last year. So, I postpone payment to the supplier (obviously after an agreement with it) and in general, this payment occurs over the first quarter of the following year. So this was basically what happened here.

This is not a regular movement in trade payables, but basically it's this postponement of maturities for some suppliers where we end up concentrating payments in the first quarter. So I close the prior year with a high outstanding balance with suppliers which is adjusted over the first three months of the year. So, basically that was the movement taking place.

Mr. Bruno: That was great gentlemen. Thank you very much.

Operator: Remember: to ask questions just press star and one.

Again, to ask questions press star and one.

We now conclude the question and answer session. I would like to turn the call back to Mr. Andre Dorf for his closing remarks.

André Dorf: Well, I'd like to thank you all and say that we continue to work on optimizations and efficiency gains with focus on short-term results, while at the same time evaluating and investing in opportunities, business models and digitization, which create value in the long term. So once again I thank you all for participating in this call and for your trust during this period. Have a good day.

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