



**Local Conference Call  
CPFL Energia S/A  
Second Quarter of 2017 Results  
August 11, 2017**

**Operator**

Good morning and thank you for waiting. Welcome to CPFL Energia's second quarter of 2017 earnings conference call.

With us today we have **Mr. André Dorf**, CEO of CPFL Energia, Mr. Gustavo Estrela, 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](http://www.cpfl.com.br/ri)

We inform you that during the company presentation all participants will be on listen-only mode and, soon afterwards, the question and answer session will be held, when more instructions will be given. If you need any assistance during the conference call, please dial star zero to request assistance from an 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 goals, 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, as they involve risks, uncertainties and assumptions as they refer to future events and 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 lead its results to differ materially from those expressed in such forward-looking statements.

Now we would like to turn the presentation over to **Mr. André Dorf**. **Mr. Dorf**, please proceed.

**André Dorf**

Good morning everyone and welcome to another earnings conference call to discuss the results of the second quarter of the year. I have here the CFO, Gustavo Estrela, and the entire Investor Relations team, as well as a few other areas of the Company that will be available to answer your questions after the presentation.



As usual, we'll start with the highlights, on slide 3, the highlights in the quarter. Sales in the concession area in the quarter rose 0.5%, with different performances registered by the captive and free markets. We'll see later on that sales to the captive market fell almost 7% compared to growth of 20% in sales to clients in the free market.

We also had a reduction in contracted demand, of 1.2% during off-peak hours and of around 2.1% during peak hours. Net revenue increased 33%, and EBITDA 6%, this is closely related to the consolidation of RGE Sul (formerly AES Sul, currently RGE Sul). Our investment volume in the quarter was substantial, with R\$700 million invested in the period, while our net debt closing the quarter at R\$13.6 billion, for a leverage ratio of 3.28 times our last-12-month EBITDA.

We also had a tariff adjustment at RGE in June, with an average impact to consumers of 5%. We also had good news from the early startup of the Pedra Cheirosa wind power complex, with 48 MW of installed capacity. We also had the early start of transmission from Morro Agudo in July of this year, so both projects delivered on schedule and on budget.

We also had developments in the process of sale of control to State Grid (the Offeror). State Grid changed the characteristics of the tender offer for the shares, continuing to offer tag-along rights, so each minority shareholders will have a chance to decide whether to sell their shares for the same price offered to the controlling shareholder.

Note the last bullet, related to the public consultation. We are in the middle of a period of consultation by the Ministry of Mines and Energy (MME) regarding several improvements to the legal and regulatory frameworks of the electric power industry. We believe these are very positive proposals, we are paying special attention to the periods of transition into the new proposals, but CPFL is actively engaged in all discussions with associations, with the government itself, with the other agents and companies in Brazil's electric power industry, so this is a chance we have to improve and we're very excited about it.

On the next page, page 4, we have a snapshot of our EBITDA in the quarter, of R\$1.27 billion in the pie chart on left-hand-side, where we can see that distribution accounted for 44% of this EBITDA. Generation accounted for 50%, considering renewable and conventional generation, and the remaining corresponds to trading, services and other.

Breaking down by business, starting on the right-hand side with distribution, you can see it was virtually stable between the quarters and grew 3.5% in the first six months of 2017 compared to the prior-year period, which is mainly explained by the addition of RGE Sul to our portfolio.

Conventional generation grew around 15% in both the quarter and six-month period (basically due to contract adjustments). Renewable generation grew 21%



in the six-month period and nearly 6% in the quarter, led by the startup of the ACL wind power complex, which was sold to the free market throughout 2016 and 2017, a non-recurring effect in the first half of last year that did not recur in 2017. So, those were the main impacts on renewable generation.

In terms of trading, services and other, the variation reflects the impact of prices and volumes on services and energy trading. This was indeed caused by an increase in activity.

On the next slide, 5, we'll talk about energy sales in the distribution segment. Starting with the highlights, our sales increased nearly 16% in the concession area, led by the addition of 2,000 GWh sold by RGE Sul.

Excluding the impact from the consolidation of RGE Sul, sales were virtually stable, growing 0.5% in the period. Load decreased by 1.8% in the concession area in the period, contracted demand decreased by 1.2% and 2.1% during peak and off-peak hours, and, the good news, regarding losses, a slight decline in losses to 8.84% in the second quarter of this year.

The same information is available in the charts. Starting with the chart on the top right-hand side, load in the concession area, like I said, excluding the impact from RGE Sul, it fell nearly 2%, with a significant difference between clients in the free and captive markets. We can see the free market grew nearly 19%, whereas the captive market fell nearly 10%.

The chart on the bottom left-hand side shows sales in the concession area, on the left, with growth of 15%, this is basically due to RGE Sul, so it's important to see the chart in the middle, which excludes the impacts from RGE Sul, for comparable bases between the periods. Here you can see sales were stable, at around 0.5%, as I've just mentioned.

The chart on the bottom right-hand side shows sales by consumption class (and this excludes RGE Sul for comparison purposes). You can see a slight decline in the residential segment – just a reminder, we had the impact of high temperatures in the first half of last year, which was particularly substantial in April, which more than explains the decline in residential and commercial segments – while the industrial segment showed some mild recovery here, in the second quarter of 2017, with sales growing 1.3% in the period.

Going to slide 6, you'll see delinquency figures for the second quarter. The first chart shows the evolution in provision for bad debt as a percentage of gross revenue. You can see a slight decline compared to the previous quarter, but practically stable, a slight recovery compared to the worst periods of the crisis. Here you can see some stability comparing the second quarters of 2015 and 2017, at around 0.7% of gross revenue.

The chart on the bottom left-hand side shows bills overdue more than 90 days as a percentage of gross revenue, considering the last 12 months. You can see here



a slight decline, but we believe it's still too early to talk about a recovery of the market. So, there's some margin improvement, but it's still too early to say whether it's structural.

Our collection efforts continue at full speed, and the chart on the right shows the number of disconnections in each quarter, which is still substantially higher than the company's historical figures.

On slide 7, we go from distribution to generation and the performance in the second quarter of 2017. We had the early startup of the Pedra Cheirosa wind power complex (as I mentioned earlier), once again, on budget and on schedule. For some time and for some years now we've been having adverse hydrological conditions, which have been impacting the volatility of PLD. So, we've been having a lot of volatility in the PLD and some concern with the hydrological situation. We also had an adverse situation of wind speeds in the period, which also pushed our wind power generation figures below the P50 benchmark.

Starting with the chart on the top right-hand side, you can see a slight increase in our installed capacity in the period, for growth of nearly 4%, led by the startup of ACL and Pedra Cheirosa, like I said before. The chart on the left shows the evolution of PLD, showing a lot of volatility and explained chiefly by the reservoir levels, as shown in the bottom charts. The left chart shows the interconnected system, this is the projection of the National Electricity System Operator (ONS) for August 31, of almost 32% of the capacity of reservoirs, significantly below the historical average. And the greatest difference is shown in the chart on the right, which is the level of reservoirs in the Northeast region, with a projection of 11.5% in the period, also significantly lower than the historical curves in recent years.

Well, now I'll turn the presentation over to Gustavo Estrella, our CFO, who will present the results in the period.

### **Gustavo Estrella**

On slide 8, we present the results of the second quarter of 2017 under two perspectives: IFRS as reported and IFRS excluding the impacts from the acquisition of RGE Sul, in order to have comparable figures.

Under IFRS as reported, revenue increased 33.1%, or R\$1.472 billion. EBITDA increased 6.3%, or R\$61 million. And net income decreased 48%, or R\$117 million.



At the bottom we have the breakdown for each of the Group's businesses. You can see distribution was practically stable, results from distributors, which is basically due to the market stability and, as André showed, close-to-zero growth in energy consumption compared to 2016, which also translates into stable results.

The main impacts here, including the impact of R\$26 million from the consolidation of RGE Sul's results, we have the impact from exchange variation at Itaipu, with no impact on the P&L, but here it is represented in different lines, so we have a positive impact of R\$43 million.

Another important impact is the restatement of the concession financial asset, which is basically restated by inflation (IPCA), and since we had less significant inflation compared to 2016, we also had a less significant impact from restatement of this asset, of R\$35 million.

And the highlight here is Opex. I think the main aspect here is the intensification of collection initiatives, as André mentioned, and perhaps some good news here is the declining trend of our delinquency rates, but that's still demanding a lot of collection efforts, which cost us R\$24 million this quarter.

Conventional generation increased R\$38 million, which I believe is mostly related to the adjustment of generation contracts. Results from generation are much more stable, and this basically reflects price increases transferred to contracts.

We also had here the same concession financial asset, the UBP of our generation companies, which is restated at inflation (IPCA), and because this is a liability, a lower inflation obviously leads to a lower restatement of this liability, so this quarter we had a positive variation of R\$12 million compared to the second quarter of 2016.

Renewable generation increased R\$12 million, which I believe already reflects the impact from the startup of the new wind farms at the end of last year, for EBITDA growth of R\$28 million. This effect was partially offset by lower energy production on weaker wind performance compared to the P50 curves, and also compared to 2016, for an impact of R\$30 million in existing farms this quarter, also to the non-recurring effect that André mentioned, of the penalty occurred in 2016 which obviously was not recurrent in 2017, for a positive impact of R\$38 million in the comparison.

Trading increased R\$9 million, basically due to higher margin, price and volume. We had a concentration of contracts sold in the end of last year now in the first half of 2017. This had a positive impact on volumes and also on margins, due to the volatility of the PLD in the first six months of this year.

Now, going to net income. Net income decreased by R\$117 million, affected by a decrease of R\$154 million in the net financial result. I think it's important to



highlight here that we are already benefiting from the lower interest rates in Brazil. Today, three quarters of our debt are pegged to the CDI overnight rate, so this has a positive impact of R\$97 million and it should continue through the end of the year. I mean, with further cuts in the interest rate, we should continue to see positive variations of our financial result.

This amount is offset by certain non-cash impacts, the first of which is exchange variation at Itaipu. The same positive value we had for EBITDA we have the opposite here in the financial result, of R\$43 million. We also have a negative impact from our hedge position in the revenue from our generation farms that are pegged to the U.S. dollar, so we have a swap operation, we had a very positive impact last year from the higher exchange rate and now the opposite impact from the lower exchange rate in 2017. In the six-month period, the effect was positive for the group, but this quarter it produced a negative impact of R\$39 million.

Another important impact was mark-to-market adjustment. Last year we had a lot of volatility in the interest rate market in Brazil, we had a positive mark-to-market impact in 2016. With the stability and decline in interest rates in 2017 we now have a negative impact. In the six-month period, the effect was also very positive, but this quarter it amounted to R\$33 million.

And to finish the impact on the financial result, we also have the consolidation of results from RGE Sul, for an impact of R\$29 million in the company's financial result, and also the impact from the debt with the acquisition of this asset, of course, with an impact of R\$49 million on our results.

Now, turning to slide 9, we'll talk about debt. We closed the quarter with net debt of R\$13.6 billion, with our leverage ratio stable at 3.28 times the EBITDA. Here, obviously, with the expected improvement of results and resumption of economic activity, the trend is for the improved results to reduce the leverage ratio in the coming quarters.

Like I said, of our debt, almost three quarters are pegged to the CDI overnight rate, we have no exposure to foreign currency, as we've never had, and the chart of the left shows that we can already see the positive impact on the cost of servicing CPFL's debt. So, we closed at a nominal rate of 10.6% and an actual rate of 7.4%, another positive trend of reduction in the cost of capital for the coming quarters.

Turning now to slide 10, we have our debt amortization schedule and our liquidity position. As we always say, this is a very important pillar for the company, preserving liquidity, so our cash balance today is almost sufficient to cover all our short-term maturities through 2018. So, we currently have a very comfortable cash position in the company.

On page 11, we present the wind power complex of Pedra Cheirosa. So, this is the project that, as André mentioned, started operating almost one year ahead of the original schedule. Its PPA is already sold in the long term, but due to the



anticipation, we should be able to settle this energy in the spot market, with a positive impact on the results of the coming quarters as well.

Turning to page 12, our small hydropower plant (SHP) under construction, PCH Boa Vista II, this project is expected to start operating in 2020, a young project as you can see in the photo, which has already started and the financing facility is being negotiated with BNDES.

On page 13 we have an update on the two Tender Offers the company is making, for both CPFL Renováveis and CPFL Energia. In the material fact notice of July 7, we announced that, due to the decision of the shareholder, we migrated to a mandatory Tender Offer, which is currently under analysis of the CVM.

### **André Dorf**

With this, we turn the call back to the operator for the questions and answers session.





## **Questions and Answers Session**

### **Operator**

Ladies and gentlemen, we will now begin the questions and answers session. To pose a question, please press start one, and to remove your question from the queue, press star two.

Once again, if you would like to make a question, please press star one.

Our first question comes from Mr. Vinícius Tsudone, with HSBC.

### **Vinícius Tsudone**

Hi, good morning everyone, thank you for the conference call. I was wondering if you could add some color to the proposals of the MME for changes in the industry. What could the company do to make them, I don't know, more effective? Thank you.

### **André Dorf**

Good morning, Vinícius. Even before this public consultation to improve the legal framework, we had already done our job internally at CPFL regarding reforms, changes and modernization that we believed were necessary for the future of the Brazilian electric power industry. And that has a lot to do with the new technologies that are currently available to everyone, social changes that caused a change in the consumption profile, and to the behavior of consumers, who want more and more to be able to choose and have power to decide on what they consume, not just energy, and to market changes.

So, I believe the proposal of improvement that is undergoing consultation adds very interesting components to this freedom of choice, the power contracting model and so on, a series of changes that have impacts on all links of the industry's chain.

It's important to note that, in our opinion, the proposals are consistent, they are positive considering the future of the industry, and obviously the ministry and all the agents that are considering them thoroughly, the point of concern here is transition. We had a model in the industry that worked very well, it brought us here. Today, we have an electricity service offered to the population that is exceptional, we had a model that enabled the expansion through an incredible volume of investments in the last 10 years. Now, we have to look ahead.

Is the current or the past models adequate for the future? I think that's the main question.





So, in our opinion, very positive aspects. Everyone's attention is turned here to the transition from the model that has been working so far, but which needs to be improved for the future.

So, we are actively engaged in the discussions to help the electric power industry as a whole reach a consistent and modern proposal for the industry.

**Vinícius Tsudone**

Got it, thank you. And another question, if I may, how do you see energy prices in the long term, since the level of reservoirs is tending to become problematic, as you mentioned in your presentation?

**André Dorf**

Prices have been very volatile, we really have an issue of hydrology, especially in the Northeast, but it will all depend, thinking about the long run, it will all depend on this next rainy season. So, I guess the system will be under stress, if we have an adverse rainy season, so I guess this next rainy season in the end of the year will be decisive for long-term prices, at least for the next few years. So, it's hard to predict at this point.

**Vinícius Tsudone**

Very clear, thank you.

**Operator**

Our next question comes from Mrs. Mônica Bush, with EDC.

**Mônica Bush**

Good morning, and thank you for the presentation. You mentioned investments of around 698 million. Could you shed some light on that, on the progress of investments and how you see that going forward?

**André Dorf**

Yes Good morning Mônica. We are really going through an intensive year in terms of investments. We have concluded some important projects at CPFL Renováveis and we've been investing a lot in BRR (regulatory base) at RGE, our operation in the South region, in RGE Sul and Paulista. So, these are important years to form the base for us that require substantial investments.



So, we are on schedule and we expect investments to reach, as already announced, R\$10 billion over the next 5 years. That is 2.7 billion in 2017 out of around 10 billion expected for the next 5 years. The bulk part of this investment will be made in distribution, as we've delivered most of the projects related to generation and transmission, the bulk now will be invested in distribution.

### **Mônica Bush**

Thank you.

### **Operator**

Once again, if you have any question, please press start one.

Once again, if you would like to make a question, please press star one.

The question and answer session is now finished. I would like to turn the call back to Mr. André Dorf for his closing remarks.

### **André Dorf**

Very well. I'd like to highlight that the company, as I wrote in my message in the earnings release, was very active this first six months of the year, we are going through an important ownership transition. We also rolled out several organizational initiatives to streamline and capture efficiency gains in the company and we had important structural initiatives to face the impact of the economic crisis on our markets. So, all efforts related to disconnections, fighting delinquency, we had an additional effort this first half of the year to mitigate the impact from the economy.

Additionally, we had the consolidation of RGE Sul, an important operation for us, which represents potential synergies in Rio Grande do Sul, if we add our assets of RGE, now, to this asset merged from RGE Sul, this has potential for future synergies, so we did an important effort to integrate, and integrate the teams as well.

In addition, like I said to answer the question from Vinícius, we are actively engaged in discussing the market improvement, the legal framework of the electric power industry, this has also been the focus of attention of key executives, these discussions and proposals are important for the future of the industry and also demand a lot of attention.

With all this, we were able to maintain consistent results in the first six months, EBITDA growth, and we continue to pursue opportunities to improve the operation and the company's management.



I'd like to thank you all for listening to the conference call and wish you all a nice day and a great weekend. Thank you.

**Operator**

This concludes CPFL Energia's conference call. Thank you for listening and have a good day. Thank you.