



Transcription of the teleconference of 2nd Quarter of
2008 Results
August 13th, 2008

Operator: Good afternoon and thank your for waiting. Welcome to the teleconference of Results from the 2nd quarter of 2008 of CPFL Energia.

Today we host the following executives: **Mr. Wilson Ferreira Júnior**, CPFL Energia's CEO and **Mr. José Antonio de Almeida Filippo**, Vice Financial and Investor Relations President, and other company directors.

This teleconference is being broadcasted online on the Investor Relations website of CPFL Energia: www.cpfl.com.br/ir, where you can find the respective presentation for *download*. We inform that all participants will only listen to the teleconference during the company's presentation and, then, we will start a section of question and answer. Other instructions will be provided later on. If any of you need any help during the conference, please ask an operator for help dialing *0. Please remember that this teleconference is being recorded.

Before proceeding, we would like to clarify that any statements made during the teleconference related to the outlook of CPFL Energia's business, forecasts and, operational and financial aims are beliefs and premises of the Company's management, as well as the current available information. Future considerations are not a performance guarantee. They involve risks, uncertainties and premises because they refer to future events and, therefore, depend on circumstances that may or may not occur. Investors shall understand that the general economic conditions, industry conditions and other operational factors may affect future performance of CPFL ENERGIA and may conduct the results that differ, materially, from those expressed in such future considerations.

Now, **Mr. Wilson Ferreira Junior**. will take the floor. Please, Mr. Wilson you can proceed.

Mr. Wilson Ferreira Jr.: Good morning ladies and gentlemen, analysts, investors. I would like to thank you very much for your presence in this call, so that we may share with you the earnings of the second quarter of 2008.

We have a presentation here and I would like to start with page 2, where we have the highlights for the second quarter. Here we talk about growth in the sales

volume in our concession area for our distribution companies, 5.1% and as you can see a growth in our activity of value-added services to clients by means of CPFL Total practically tripling the volume vis-a-vis the same quarter last year and the result that after the tariff review will correspond to 3.9% increase in our net revenues, and this is practically stable, exception made to regulatory assets ... Ebitda drop in 11.8%, reaching 718 million in this quarter and, as I said, with all the tariff reviews already approved and a rebate in our net income, R\$ 329 million, corresponding to a drop of 11.1% vis-a-vis the same period of 2007.

Net income during this half year is totally distributed and the proposal has already been approved to distribute as dividends and we will be distributing R\$ 602 million in dividends and this will happen in late September.

Still as a highlight of this period - and we will be talking about this in depth - the creation of a new vehicle, CPFL Bioenergia's, in order to make investments feasible by the CPFL Group in the area of energy generation from biomass.

I would like to stress as well that over this quarter we had an appreciation of our stock by 2.8%, corresponding to 12.2% during the first half of this year and exceeding the IEE and the Ibovespa indexes in the same half year.

And some important recognitions that the company had during this quarter: the first one has to do with the credit rating of CPFL Energia and its subsidiaries to AA+ by S&P in national scale and the second important rating - and a pioneer in Brazil, the only one AA+ for corporate governance by Austin Rating.

And Valor Econômico today published a report about this and we also received during this quarter a recognition by Latin Finance magazine and a work done by Management and Excellence and we were considered the best company in Latin America in terms of corporate governance. I would like to tell you that we also received Abradee Award, the Brazilian Distribution Companies Association and CPFL Paulista and CPFL Piratininga were awarded the awards of the best distribution companies in energy in Brazil because of social responsibility and the quality of our management as well.

On page number 3 we have our corporate structure. It has not been changed, but we created here the CPFL Bioenergia, a subsidiary and it is controlled 100% by CPFL Generation and it will make feasible all the investments by the group, CPFL Group, in bioenergy generation of electric energy from sugar cane bagasse.

On page 4 the behavior of our market and as I said earlier on, we had a growth of 5.1% and this growth incorporates during this quarter the effects from the acquisition of the CMS companies now called CPFL Jaguariúna and on the right we have the effect and in the upper part, incorporated the effect of the acquisitions and in the lower part of the slide removing the effect of the acquisition.

I would like to stress as a very positive point the behavior of the residential segment growing 5.3% and with the effect of the acquisition 8.1%. The effect of the TUSD, 4.4%, shows that consumers, our major consumers still have ... well, there is a deceleration of the growth process but it is still high, 4.4% and the so-called negative effect, -3.7, but it is important to stress that this behavior is due especially to the issue having to do with rainfall and services delivered to the rural market, especially irrigation and all this set of elements that we present here have a very positive factor, which is the improvement of the company's mix and I would attribute the good results during this quarter not only to growth, but also the way that it grew, having a favorable mix as you can see here.

I would also like to stress the drop in the free market, 5.9%, which has been going on since the beginning of this year mainly because of prices, which are higher and there is a faster action on the part of these consumers in terms of modulating their loads and total sales by the group added to the captive market from the distribution companies and the sales in the free market going up 2.7% nevertheless and reached 11.313 and the highlight you can see here is in the South of the country, in the RGE area, where the South is growing 3.7% and our Group, by means of our RGE, growing 5.6%. So basically these are the major remarks regarding the company's sales and the highlight is the growth associated to the mix, to the improvement in the mix.

Now on page 5 going into detail about the behavior during the quarter in the net revenues of the group. As you can see, we see an increase of 86 million in this revenue, which corresponds to 3.9%; however, it is substantially impacted on one hand by the positive value, which is the amortization of parcel A of 2001, a regulatory asset stemming from the general agreement of the sector at the time and if it were for that we would have a stability in net revenues.

This increase is mitigated because of the effect stemming from the tariff review. As it can be seen in the second bullet point there was a reduction of 0.6% in the gross revenues of the company, R\$ 55 million.

The positive aspects are the effect of the acquisition of CPFL Jaguariúna and the effect of the physical sales of energy and the gains because of the market mix, as has been said, shown in the previous slide. So this amounts to R\$ 180 million, which is mitigated almost totally by the reduction in the distribution tariff deriving from the tariff review occurred especially in the Companhia Paulista and in the small concession areas in the state of São Paulo, which tariff adjustments were negative.

And as a plus we have the increase in other revenues of 27.5%, highlighting the contribution made by amounts coming from our value added services delivered to and from CPFL Total, which are real incorporated to the earnings of CPFL Brasil and also stemming from the tariff review. We have here a reduction in our TUSD revenues and in volume and here a higher reduction in terms of the revenues from the TUSD.

The other point has to do with tariff review, especially regarding the deductions, revenue deductions that went down, so we had a major contribution here of R\$ 12 million here and also from PIS Cofins, R\$ 30 million.

Overall what we see here is our revenues going up because of the amortization of our regulatory asset parcel A and which comes into our revenues as positive and negative in expenditures and we have a positive effect from the market behavior growth in volume and in mix amortized by the effect of the tariff reduction deriving from the tariff reduction for the companies.

Now on page 6 we go into detail about the company's Ebitda. As I said, we had a drop of 11.8%, R\$ 718 million as you can see on the slide; a positive contribution coming from net revenues, 86 million, which we have already talked about and the negative effect from the increase in costs; we sold more energy, we have more volume of energy to be bought - R\$ 97 million - an increase of 8.5% in the cost of energy and an adjustment in the tariff, which was also incorporated to the tariff adjustments of the distribution companies; amortizations of the parcel A of 2001, as I said, and the increase in costs and operating expenditures, R\$ 38 million, corresponding to 14.8% increase or R\$ 38 million.

But what should be stressed here and separated from the increases coming from the incorporation of CPFL Jaguariúna of 19 million and the startup of Castro Alves, 1 million; so if you remove these two effects we have an increase of 7% in our companies and we cannot make a proportion, comparison regarding net revenues because there is the effect of the tariff review; but here we have the two major indexators of the sector, so that we may evaluate the behavior of expenditures in the Group and which we consider as very positive, a little bit higher than the IPCA, 6.1%, and much lower by half of the IGP-M for the period of 13.4%.

Now on page number 7 we talk about the net income here, so we see the income dropping 11.1%. It is affected mainly because of the drop in our Ebitda of 96 million as we said before, with a positive effect on the improvement of our financial results. We have an increase in our interest revenues of 11.7% and we have a market which is indexed to the CDI here.

And also on the other hand we have a reduction in our expenditures of 2.7%, representing R\$ 6 million and in comparison with last year our expenditures with the hedge for the acquisition of CPFL Jaguariúna, 23 million last year, and the beginning of financing of Castro Alves plant, 3 million, besides the effects stemming from the financing of the acquisition of Jaguariúna, R\$ 14 million. So we have here a positive effect of the reduction in our income tax and social contribution because of the decrease in our Ebitda of R\$ 96 million. So we have R\$ 329 million of net income, net of any nonrecurring effect already.

On page 8 we see the behavior or an X-ray of generation of operating income and net income by the company. You can see very clearly now two-thirds of our

operational earnings coming from distribution companies after the effect of the tariff review maintaining 10% the effect by commercialization and the increase that we see in this case not specifically because of Castro Alves, but also last year Campos Novos, considering therefore the participation of our generation company of 23%.

So these results under the net income optics are different because the generation activity is more leveraged, has small financial expenditures and the contribution to the net income is slightly reduced in terms of participation; but despite of that we reached 19%, 68 in the distribution company and a 13 in the commercialization company.

And the final balance, the evolution of the Ebitda margin and net margin, we see the company with and Ebitda margin higher than 31% and after this effect of the tariff review and the net margin reaching 14.2%. So these are very positive results and that evidences the right strategy by the group, especially in the businesses where we are involved.

On page number 9 we stress distribution of dividends, R\$ 602 million equivalent to R\$ 1.25 per stock with a dividend yield of 7.6% during this period. We had a reduction in this amount during the first half stemming from the tariff reviews and the effect of the tariff review and therefore bringing dividend yield down to 7.6; but nevertheless this is one of the highest dividend yields in the sector and in the stock market in general and this confirms our practice of dividend distribution, of maximum dividend distribution during the first half of 08.

Now in the next few pages we are going to talk about the effect of operational synergies and the capture of the synergies among and between the companies acquired. So we can see here - talking about delinquency recovery - the ongoing procedure applied to our companies and we would like to stress that RGE, with 2.8%, a major reduction therefore, and practically contributing to a reduction of 0.3 p.p. to the overall delinquency of the group with the lowest value ever since we started to measure; 1.4 consolidated in the grew already making feasible a strategy for delinquency recovery which is more efficient for the company from the cost viewpoint and has been producing major effects, 77 million collected during the second quarter because of the strategy.

The same has to do with the re-billing of bills especially in call centers; we had a reduction of 1p.p. reaching 1.7 bills that are re-billed among 10,000 issued vis-a-vis the average of Abradee of 6.7. So it has to do with the change of profile of Santa Cruz acquired in late 2006 and we treat as a number of errors that is much lower than the ones that we had at the time of the acquisition.

So in terms of duration and frequency of our interruptions we can see that all our operations are lower than the Abradee average, so you can see the frequency of 6.7 times and it has to do with the right investments that we are making in our asset base, and duration of 8.4 hours per consumer, a reduction of about 10% vis-

a-vis the same period last year and you can see that both factors are very important in our proposal for cost reduction, of operational reduction ... operational cost reductions.

And all this allowed us to conquer these awards that you can see on page 12. During the last Abradee Awards we had Paulista and Piratininga awarded the prize of best distribution companies in Brazil and for the fourth time and being the highlight, because besides being the best distribution company in Brazil it also conquered other categories: quality in management and operational performance; economic and financial management; and social responsibility. Piratininga as the second best distribution company in Brazil in Abradee ranking. RGE received the gold trophy of the quality and productivity prize of the Gaúcho Award and is ranked second by means of client evaluation and social responsibility.

And also CPFL Jaguari as the winner of the IASC Aneel Award in 2008 according to the clients' perception. So these are very important awards all of them and given to four of our eight distribution companies. So this gives you an idea of the standard of quality and management that we have and the economic and financial performance of CPFL regarding its companies.

And here on page 13 we see these results from the economic viewpoint. They are important, because comparing the second quarter of this year after the effect of the tariff review with a reduction in revenues and reduction, of course, in our Ebitda and despite of all that we saw major increases in our cost reduction.

And in the case of RGE still in this comparison allowed us to have an increase in Ebitda of 1% and net income 29% and it is important to see the financial contribution in the leverage and the rollover of expenditures that we achieved.

In the case of Santa Cruz we see an increase of 40% in the Ebitda and 15% in the net income and with a better tax management and recovery of tax credits, reduction in operational costs had a reversal in the provision for losses stemming from important actions in the delinquency area.

And finally in Jaguariúna, which has been operating for about one year completed in the fourth quarter now, a growth of 98% in the Ebitda, reaching 29 million during the quarter and net income 17 million, tripling practically or more than tripling the results coming from last year already incorporating the effects of the operational restructuring, standardization of processes, the review of contracts for the supply of materials and services, the implementation of tax planning and ISO 9001:2000 certification obtained by the company during this year.

And continuing with the presentation I would like to show you the status of our generation undertakings and constructions and Foz do Chapecó. On the upper part of the slide, you can see 14th of July plant, with most of its ... 97% of its civil construction works completed and 65% of the electromechanical equipment

already set up. We will start filling the reservoir next month and startup will be during the fourth quarter of 08.

In the case of Foz do Chapecó already with 43% of the civil construction works concluded at very accelerated pace and we see a possibility of bringing this forward and 10% of the setting up of electromechanical equipment. It is the largest investment and we have 51% share in this plant and we will be investing R\$ 1.1 billion; startup during the third quarter, but there is a possibility of starting before; we might be able to bring this forward. We are working with this hypothesis right now.

On page 15 I would like to highlight the strategy that is continuing in our Group and that has to do with the development of a portfolio of value-added services. On the left we have services rendered to our consumers, our customers in several areas: transmission, distribution and in self production systems. In other words, installing generators particularly in shopping centers, where we can enjoy more affordable tariffs and that increases the reliability of the shopping centers regarding the quality of electricity.

Highlights. 52 works undergoing, a portfolio of 65 million. 62 works pursued in the second quarter and a portfolio amounting to 37 million. Highlights for the transmission system, works in plants involving 75 MVA; 50 km of transmission lines and in the area of self production Shopping Center works and in generators 6.4 MVAs.

Regarding CPFL Total our customers pay for services and other services: mobile phones, credit charges, tax property, municipality taxes, etc. Here comparing the quarters we see a growth over 100% either increasing our customer service points or in transactions or even in the gross revenues. This has all allowed us to grow. In the first half practically achieved the revenue of the whole of 2007, which already had been almost the double of that of 2006, a significant growth. If we compare the quarters, this quarter accounted for 183% growth in gross revenues of these services. This is an activity that has been pursued. We are developing an expertise and customers are embracing that. CPFL is the one that is rewarded for the services to customers in Brazil in our area of expertise.

Let us move to page 16 where we mention the activities related to CPFL B. Here we can clearly see the importance of a strategic decision made by the group. We shared with you our vision about the expansion of bioelectricity in coming years. It accounts now for 3% of share in the Brazilian energy mix, with 1,400 MW average installed.

Almost one-third of this surplus energy volume is purchased by the Group and sold in the free market, but this segment has an important growth prospect, practically going to double in the next two years reaching 3,300 MW average, 6% of the Brazilian energy mix and it will continue to grow: by 2015 it will reach 11,500, 15%

of our energy mix. It is a segment that, as you can see, is going to become more relevant in coming years.

Today, 87% of our production, of the total sugar cane production is in the state of Sao Paulo, in regions supplied by the CPFL Group through our distributors, particularly CPFL Paulista. We see with very good eyes the growth of this industry, it is a very important one. We are talking about renewable energy sources with positive effect on the environment and the company is positioned to support this growth, not only just purchasing energy but also investing in partnerships with mill owners.

Here a set of possibilities on page 17. The basic business model for CPFL's stake in this biomass expansion. CPFL would invest in installations or alternatively in the modernization of machinery linked to energy generation. Modernization because many mills do not have boilers for cogeneration of sugar cane bagasse and modernization because a great deal of the sugar mills do have cogeneration, but with low-pressure boilers.

To give you an idea, to replace a low-pressure boiler by a high-pressure boiler we can double the surplus of energy generated, which is very important particularly to have access to the free-market or the niche market where we see the most growth. In other words, offering access to medium voltage consumers, the so-called A4 consumers. This market accounts for about 15% of total energy consumption in Brazil. I would say that about 20 to 30% of this volume can be accessed if we have this growth in Brazil, either in cogeneration of sugar cane bagasse or with the installation of small hydro power plants, investments that we are also committed to doing, to making.

So there are opportunities identified, they are being evaluated by the group of about 500 MW being assessed and in the next 30 days we expect to be closing the first deal with CPFL Bioenergia's.

On the other hand, not only in generation, investments in generation, but the company has a market presence in this market - we are the largest purchaser - but we are also assessing six new agreements to purchase bio electricity in the short term. In the next quarter undoubtedly, ladies and gentlemen, analysts and investors, you will be getting some novelties about investments in this area or we will be announcing maybe the use for the purchase of expressive volumes of energy generated from renewable sources, biomass.

I am now on page 18, giving you an idea of that profile. There was slight change in this past quarter because of the decrease in the Ebitda. We had the adjusted net debt/Ebitda growing a little bit, reaching 1.78 and R\$ 5.4 billion is our adjusted net debt. It accounts for 6% increase vis-a-vis the past quarter, the last quarter, particularly because of investments being made in Foz and Chapecó power plants; these are very accelerated investments and that account for an increase in the net

debt in the last quarter and the adjusted net debt/Ebitda is adjusted to the new Ebitda of the company after the tariff review.

On page 19 we see the capital structure: 46% equity, 54% third party capital. I would like to highlight here the indexators, basically CDI, TJLP, IGP and in the bottom part of the slide I give you an idea of the nominal cost and the real cost of this debt. We are practically at half the real cost of 2002, which reflects this successful strategy lead by Filippo and his team, and his financial team. In the nominal value a low cost of 12.8% - we are now decreasing, reaching now 6.4% real cost.

This strategy over this half year was followed by the stock market; so, on page 20 we see the effect of this strategy. The company had a share performance which is much higher than Ibovespa index and much higher than the electric energy index, both in Brazil and abroad. I would like to highlight the increase in daily average volume, reaching 37.5 million daily in the first half of this year, 15% increase vis-a-vis the end of 2007 and it is quite balanced among operations in New York and Bovespa. CPFL, as you can see on the left-bottom corner, is part of all the indexes you can compare to.

On page 21 I would like to highlight two important ratings that I previously mentioned in the beginning of the presentation, firstly Standard and Poor's: CPFL Energy and its subsidiaries - particularly Paulista, Piratininga and RGE - was awarded the AA+ rating by Standard and Poor's. Standard and Poor's understands the synergy of CPFL Group resulting from its integrated operation in the Brazilian electricity sector in transmission and distribution – where we are leaders - and in generation, where we very have an important share. The ready access to credit lines, both in the banking market and possibly the capital market and efficiency ratios also recognized by Standard and Poor's as being above average.

On the right-end corner an important action, the result of good corporate governance practices: Austin Rating awarded AA+ to CPFL Energy. They say the Institutional excellent corporate governance practices and we maintain an explicit commitment to the improvement of the existing practices and to the introduction of new practices. As a result of that, not by the main activity developed by Austin rating; by a work done by Management Excellence used by Latin Finance magazine CPFL was elected the best company in corporate governance in Latin America.

Well, these were our highlights about the second quarter of 08. My team, Filippo, Bassalo and Gustavo we are all here to answer your questions. Thank you very much for your attention.

Q&A Session

Operator: Ladies and gentlemen, we will start now the Q&A session. If you want to ask a question please dial star (*) one (1). If you want to remove your question from the list please dial star (*) two (2).

Our first question comes from Mr. Eduardo Haiama from UBS Pactual.

Mr. Eduardo Haiama: Good morning to all. I have some questions regarding biomass. I hear you have projects adding up to 500 MW in direct investments, purchasing energy from the commercialization company. I would like to understand what is the investment we are talking about in the 500 MW? I just want to have an order of magnitude and what would be the strategy, the commercialization strategy of the company? Would you use this energy for the free market or what would be the strategy? Would you be participating in any auction for 2009/2010, the auction of futures? I would like really to understand the strategy of the company. That is my first question.

Second question is regarding growth. With some companies having gone through the tariff review, I would like to understand how you see possible M&As in the future; are you considering anything in particular, do you have anything along these lines or are you just waiting and observing to see if there is any possible M&A opportunity in the future?

Mr. Ferreira: Thank you Eduardo. Let me start with your first question. This strategy to invest is to invest in cogeneration to have access to the free market. We imagine that this is an important aspect to access this market niche, which has some benefits in terms of TUSD reduction, the so called A4 market.

The strategy is such that CPFL Brasil will have a PPA for this company where we are going to invest, either for the installation of equipment for cogeneration or for modernization of existing machinery. They will count on CPFL's support and capacity to develop, execute and follow up on projects and they will count on an assured PPA from CPFL Brasil to be used preferably in the free market, in this niche we are talking about.

We are talking about 500 MW as an evaluation; we do not know for sure how much we will have to invest. I would say that we have a portfolio to be evaluated and over the next quarter I will have a more clear view about this possibility to give you.

As for volumes purchased, as you observed we want to be seen as an alternative to the so-called auctions. Because of the characteristics, the quality of our growth and the relationship we have with a number of sugar mills. So this market has a demand for differentiated values. They will follow the expected future pricing curves.

The company has an advantage in that area: we can offer this kind of advantage to these mills, which will be completing their investment, which will be selling the energy in coming years. The company has an important potential. Again, I believe I will be able to share some deals closed with you in the coming days in the coming quarter. One of them is quite big, so I think we would attract some attention.

Your second question regarding M&A. You mentioned we are in the final stage of two processes: first completing the special tariff review; but in the light of the new rules there will be published soon by Aneel I think that we could have a clearer view of this third cycle of operation of the distributing companies, distribution companies.

I am sure that there will be a number of opportunities that will come up because of this process. I would like to say that the wave starts at the moment this review processes are complete. Our focus remains on operations which involve the South and Southeastern regions of Brazil, where we have, where we enjoy an important geographic presence and we prefer these assets.

Not that we do not consider or think about other possible assets. As I said, I believe that M&As will continue, the company will be considering all possibilities focusing, of course, on operations between Sao Paulo and Rio Grande do Sul.

Mr. Eduardo Haiama: Thank you very much.

Operator: Our next question comes from Ms. Maria Carolina Carneiro from Raymond James.

Ms. Maria Carolina Carneiro: Good morning. My question has to do with your market in distribution, your distribution market. Maybe you could give us a guidance about growth for this year, for 08 and 09 as well and do you believe there will be any changes in your expectations? Because your volume growth of 5% was basically because of acquisitions that you made and your organic growth was 2%; so just to have an idea of what you expect; do you expect consumption to drop, do you believe it will recover more by the end of this year? Thank you.

Mr. Ferreira: Our expectation for the year is around 5 and 5.5% overall for our operations with net of the acquisition effect. With the effect of the acquisitions, net of the effect the growth would be about 3%. Regarding sales by the group in both the captive and the free market, we have an increase of sales in the captive market and a reduction in volume in the free market.

Operator: Our next question comes from Mr. Sergio Tamashiro, Banco Itaú.

Mr. Sergio Tamashiro: Good morning. Still regarding bioenergy, maybe you could mention the Capex involved and I would like to know your minimum return rate and later this month what will drive you to make the decision about that? If the prices drop a lot, what will you be doing about it? Will you just stop the project?

And in this kind of partnership that you are foreseeing do you intend to make these partnerships with large companies or small companies? What is your comparative advantage? Because we hear from Cosan, San Martin and other large producers that they intend to do this all by themselves, they do not need any company in the electric sector and will you be doing this with small mills that do not have the necessary scale? And this is the first question.

The second one has to do with Jirau. Being outside maybe you have a clear view of that. How do you see all this fight whether Eletrobrás will be able to do everything by itself or if it does happen ... or would it be possible for the losing consortium to reduce R\$ 1 billion in Capex ... things are a little bit blurred, so I would like to have your view about that.

Mr. Ferreira: Well, first I am going to answer your question about bioenergy. The contribution given by the company can be in both segments, that is to say large and small companies. I imagine that during the first phase small mills will be able to have a higher contribution on the part of CPFL, because CPFL can add more value to the small mills, those who have no cogeneration as well as those who can be modernized and with one advantage and now addressing your second point

As energy will be completely taken to the free market, it is rather independent from the auction conditions. The rates are related to our view of market prices for the free-market, the company's view because of the major share that we have on the free market.

And of course we are working with rates of return that are higher in hydro generation, so the spread considering the risk because of the fact that they are small operations and also due to the fact that you are working with something new. But there are many upsides as well related to do that ... operating in the free market and mainly in what regards commercialization of carbon credits, which are additional advantages stemming from investments made in this area.

You are right when you talk about the very large mills but the company, also in relation to these very large mills, has the option to acquire volumes of energy and, as I said, it is already the biggest one and these consumers start to have one additional option besides auctions and they are interested in that. This is why we will be able to share very good results in this area as well.

The company is getting ready to operate in the renewable sources market and the A4 market and we believe there is a major potential there and we will be working with investments. We will have a better view during the second half of 08 because of all the projects that are being evaluated right now and especially due to the fact that we will have already the view from the auctions carried out.

But the free-market has its own dynamics and the amount that is coming on board is relevant, we are talking about an A4 market meaning 15% of the overall volume

of sales in Brazil approximately. So very quickly, during the next few years - next three years – 30% can be accessed through this system.

And talking about your second question, about Jirau - and this is my personal opinion - I do not believe that the solution could come from Eletrobrás. Today the Minister made one attempt to conciliate or to accommodate interests on all parts so that we have a win-win situation.

It would not be good to have losers there, because if you have this delayed it will take a long time for the venture to be concluded and so there is an intention in terms of bringing forward the completion of the construction work and there is a path for understanding and for conciliation, so that everybody can come out as a winner.

And of course, the energy market as a whole will benefit from the coming on board of these very large projects, so that we may have very good supply conditions as of 2012. This is the option I believe in, I do not believe in a higher involvement on the part of Eletrobrás to the extent of removing the characteristics of the auctions in the terms they were proposed.

Mr. Sergio Tamashiro: This Capex, the reduction proposed from R\$ 10 billion to R\$ 9 billion and regarding this bringing forward of the construction work and the supply of equipment, etc.; what do you think about that? Because this is a very aggressive goal ...

Mr. Ferreira: Well, this is a major challenge indeed. We bid for the first project and of course, we did not consider this bringing forward. These are entrepreneurs who studied the project at length, more than us and it would not be possible for CPFL when we got into Santo Antonio, - it would not be possible for us to establish as a basic premise this bringing forward of the project, but I believe that as mainly Odebrecht and Furnas had a more in-depth knowledge they could do this kind of evaluation and of course, this could be extended to Jirau as well.

Mr. Sergio Tamashiro: Going back to the first question, it is more a follow-up. You mentioned your focus on A4 clients, you said 15%, so I think it would be about 5,000 MW ...

Mr. Ferreira: 6 to 7, not 5

Mr. Sergio Tamashiro: Currently they are not been served, so you believe from these 6 to 7,000 30% will be serviced in the future?

Mr. Ferreira: Yes.

Mr. Sergio Tamashiro: And what I see in your presentation is that in spite of the focus on the free market you had a drop of 5 or 6%; so what happened? Was it because your purchasing contracts are expiring or is this a strategy or what?

Mr. Ferreira: The first thing is that if you take the price increase that we had in the market during the first half of 08, it is already an instrument to lower consumption in itself, so you have both effects: the first effect is that consumption went down on the part of consumers that were served by us and the second factor is that we see a reduction because of some of our contracts are expiring and not being renewed and we are already identifying other sources, so that we may be able to carry our capacity to sell long-term energy.

Mr. Sergio Tamashiro: And could we say that generation companies are having no surplus now and they are selling directly to the free clients?

Mr. Ferreira: The market is short; the free market is short right now. It has less ballast, so to say, that is necessary and the situation is real. It will only change when you have the coming on board of new sources which are not contracted yet. So the surplus to the auctions by the government and the undertakings that we are talking about like SPPs and others.

Mr. Sergio Tamashiro: Thank you.

Operator: Our first question comes from Subhojit Daripa, from Morgan Stanley.

Mr. Subhojit Daripa: Good afternoon, Wilson. Two questions about the renewables, one having to do with A4. If you maintain the discount vis-a-vis the TUSD or at least the consumer will have the discount vis-a-vis the TUSD and potentially he will be able to share this gain, what price do you foresee today for the A4? What kind of price will you obtain?

Now still talking about prices, how sustainable is the regulatory structure, so that the discount may continue in the long run? Because as you mentioned yourself, we are talking about a relatively large market 15% of the total market - and all this discount of distribution tariff would be transferred to the captive market and the tariff would have to go up. So from the regulatory viewpoint how sustainable do you believe this incentive to alternative sources - like SPPs and solar and wind and etc., biomass, etc. ...

Mr. Ferreira: Ok, so answering your question here. You know that CPFL Paulista is the concessionary that has the largest part of this discount with its captive clients and it represents less than 1% of the energy account.

If all consumers were not specifically CPFL's consumers, but if all customers had this discount the value would be less than 2%. I would say that this is not significant and I believe that due to the benefits that this energy might bring about - and it is important to remember that we are talking about a kind of energy that is all Brazilian, because the equipment is Brazilian, the workers in the sugarcane industry are Brazilian - this is a kind of energy that has an advantage, has a very

important matching with the Brazilian vocation, which is hydro, as it is produced in the drought period.

So in the drought period there are many benefits, many pluses and only maybe a couple of minuses and discount is not something that should be regarded as a minus; I think if it makes these sources feasible it is highly beneficial, because it preserves environment and it is a renewable source that generates jobs, it generates growth; and the least of benefits, it is much longer than any problems.

If you consider, or if you compare this with other sources, this source will bring about lower tariffs for the total of consumers. I believe that the regulatory model will be kept because the impact on the bigger concession area is very small.

It would be difficult for me to share this price with you because it is part of our strategy, but I would say that this is a price that will allow to CPFL investors plus mill owners and consumers to benefit from the initiative and I would say that it would be getting half way just to give you some guidance.

Mr. Subhojit Daripa: Regarding distribution - and I do not even know how to ask this question - because I confess that it is difficult for me to make a projection for distribution companies after the tariff review.

There is a behavior that seems to be typical among CPFL distribution companies before and after this tariff review; that could be a coincidence or that could not be a coincidence, so maybe you could say something about CPFL Piratininga, which had the tariff review in October had and Ebitda during the fourth quarter of R\$ 115 million; the impact was not so big in the fourth quarter and it dropped to R\$ 68 million and now recovered to R\$ 106 million.

The same behavior was seen in RGE, which presented and Ebitda of R\$ 120 million, it dropped to 85 in the fourth quarter and it went up to 115 and being stable during this second quarter of 08. And CPFL Paulista we see the first quarter after the tariff review a drop to R\$ 220 million from 300 and I would like to know what is leading to this recovery of cash generation.

I am not talking about revenues, because there is a component about the parcel A variation account amortization and because of that this movement is downwards; after the tariff review during the first quarter then the recovery in the subsequent quarters. So could you explain this please?

Mr. Ferreira: I would like to say that this could be a coincidence, but in fact this is due to two factors: first because the volume of energy that we have in the company is general vis-a-vis each one; so we see a behavior which is slightly higher than the one that we identified with the Agency. In one of the cases it is slightly lower and in two cases slightly higher. With the different mix - and this is where you have to take the effect mainly in the residential segment and it really has impact on the rural and

industrial segments in terms of income -I think this is a major point - and credit as well.

These segments they do have a relevant behavior from the viewpoint of these distribution companies because of their share. In the case of RGE you can see it very clearly, in Piratininga's case as well and in the last 12 months there was a growth of 5.3% in terms of income and in terms of credit 5% increase.

So you see a higher number of consumers being connected. You can see the sale of new houses and appliances with a growth of 15.4% in 2007 and until May 2008 an additional 18%. So you can see that volume does not explain everything; however, the mix explains quite a lot of that.

Another thing is the agribusiness in our concession area, because there is a characteristic of slow rainfall in the South during this period, so you take irrigation for that. Also in the case of distribution companies it is very positive and mainly in terms of RGE, mainly RGE, where you have a tariff for the rural segment which is subsidized mainly for cooperatives.

So this is the second point: some segments that, because of rainfall characteristics had lower volumes rated and these volumes would have a higher discount. This is very clear between Paulista, Piratininga and RGE and also followed by Santa Cruz and Jaguariúna to a certain extent. In the rural segment the only one that is not affected by this kind of event is Piratininga and in terms of the residential and the increase in the purchasing power all of them are important, so this growth has been verified, so this is a first point.

And the second thing, about the Ebitda. You have to consider that at the same time we saw drops mainly in the value of the dollar mainly regarding Itaipú and even lower, coming to lower levels than the pricing of these companies, so we have a higher cash generation.

Ok, you are adjusting from the viewpoint of costs as the ... Parcel A variation account, but they all have about 25% of their supply related to Itaipú and they benefit from this drop that is almost scary that all are going down to lower than 1.6.

And the second point has to do with operational costs. They have to drop after the tariff review and the company is taking initiatives in this direction. You will see this in a more pronounced manner during the next quarters. We are about to conclude the processes now and the strategy is more clear now vis-a-vis the creation of our Administrative VP.

We sold two major properties during this quarter and this is why we have this positive mobilization in our operating revenues; but I believe we will see some benefits deriving from this as well.

Mr. Subhojit Daripa: Thank you very much, Wilson.

Operator: Our next question comes from Fabiano Custódio from Credit Suisse.

Mr. Fabiano Custódio: Good morning. My question has to do with generation. I would like to know regarding Serra da Mesa energy that is contracted with Furnas with an average price of about R\$ 100 to 2013; what about the renegotiation of this energy and what is your strategy, what do you foresee in terms of prices and the willingness on the part of clients to sign more long-term contracts?

And another question about your follow-up about the possibility of reversal of provisions made during the first quarter, if there is a deadline on the part of Aneel for CPFL to issue a report?

Mr. Ferreira: I will start with your second question and there is no deadline. We are interacting with the Agency. I believe that in the light of the first discussions I think we understand one another. Aneel wants to avoid and the company has some practices and now I believe that we understand one another better. But there is no deadline and as we said by then, we have no action whatsoever on the part of Aneel or they will repair overtime effects that they had because of their decisions. This would happen until April of next year. I am optimistic, I want to give all clarification which is considered necessary so that the process can become clear, so that we can have more real tariffs. I would not consider a deadline before April 09.

As for Serra da Mesa, theoretically the alternative for Serra da Mesa, which is old energy, the only possibility would be an auction. The contract will expire by the end of 2013 and the alternative today would be the free market. But we are not letting any operation because that market is going to be strongly affected by any type of action that happens, particularly in these projects that we talked about just now, Santo Antonio and Jirau.

We are evaluating the strategy. We have not talked to Furnas yet; we have another five years to do that and I believe that we can make a better decision later on if we understand better particularly these two projects. If there is some delay involved, obviously the free market will become more attractive to the company at least for a short-term operation and we would get into an auction of old energy later on.

But this is not a subject to be decided upon now, we have to have a clear understanding, have an idea of what would be the free market prices as of 2012, 2013, when we are going to have this energy available.

Mr. Fabiano Custódio: Thank you very much.

Mr. Ferreira: And the auction will take place one year before. We will have time to make a good and sound decision.

Mr. Fabiano Custódio: Thank you very much.

Operator: Our next question comes from Ms. Rafaela Vitoria from Kineia Investimentos.

Ms. Rafaela Vitoria: Good afternoon and to all. My question has to do with sales in the captive market. In this quarter we observed that sales, excluding acquisitions, grew about 1.2% and you mentioned a little while ago that you expect for 08 a growth of about 3%. What about your long-term planning, your five-year planning? What kind of growth you are working with? And the slow quarter growth; did not it have any impact on your planning?

Mr. Ferreira: Firstly, we did not grow 1.2%, we grew 2%. This is on page 4 of our presentation: we grew from 8,687 to 9,121 without net of the acquisition effect. When I am telling you that we are going to grow 3 we are already incorporating in the captive side two movements: one movement related to a strong residential segment and commercial segment and given the fact this year we had more rain; this drop in the rural segment was beneficial for the concession, but this is one point: we incorporated a positive effect.

And the negative effect, which would be the decreased sales, actually becomes positive in terms of the tariff mix of the concession area company and for the coming years I am evaluating the so-called dynamics of the free market, given that consumers in this market have to tell five years ahead if they intend to go back. This is not determined yet; the market still sees the possibility of maintaining the same volume level, something about 25% of Brazilian sales, having the effect of an additional migration to this market of something amounting to about 2 to 3,000 MW average coming from incentivated source, the so-called A4 market to the free market.

So when we talk about 3% I am already considering sales billed, considering all three effects. In other words, the growth in the concession segment, decrease in the rural market because of the rainy issue and a possible migration of A4.

In the concession area of our concession area companies until July we had this 6.8% growth, this 5.1 that was 6.8, so that in July we already have a better effect and the expectation for the year would be 5.1%, even considering the acquisitions effect.

Ms. Rafaela Vitoria: So in the long term five years you expect 3% growth?

Mr. Ferreira: Well, in the long term I cannot really tell you for the distribution company and entry and exit of free consumers is quite transparent. The best value we have to use in our forecasts would be what I said about 5%; that would be the expected long-term growth.

And then the internal movements in the so-called captive market we could have a decrease of the captive market because of the exit of consumers moving to the free market. We do not believe this movement to be very big.

So it would be a migration GDP growth; if the GDP grows about 4 or 4.5% and the market, the energy market growing reaching 5 and 5.5% in the concession areas of the concessionary companies. This is what we are expecting.

We have to establish assumptions regarding the movement of free consumers. Some consumers will be coming back to the market but very few, practically non-existent, so we are betting on this market and there might be an additional migration if that assumption of A4 applies with these two effects, plus an assumption for income drops in credit we are going to have a growth the concession area of the distribution companies and we believe, we are convinced this will be over 3%.

Ms. Rafaela Vitoria: Thank you very much.

Operator: Our next question comes from Mr. Sergio Conti from Citibank.

Mr. Sergio Conti: Good afternoon Wilson. Going back to biomass I would like to understand from the standpoint of the mill owners. How would CPFL differentiate vis-a-vis conditions offered by the government for the Reserve Auction which should take place tomorrow? Specifically I would like to know if CPFL contract offers to the mill owners will be for 15 to 20 years so that these mill owners can get loans at BNDES, which is also the case in the Reserve Auction?

Secondly, CPFL would be buying from them only in the season or would it be in auction A-3 and A-5? In past years the mill owners were exposed to the spot price in between seasons.

Finally I would like to know if there is any differential of CPFL vis-a-vis transmission investment costs. I know that recently CTEEP signed a MOU to build the transmission lines connecting these mills to the grid. With CPFL will there be any additional gains or would the terms be more or less the same? And any more economics information that you could tell us for reference purposes?

Mr. Ferreira: Well, our differential is to make it possible for these sugar mill owners particularly the midsized mill owners the option to sell their energy in the free-market which, as I said, can offer them prices higher than in the auction. I am not going to risk giving you any price. We work with a curve, and auction will work with a curve hedged for the future.

The free market works with a curve, because there is a higher demand and price stress in the long-term scenario, so we can capture more advantages in the average price of this operation. In the coming years we have the supply and demand curves coming closer together, which means that the price in the free-

market should be slightly higher, which can put some positive pressure and help the return on investment of these projects.

Secondly, a company like ours, which has a higher volume, maybe more expertise, can help, can become the ideal partner to give these sugar mill owners a better spread, a better return rate.

Secondly, we have to take into account the company's ability because of the several projects in the connection area to do this through a partner faster and maybe at more affordable prices, this is the second advantage of our company.

A third advantage has to do with the fact that we really know this business more than anyone else and this is not an operation to buy only during the season period; we are offering to buy the total surplus volume, they will not lose one single GWh; all the surplus will be purchased by our company. So this is the third advantage.

Mr. Sergio Conti: Regarding the terms of these contracts, these will be long-term contracts, right? That would help them get loans from BNDES or would these be short-term contracts?

Mr. Ferreira: No, long-term contracts. The PPA would be a guarantee instrument so that they can get adequate financing for their projects. This is another advantage.

Mr. Sergio Conti: They would be exposed to spot prices from one season to another?

Mr. Ferreira: No, they will never be exposed to spot. We are giving them a PPA. The surplus purchase is totally performed by the company during the season or in between seasons. The energy volume is fully purchased, they have no exposure whatsoever. Their operation is a riskless operation; they will know exactly what will be the revenues generated by the project.

Mr. Sergio Conti: Thank you very much.

Operator: Our next question comes from Mr. Marcelo Ganem from Meta Asset.

Mr. Marcelo Ganem: Good afternoon to all. I would like to know in the case of the distribution companies that have gone through the tariff review in the beginning of April, such as CPFL Paulista; in this case can we expect the full impact of the tariff review happening in third quarter? Because in April billing possibly reflected the March numbers pre tariff review.

Mr. Ferreira: In the case of CPFL Paulista the tariff review happened on April 8th, so most likely the third quarter tends to be a lower power volume quarter, but I would say that regarding the effect of the tariff we are talking about April, May and June. In 90 days possible, 82 considered with the readjusted tariffs, so this is not

going to be because of a tariff evade, it might be due to a volume evade but not because of the tariff impact.

Mr. Marcelo Ganem: Thank you very much.

Operator: Our last question comes from Ms. Glaucia Quinto from Bradesco Asset.

Ms. Glaucia Quinto: Good afternoon to all. My question also has to do with the biomass project. I just want to make sure that CPFL investment will be only in energy and not in planting the crop as there is another energy company doing, another energy companies doing.

My second question is how are you assessing risk in this mill? We know from history that price volatility is high for sugar and ethanol and it is not uncommon for these mills to find themselves in a very delicate financial situation and also risk of consolidation in the industry; there might be a project where you invest in the mill and it will stop working because of consolidation. So how are you taking all that into account?

Mr. Ferreira: Your first question first. We will be participating only in the electricity, in electric power; we are not getting in the sugar or ethanol businesses.

Your second question, you are creating a company and this is a company investing in an SPE, in a special kind of company and obviously the higher risk is the risk of not having enough sugar cane bagasse for an operation. In this case, well, we have an advantage because we have dozens of contracts; we have relationship with dozens of sugar mill owners knowing the viability of sugar cane bagasse will help us better protect the business.

The responsibility to supply sugar cane bagasse is on the mill and you have the chance of participating in a market that we might consider almost a spot market in the viability of sugar cane bagasse because as I said we have a lot more sugar cane bagasse than the capacity to derive electricity from it, because the mills are not maximizing the possibility.

Those that have cogeneration capability, they have lower pressure boilers and some simply do not have cogeneration projects for sugar cane bagasse. This is an important market. Our company has helped many energy producers to do this kind of transaction. We have an expertise and there is a possibility, I believe that we have an expertise in the major input, which is sugar cane bagasse.

However, the judicial entity for the exploration of the project it is not mixed with the performance of the mill in its sugar and alcohol ... and ethanol production and this is why through the company's PPA and the guarantees that CPFL brings to this kind of project they can help them have the right kind of financing with specific BNDES credit lines and through PPA and through our expertise in the biomass market we can make sure that the volumes will be produced.

Ms. Glaucia Quinto: Thank you very much.

Operator: Ladies and gentlemen, we are finishing the Q&A Session. I would like to get the floor to Mr. Wilson Ferreira Jr. for his final remarks.

Mr. Ferreira: Again, I would like to thank you all for your participation in our second quarter earnings conference call. Thank you for the quality of your questions. We are very happy with our results and we are very happy to be showing you all these good results. The capital structure of the company remains very healthy in this quarter; we have these new prospects regarding the strategic decision to work in a niche segment, in biomass or in SPP, which we talked about the previous quarter ... SPP.

And we are going to be bringing you new projects in the next quarter conference call and the results we had in the so-called tariff review. It is a moment that all company has, but I would say that with all the tariff reviews done we have a cost reduction initiative. I think the company is very clearly positioned, very quickly positioned to have access and to contribute through our efficiency in the Group and we can enjoy this expertise in the consumer market and in the captive because we have the largest supply distribution in Brasil with 13.3 % in the market or in the free market, where our company is the largest player; CPFL is the largest energy seller in all the market.

So we can combine our market expertise with initiatives that can maximize the efficiency of the market and with that we can increase CPFL Brasil with 13.3 % operations developing new sources, capitalizing on our ability to develop projects technically and economically by CPFL Geração and by combining these two potentials with our market expertise we will have new businesses that will add value to CPFL Energia. This is the major synergy of our moment.

Now the company is going through ... the company has gone through the tariff review process and is expected more efficiency combined to our market expertise, with our project expertise. I think this is a good moment and we will be able to share with you these good results at the end of the next quarter. We are very optimistic and very committed to this new cycle. Thank you very much.

Operator: Now CPFL Energia's conference call is closed. Thank you very much for participating and have a very good afternoon.
