

CPFL Energy INC
Form F-1/A
September 24, 2004

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As filed with the Securities and Exchange Commission on September 24, 2004

Registration No. 333-118494

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

to

Form F-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CPFL Energia S.A.

(Exact name of Registrant as specified in its charter)

CPFL Energy Incorporated

(Translation of Registrant's name into English)

Federative Republic of Brazil

*(State or other jurisdiction of
incorporation or organization)*

4911

*(Primary Standard Industrial
Classification Code Number)*

Not Applicable

*(I.R.S. Employer
Identification No.)*

Rua Ramos Batista, 444, 13° andar

CEP 04552-020 São Paulo, São Paulo

Federative Republic of Brazil

+55 11 3457-0645

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

CT Corporation System

111 Eighth Avenue

New York, New York 10011

1-800-223-7564

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

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Cleary, Gottlieb, Steen & Hamilton
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New York, New York 10006**

**William B. Brentani, Esq.
Simpson Thacher & Bartlett LLP
3330 Hillview Avenue
Palo Alto, California 94304**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, please check the following box. ☐

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ☐

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated September 24, 2004

PROSPECTUS

47,495,679 Common Shares

(Equivalent to 15,831,893 American Depositary Shares)

CPFL ENERGIA S.A.

**In the form of American Depositary Shares outside Brazil
and in the form of Common Shares in Brazil**

This is our initial public offering. We are selling _____ American Depositary Shares, or ADSs, and the selling shareholders named in this prospectus are selling an additional _____ ADSs. Each ADS represents three common shares. In addition, we and the selling shareholders are concurrently offering _____ common shares in the Federative Republic of Brazil through Brazilian underwriters using a Portuguese-language prospectus. The closings of this offering and the Brazilian offering are conditioned upon each other.

We expect the offering price per ADS to be between US\$18.00 and US\$19.90. Prior to this offering, no public market existed for the common shares or the ADSs. After pricing of this offering, we expect that the ADSs will trade on the New York Stock Exchange under the symbol CPL. We have also applied to list our common shares for trading on the São Paulo Stock Exchange, known as the BOVESPA, under the symbol CPFE3.

This offering will be registered with the Brazilian Securities Commission. The Brazilian Securities Commission has not approved or disapproved of these securities or determined if this prospectus (or the Portuguese-language prospectus referred to above) is truthful or complete.

Investing in the ADSs and our common shares involves risks that are described in the Risk Factors section beginning on page 9 of this prospectus.

	Per ADS	Total
Public offering price	US\$	US\$
Underwriting discounts and commissions	US\$	US\$
Proceeds, before expenses, to us	US\$	US\$
Proceeds, before expenses, to the selling shareholders	US\$	US\$

The international underwriters may also purchase up to an additional _____ ADSs from us, and up to an additional _____ ADSs from the selling shareholders, at the public offering price less the underwriting discount, within 30 days from the date of this prospectus to cover overallocments, if any, in connection with this offering and one of the Brazilian underwriters may also purchase up to an additional _____ common shares from us, and up to an additional _____ common shares from the selling shareholders, at the public offering price less the underwriting discount, within 30 days from the date of this prospectus to cover overallocments, if any, in connection with the Brazilian offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The ADSs will be ready for delivery on or about _____, 2004.

Merrill Lynch & Co.

Pactual Capital Corporation

Credit Suisse First Boston

Morgan Stanley

UBS Investment Bank

The date of this prospectus is _____, 2004.

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SUMMARY

*This summary highlights material information about us and the ADSs that we and the selling shareholders are offering. It may not contain all of the information that may be important to you. Before investing in the ADSs, you should read this entire prospectus carefully for a more complete understanding of our business and this offering, including our audited and unaudited interim consolidated financial statements and related notes, and the sections entitled *Risk Factors* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* included elsewhere in this prospectus.*

*In this prospectus, we use the terms *CPFL* and *CPFL Energia* to refer to CPFL Energia S.A. and its subsidiaries. Certain of our subsidiaries are proportionately consolidated, and when we provide data on our financial or operating performances we include our proportionate share of these subsidiaries. See *Presentation of Financial Information*. We also use throughout this prospectus various terms and abbreviations that are specific to the Brazilian power industry. See *Glossary of Terms*.*

CPFL Energia

We are a holding company that, through our subsidiaries, distributes, generates and commercializes electricity in Brazil. In 2003, we were one of the three largest electricity distributors in Brazil, based on the 33,669 GWh of electricity we delivered to our more than 5.3 million customers in that year. During the first six months of 2004, we delivered 16,335 GWh of electricity. Our subsidiaries, Companhia Paulista de Força e Luz, or Paulista, and Companhia Piratininga de Força e Luz, or Piratininga, delivered 29,586 GWh of electricity (of which Paulista distributed 19,108 GWh and Piratininga distributed 10,478 GWh) to over 4.2 million customers in the state of São Paulo during 2003. Paulista and Piratininga delivered 14,215 GWh of electricity during the first six months of 2004 (of which Paulista distributed 9,237 GWh and Piratininga distributed 4,978 GWh). Our partially-owned subsidiary, Rio Grande Energia, or RGE, delivered 6,377 GWh of electricity to approximately 1.1 million customers (including 291 GWh delivered to small concessionaires and rural electricity cooperatives) in the state of Rio Grande do Sul during 2003. During the first six months of 2004, RGE delivered 3,311 GWh of electricity (including 149 GWh delivered to small concessionaires and rural electricity cooperatives).

In 2003, the installed generating capacity of our generation subsidiary, CPFL Geração de Energia S.A., or Geração, was 812 MW. We are also upgrading certain older generation assets and constructing six new hydroelectric generation facilities that are at different stages of construction, through which we expect to increase our installed generating capacity to 1,990 MW as they are progressively completed over the next five years. After construction of these facilities, we believe that we will be one of the four largest private sector power generation companies in Brazil.

We also engage in electricity commercialization and provide electricity-related services to our affiliates as well as unaffiliated parties. In 2003, we sold 4,535 GWh of electricity (1,122 GWh of which was to unaffiliated parties). During the first six months of 2003, we sold 1,694 GWh of electricity (511 GWh of which was to unaffiliated parties), and in the same period of 2004, we sold 4,969 GWh of electricity (1,419 GWh of which was to unaffiliated parties).

Using our regulated distribution business and strong customer base as a platform, we have expanded into other activities, including the creation of a portfolio of hydroelectric generation assets as well as an electricity commercialization business. Some of the funds required for these projects were advanced by our shareholders through equity contributions. As a result of these equity contributions from our shareholders, we have had the resources to invest in, and to obtain appropriate financing for, the majority of our new hydroelectric generation facilities. When they are all completed, we expect these facilities to increase our total installed generating capacity to 1,990 MW. We believe that our development and future prospects reflect the following strengths:

We have a strong distribution base;

We operate in the states of São Paulo and Rio Grande do Sul, both strong Brazilian economic and industrial centers;

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We have substantial experience in developing and managing generation projects;

We have strong shareholders; and

We have successful commercialization businesses.

Our overall objective is to maximize profitability and shareholder value by continuing to be a leader in the distribution and commercialization of electricity, and becoming a leading generator of electricity in Brazil. We seek to realize this objective through the following key business strategies:

Focus on further improving our operating efficiency;

Complete the development of our existing generation projects and expand our generation portfolio by developing new generation projects;

Expand and strengthen our commercialization business;

Develop electricity-related services and products; and

Position ourselves to take advantage of consolidation in our industry by using our experience in successfully integrating and restructuring other operations.

Our business is also subject to a number of risks, among them, the extensively regulated environment in which we operate, which recently underwent significant change and may have unpredictable effects on our business and results of operations. In addition, our tariffs and the terms of our concessions are subject to regulation by the National Electric Energy Agency (*Agência Nacional de Energia Elétrica*), or ANEEL. Our results of operations may also be adversely impacted by a variety of other factors, including prevailing economic conditions in Brazil, our ability to complete existing projects and pursue new projects, and other factors outside our control, such as hydrological conditions. For a more complete discussion of the risks affecting our business, see Risk Factors.

Our principal executive offices are located at Rua Ramos Batista, 444, 13° andar, CEP 04552-020 São Paulo, São Paulo, Brazil, and our telephone number is +55 11 3457-0645. Our website is www.cpfl.com.br. Information contained on, or accessible through, our website is not incorporated by reference in, and shall not be considered part of, this prospectus.

You should rely only on the information contained in this prospectus. Neither we nor the selling shareholders have, and the international underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither we nor the selling shareholders are, and the international underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

We and the selling shareholders are also offering common shares in Brazil by means of a prospectus in Portuguese with the same date as this prospectus. The Brazilian prospectus, which has been filed with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or CVM, is in a different format from this prospectus. This offering of ADSs is being made in the United States and elsewhere outside Brazil solely on the basis of the information contained in this prospectus. Investors should take this into account when making a decision to invest in our ADSs.

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The Offerings

American Depositary Shares offered in this offering by:

CPFL Energia	ADs
Selling shareholders	ADs
	<hr/>
	ADs

Brazilian offering Concurrently with this offering, we and the selling shareholders are offering common shares in a public offering in Brazil. The closings of this offering and the Brazilian offering are conditioned upon each other.

Overallotment options We and the selling shareholders have granted the international underwriters the right to purchase, within 30 days from the date of this prospectus, an additional ADs to cover overallotments, if any, in connection with this offering. We and the selling shareholders have also granted one of the Brazilian underwriters the right to purchase, within 30 days from the date of this prospectus, an additional common shares to cover overallotments, if any, in connection with the Brazilian offering.

The ADs Each AD will represent three common shares. The ADs will be evidenced by American Depositary Receipts, or ADRs. The ADs will be issued under a deposit agreement among us, The Bank of New York, as depositary, and the registered holders and beneficial owners from time to time of ADs issued thereunder.

Selling shareholders VBC Energia S.A., or VBC.
521 Participações S.A., or 521.
Bonaire Participações S.A., or Bonaire.

Common shares outstanding after the offerings 451,449,525 common shares.

Use of proceeds We intend to use the net proceeds from this offering and the Brazilian offering primarily to fund future investments of approximately US\$120 million for investments in identified generation projects. The remainder of the funds are intended for general corporate purposes, including future expansion projects and potential future acquisitions. We will not receive any proceeds from the sale of our common shares, including common shares in the form of ADs, by the selling shareholders.

Dividends Under Brazilian corporation law and our by-laws, we are required to distribute at least 25% of our annual net income, subject to adjustments and exceptions, to owners of our common shares. We intend to declare and distribute dividends in amounts equivalent to 50% of our adjusted net profits, in accordance with our dividend policy. Holders of the ADs will be entitled to receive dividends to the same extent as the owners of our common shares, subject to the deduction of any charges of the depositary with respect to foreign exchange conversion. See Dividends and Dividend Policy and Description of Capital Stock.

Depositary The Bank of New York.

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Risk factors	See Risk Factors beginning on page 9 and the other information included in this prospectus for a discussion of factors you should consider before deciding to invest in the ADSs.
Trading symbols	We expect to list the ADSs on the New York Stock Exchange, or NYSE, under the symbol CPL and to list our common shares on the BOVESPA under the symbol CPFE3.
Expected offering timetable (subject to change):	

Commencement of marketing of the offerings	Week of September 7, 2004
Announcement of offer price and allocation of ADSs and common shares	September 28, 2004
Commencement of trading of ADSs on the NYSE	September 29, 2004
Settlement and delivery of ADSs and common shares	October 4, 2004

Unless otherwise indicated, all information contained in this prospectus:

assumes no exercise of the international underwriters' option to purchase up to additional ADSs to cover overallotments, if any, in connection with this offering and no exercise of the Brazilian underwriter's option to purchase up to additional common shares to cover overallotments, if any, in connection with the Brazilian offering;

has not been adjusted to reflect the receipt by us of the estimated net proceeds of the offerings based upon the sale of ADSs in this offering at an assumed initial public offering price of US\$18.95 per ADS, the midpoint of the price range per ADS set forth on the cover page of this prospectus, and the sale of common shares in the Brazilian offering at an assumed initial public offering price of R\$18.50 per common share, the midpoint of the price range per common share in the Brazilian offering; and

assumes no exercise of certain subscription rights held by International Finance Corporation, or IFC, to purchase our common shares. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Terms of Outstanding Debt.

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Summary Financial and Operating Data

The following table presents our summary historical financial and operating data. You should read this information in conjunction with our audited and unaudited interim consolidated financial statements and related notes, and the information under Presentation of Financial Information, Selected Financial and Operating Data and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

In this prospectus, the terms U.S. dollar and U.S. dollars and the symbol US\$ refer to the legal currency of the United States. The terms *real* and *reais* and the symbol R\$ refer to the legal currency of Brazil. U.S. GAAP refers to generally accepted accounting principles in the United States and Brazilian Accounting Principles refers to accounting principles and practices established in accordance with Brazilian corporation law, regulations issued by ANEEL and rules issued by the CVM.

The financial data at December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The financial data as of June 30, 2004 and for the six months ended June 30, 2004 and 2003 are derived from the unaudited interim consolidated financial statements also included elsewhere in this prospectus. The financial data for the six months ended and as of June 30, 2004 are not necessarily indicative of the results of operations that you should expect for the entire fiscal year ended December 31, 2004. The financial information included in this prospectus has been presented in accordance with Brazilian Accounting Principles, which differ in certain respects from U.S. GAAP. Note 30 to our audited consolidated financial statements provides a description of the principal differences between Brazilian Accounting Principles and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity.

Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2003 and as of and for the six months ended June 30, 2004 have been translated into U.S. dollars at the commercial market rate as reported by the Central Bank of Brazil, or the Central Bank, on June 30, 2004 of R\$3.108 to US\$1.00. The commercial market rate as reported by the Central Bank on September 21, 2004 was R\$2.8737 to US\$1.00. The U.S. dollar equivalent information should not be construed to imply that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

Certain figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not sum due to rounding.

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Statement of Operations Data

	For the Six Months Ended June 30,			For the Year Ended December 31,					
	2004	2004	2003	2003	2003	2002	2001	2000	1999
(In millions, except per share and per ADS data)									
Brazilian Accounting Principles									
Operating revenues	US\$ 1,492	R\$ 4,637	R\$ 3,765	US\$ 2,601	R\$ 8,082	R\$ 6,823	R\$ 5,953	R\$ 3,604	R\$ 2,928
Net operating revenues	1,114	3,461	2,829	1,949	6,057	5,264	4,842	2,785	2,242
Operating costs:									
Electricity purchased for resale	537	1,670	1,421	972	3,020	2,557	2,314	1,260	1,089
Electricity network usage charges	100	311	210	144	446	314	386	181	94
Personnel	32	98	92	54	169	162	154	175	133
Pension	28	87	102	27	84	129	114	6	11
Materials	5	17	9	7	22	22	31	16	14
Outside services	13	40	41	27	84	87	48	31	28
Depreciation and amortization	42	129	128	82	256	223	201	145	131
Fuel usage and energy development quotas	70	218	161	109	339	292	290	138	80
Services provided by third parties				2	5	3	4	3	1
Other	1	4	5	3	10	10	18	23	10
	828	2,574	2,170	1,428	4,436	3,796	3,562	1,978	1,591
Operating expenses:									
Sales and marketing	27	84	62	48	148	176	133	100	99
General and administrative	43	133	122	90	279	282	205	162	136
Amortization of goodwill	22	69	264	171	532	528	407	323	99
Other	4	11	13	6	20	16	10	15	36
	95	296	461	315	980	1,001	755	600	370
Operating income	190	590	198	207	642	466	525	207	281
Financial expense, net	(99)	(309)	(506)	(264)	(821)	(1,301)	(594)	(312)	(260)
Nonoperating income (expense), net	(2)	(5)	14	14	44	10	(29)	(5)	(86)
Income and social contribution taxes	(39)	(120)	(14)	(36)	(111)	88	(123)	(46)	(40)
Net income (loss) before extraordinary item and minority interest	50	156	(308)	(79)	(247)	(736)	(221)	(156)	(105)
Extraordinary item, net of taxes(1)	(5)	(16)	(16)	(11)	(34)	(34)			
Minority interest	(3)	(10)	7	(1)	(2)	21	(8)	3	(20)

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Net income (loss)	US\$ 42	R\$ 130	R\$ (317)	US\$ (91)	R\$ (282)	R\$ (749)	R\$ (229)	R\$ (153)	R\$ (125)
Net income (loss) per share, before extraordinary item and minority interest(2)	0.01	0.04	(0.09)	(0.02)	(0.06)	(0.22)	(0.07)	(0.05)	(0.06)
Net income (loss) per share(2)	0.01	0.03	(0.09)	(0.02)	(0.07)	(0.22)	(0.07)	(0.05)	(0.07)
Net income (loss) per ADS, before extraordinary item and minority interest(2)	0.04	0.11	(0.27)	(0.06)	(0.18)	(0.65)	(0.20)	(0.15)	(0.18)
Net income (loss) per ADS(2)	0.03	0.09	(0.28)	(0.07)	(0.21)	(0.66)	(0.20)	(0.15)	(0.22)
Number of common shares outstanding at year-end(2)(3)	4,119	4,119	3,391	4,119	4,119	3,391	3,374	3,041	1,727
U.S. GAAP									
Operating revenues	US\$ 2,298		R\$ 7,142		R\$5,999				
Net operating revenues	1,735		5,391		4,627				
Operating income	292		908		775				
Net income (loss)	65		202		(615)				
Net income (loss) per share basic and diluted(4)	0.18		0.57		(1.81)				
Net income (loss) per ADS basic and diluted(4)	0.55		1.71		(5.44)				
Weighted average number of shares outstanding(4)	353		353		339				

(1) Reflects the initial effect of a change in Brazilian Accounting Principles for post-retirement benefit plans, net of taxes. This item does not qualify as an extraordinary item under U.S. GAAP.

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- (2) In accordance with Brazilian Accounting Principles, these amounts have not been adjusted to reflect the 1-for-10 reverse stock split on August 13, 2004 that reduced the aggregate number of our outstanding common shares to 411,869,796. Had these amounts been adjusted to reflect the reverse stock split, the amounts would have been as follows:

	For the Six Months Ended June 30,			For the Year Ended December 31,					
	2004	2004	2003	2003	2003	2002	2001	2000	1999
(In millions, except per share and per ADS data)									
Net income (loss) per share, before extraordinary item and minority interest	US\$ 0.12	R\$ 0.38	R\$ (0.91)	US\$ (0.19)	R\$ (0.60)	R\$ (2.17)	R\$ (0.66)	R\$ (0.51)	R\$ (0.61)
Net income (loss) per share	0.10	0.32	(0.93)	(0.22)	(0.68)	(2.21)	(0.68)	(0.50)	(0.72)
Net income (loss) per ADS, before extraordinary item and minority interest	0.36	1.14	(2.72)	(0.58)	(1.80)	(6.51)	(1.97)	(1.54)	(1.82)
Net income (loss) per ADS	0.31	0.95	(2.80)	(0.66)	(2.05)	(6.63)	(2.04)	(1.51)	(2.17)
Number of common shares outstanding at year-end	412	412	339	412	412	339	337	304	173

- (3) For periods ended prior to 2002, the number of common shares outstanding at year-end was retroactively restated to reflect the effects of our August 2002 restructuring. Calculation of common shares outstanding at year-end was made based on the exchange ratio used to exchange our shares for the shares of Paulista and Geração in August 2002, which was one share for 9.42 shares of Paulista and one share for 184.03 shares of Geração.

- (4) In accordance with U.S. GAAP, these amounts have been adjusted to reflect the 1-for-10 reverse stock split on August 13, 2004 that reduced the aggregate number of our outstanding common shares to 411,869,796.

Balance Sheet Data

	As of June 30,				As of December 31,											
	2004		2004		2003		2003		2002		2001		2000		1999	
	(In millions)															
Brazilian Accounting Principles																
Current assets:																
Cash and cash equivalents	US\$	190	R\$	591	US\$	121	R\$	375	R\$	177	R\$	136	R\$	399	R\$	642
Accounts receivable		488		1,516		476		1,479		1,629		1,228		617		365
Total current assets		933		2,897		765		2,376		2,819		1,738		1,472		1,208
Non-current assets:																
Accounts receivable		240		747		234		728		768		731				
Total non-current assets		702		2,183		768		2,388		1,841		1,455		476		487
Permanent assets:																
Property, plant and equipment		1,495		4,646		1,433		4,452		4,383		3,997		2,573		2,188
Goodwill		1,020		3,169		1,042		3,237		3,774		4,279		2,953		3,186
Total permanent assets		2,366		7,353		2,342		7,278		7,762		7,884		5,353		5,139
Total assets		4,001		12,432		3,875		12,042		12,421		11,077		7,301		6,834
Current liabilities:																
Short-term debt(5)		426		1,325		379		1,178		3,379		1,867		598		831
Total current liabilities		939		2,917		809		2,513		4,866		3,206		1,366		2,022
Long-term liabilities:																
Long-term debt		1,395		4,336		1,403		4,361		3,836		3,574		2,738		732
Total long-term liabilities		1,908		5,928		1,914		5,948		5,242		4,788		2,792		1,291

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Minority interest	62	193	62	192	193	231	245	232
Shareholders' equity	1,092	3,394	1,091	3,389	2,121	2,852	2,898	3,289
Total liabilities and shareholders' equity	4,001	12,432	3,875	12,042	12,421	11,077	7,301	6,834

U.S. GAAP

Shareholders' equity	US\$ 1,349	R\$ 4,192	R\$ 2,639
Total assets	5,561	17,280	16,175

(5) Short-term debt includes the current portion of long-term debt and accrued interest.

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	For the Six Months Ended June 30,		For the Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
Energy sold (in GWh):							
Residential	4,129	4,070	8,124	7,779	7,164	6,541	6,166
Industrial	8,567	8,126	16,909	15,731	14,172	10,361	9,553
Commercial	2,447	2,389	4,752	4,485	4,038	3,399	3,007
Rural	757	692	1,550	1,466	1,141	916	926
Public administration	364	368	736	639	614	582	531
Public lighting	531	515	1,048	1,012	899	797	772
Public services	671	657	1,352	1,297	1,217	1,017	962
Own consumption	11	13	25	31	33	38	30
Total energy sold	17,477	16,830	34,496	32,440	29,278	23,651	21,947
Total customers(6)	5,410,756	5,276,479	5,340,632	5,192,820	4,990,741	3,656,984	2,900,900
Installed capacity (in MW)	812	812	812	812	143	143	143
Assured energy (in GWh)	1,899	1,899	3,804	3,856	723	723	723
Energy generated (in GWh)	1,481	1,022	2,633	2,433	405	443	492

(6) Represents active customers (meaning customers who are connected to the distribution network), rather than customers invoiced at period-end.

Other Data

	For the Six Months Ended June 30,			For the Year Ended December 31,					
	2004	2004	2003	2003	2003	2002	2001	2000	1999
(In millions)									
EBITDA:									
Net income (loss) under Brazilian Accounting Principles	US\$ 42	R\$ 130	R\$ (317)	US\$ (91)	R\$ (282)	R\$ (749)	R\$ (229)	R\$ (153)	R\$ (125)
Plus:									
Financial expense, net	99	309	506	264	821	1,301	594	312	260
Social contribution and income taxes	39	120	14	36	111	(88)	123	46	40
Depreciation	45	141	139	90	279	273	229	165	181
Amortization	22	68	264	171	532	528	407	323	99
EBITDA(7)	US\$ 247	R\$ 768	R\$ 606	US\$ 470	R\$ 1,461	R\$ 1,265	R\$ 1,124	R\$ 693	R\$ 455

(7) EBITDA represents net income (loss) plus financial expense, net, social contribution and income taxes and depreciation and amortization. EBITDA should not be considered as an alternative to net income (loss), as an indicator of our operating performance, or as an alternative to cash flow as an indicator of liquidity. Our management believes that EBITDA provides a useful measure of our performance that is

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widely used by investors and analysts to evaluate our performance and compare it with other companies. In making such comparisons, however, you should bear in mind that EBITDA is not a recognized measure under Brazilian Accounting Principles and that it may be defined and calculated differently by different companies.

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RISK FACTORS

An investment in the ADSs involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the ADSs or our common shares could decline due to any of these risks, and you may lose all or part of your investment. The risks described below are those known to us and that we currently believe may materially affect us. Additional risks not presently known to us or that we currently consider immaterial may also impair our business.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, could adversely affect our business and the market price of the ADSs and our common shares.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition and results of operations may be adversely affected by changes in policy or regulations involving or affecting exchange controls, as well as factors such as:

currency fluctuations;

inflation;

interest rates;

liquidity of domestic capital and lending markets;

tax policies; and

other political, social and economic developments in or affecting Brazil.

At the end of 2002, Brazil elected a new president from the Labor Party, Luiz Inácio Lula da Silva. In the period leading up to his election and for a period of time thereafter, there was substantial uncertainty relating to the policies that the new government would pursue, including the potential implementation of macroeconomic policies that differed significantly from those of the prior administration. This uncertainty resulted in a lower level of confidence in the Brazilian securities markets, contributing to the rapid devaluation of the *real* against the U.S. dollar during that period. Although the Lula administration has not departed significantly from previous policies, and the *real* appreciated by 18.2% against the U.S. dollar during 2003, there remains concern about the policies of the Brazilian government. Uncertainty over whether current policies will be continued or whether the Brazilian government will adopt different policies in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad that are supported by Brazilian issuers.

Future developments in the Brazilian economy and governmental policies may adversely affect us and our business and results of operations and the market price of the ADSs and our common shares.

Exchange rate instability may adversely affect our financial condition and results of operations and the market price of the ADSs and our common shares.

The Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets.

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The *real* depreciated against the U.S. dollar by 9.3% in 2000 and by 18.7% in 2001. In 2002, the *real* depreciated 52.3% against the U.S. dollar, due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. Although the *real* appreciated 18.2% against the U.S. dollar in 2003, there can be no certainty that the *real* will not depreciate or be devalued against the U.S. dollar again. On September 21, 2004, the U.S. dollar/ *real* exchange rate was R\$2.8737 per US\$1.00. See Exchange Rates.

Depreciation of the *real* relative to the U.S. dollar increases the cost of servicing our dollar-denominated debt and the cost of purchasing electricity from the Itaipu power plant, a hydroelectric facility that is one of our major suppliers and that adjusts electricity prices based in part on its U.S. dollar costs. Depreciation of the *real* also creates additional inflationary pressures in Brazil that may negatively affect us. Depreciation generally curtails access to international capital markets and may prompt government intervention, including recessionary governmental policies. It also reduces the U.S. dollar value of distributions and dividends on the ADSs and the U.S. dollar equivalent of the market price of our common shares and, as a result, the ADSs.

Inflation and efforts by the Brazilian government to combat inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market price of the ADSs and our common shares.

Brazil has in the past experienced extremely high rates of inflation. More recently, Brazil's annual rate of inflation was 10.4% in 2001, 25.3% in 2002 and 8.7% in 2003 as measured by the General Market Price Index (*Índice Geral de Preços Mercado*), or IGP-M. Inflation, and certain government actions taken to combat inflation, have in the past had significant negative effects on the Brazilian economy. Measures to curb inflation, and speculation about possible future governmental measures, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets.

Future measures taken by the Brazilian government, including interest rate increases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation, and consequently, have adverse economic impacts on our business. If Brazil experiences high inflation in the future, we may not be able to adjust the rates we charge our customers to offset the effects of inflation on our cost structure. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm our business or adversely affect the market price of the ADSs and our common shares.

Restrictions on the movement of capital out of Brazil may impair our ability to service certain debt obligations and may adversely affect your ability to receive dividends and distributions on, and the proceeds of any sale of, the common shares underlying the ADSs.

Brazilian law permits the Brazilian government to impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance. The Brazilian government imposed remittance restrictions for approximately six months in 1989. There can be no certainty that the Brazilian government will not take similar measures in the future. Reimposition of such restrictions on conversion and remittance could hinder or prevent you from converting dividends, distributions or the proceeds from any sale of our common shares into U.S. dollars or other foreign currencies and remitting those funds abroad. It could also prevent us from making payments on our U.S. dollar-denominated debt obligations and hinder our ability to access the international capital markets. As a result, these restrictions could reduce the market price of the ADSs and our common shares.

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The perception of risk in other countries, especially emerging market countries, may adversely affect the market price of Brazilian securities, including the ADSs and our common shares.

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging market countries may hamper investor enthusiasm for securities of Brazilian issuers, including ours. This could adversely affect the market price of the ADSs or our common shares.

Access to international capital markets for Brazilian companies is influenced by the perception of risk in Brazil and other emerging economies, which may hurt our ability to finance our operations.

Economic and market conditions in other emerging market countries, especially those in Latin America, influence the market for securities issued by Brazilian companies. As a result of economic problems in various emerging market countries in recent years (such as the Asian financial crisis of 1997, the Russian financial crisis of 1998 and the Argentine financial crisis that began in 2001), investors have viewed investments in emerging markets with heightened caution. These crises produced a significant outflow of U.S. dollars from Brazil, causing Brazilian companies to face higher costs for raising funds, both domestically and abroad, and impeding access to international capital markets. There can be no certainty that international capital markets will remain open to Brazilian companies or that the costs of financing in these markets will be advantageous to us.

Risks Relating to Our Operations and the Brazilian Power Industry

We are subject to extensive governmental legislation and regulation and to major regulatory changes that are still being implemented by the Brazilian government, and we cannot be certain of their effect on our business and results of operations.

We are a major Brazilian power company that distributes electricity to customers in the Brazilian states of São Paulo and Rio Grande do Sul, and generates and commercializes electricity throughout Brazil. In recent years, the Brazilian government has implemented policies that have had a far-reaching impact on the Brazilian power industry and, in particular, the electricity industry. Law No. 10,848 for the New Electric Energy Industry Model Law (*Lei do Novo Modelo do Setor Elétrico*), or New Industry Model Law, which regulates the operations of companies in the power industry, was enacted on March 16, 2004. The New Industry Model Law remains subject to implementing resolutions of ANEEL, and it is currently being challenged as to its constitutionality before the Brazilian Supreme Court. The Brazilian government moved to dismiss the actions arguing that the constitutional challenges were moot because they related to a provisional measure that had already been converted into law. However, on August 4, 2004, the Brazilian Supreme Court denied the government's motion and decided to hear the actions and rule on their merits. In addition, one Justice held that a relevant portion of the New Industry Model Law was unconstitutional and another asked to review the trial records, thus suspending the hearing. A final decision on this matter is subject to majority vote of the 11 Justices, provided that a quorum of at least eight Justices must be present. To date, the Brazilian Supreme Court has not reached a final decision and, therefore, the New Industry Model Law is currently in force.

If all or a relevant portion of the New Industry Model Law is considered to be unconstitutional by the Brazilian Supreme Court, the regulatory scheme introduced by the New Industry Model Law may not come into effect, generating uncertainty as to how and when the Brazilian government will be able to introduce changes to the electricity sector. Reforms under the New Industry Model Law include: (1) the creation of a regulated market for the purchase and sale of electricity, whereby distributors must contract in advance, through public bids, for 100% of their forecasted electricity needs, (2) a prohibition from distributors carrying out any activities other than distribution activities, including generation or

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transmission of electricity, except as provided by law or the distributor's concession agreement, (3) a prohibition on the ability of distributors to meet part of their electricity needs by purchasing from affiliated companies and (4) a prohibition on distributors from selling electricity at non-regulated prices. The effect of these measures, the outcome of the legal proceedings and future reforms in the power industry are difficult to predict, but they could have an adverse impact on our business and results of operations. See The Brazilian Power Industry.

The tariffs that we charge for sales of electricity to captive consumers are determined pursuant to a concession agreement with the Brazilian government, and our operating revenues could be adversely affected if ANEEL makes decisions relating to our tariffs that are not favorable to us.

ANEEL has substantial discretion to establish the tariff rates we charge our customers. Our tariffs are determined pursuant to concession agreements with ANEEL, and in accordance with ANEEL's regulatory decision-making authority.

Our concession agreements and Brazilian law establish a price cap mechanism that permits three types of tariff adjustments: (1) the annual adjustment (*reajuste anual*), (2) the periodic revision (*revisão periódica*) and (3) the extraordinary revision (*revisão extraordinária*). We are entitled to apply each year for the annual adjustment, which is designed to offset some effects of inflation on tariffs and pass-through to customers certain changes in our cost structure that are beyond our control, such as the cost of electricity we purchase from certain sources and certain other regulatory charges, including charges for the use of transmission and distribution facilities. In addition, ANEEL carries out a periodic revision every four or five years that is aimed at identifying variations in our costs as well as setting a factor based on our operational efficiency that will be applied against the index of our ongoing annual tariff adjustments, the objective of which is to share any related gains with our customers. We are also entitled to request an extraordinary revision of our tariffs if unpredictable costs significantly alter our cost structure.

We cannot be sure if ANEEL will establish tariffs at rates that are favorable to us. In addition, to the extent that any of these adjustments are not granted by ANEEL in a timely manner, our financial condition and results of operations may be adversely affected. For more information on ANEEL, see The Brazilian Power Industry Principal Regulatory Authorities ANEEL.

We could be penalized by ANEEL for failing to comply with the terms of our concession agreements, which could result in fines, other penalties and, depending on the gravity of the non-compliance, in our concessions being terminated.

We carry out our generation and distribution activities pursuant to concession agreements entered into with the Brazilian government through ANEEL. These concessions range in duration from 30 to 35 years, with the first expiration date in 2027. ANEEL may impose penalties on us in the event that we fail to comply with any provision of our concession agreements. Depending on the gravity of the non-compliance, these penalties could include the following:

warning notices;

fines per breach of up to 2.0% of the concessionaire's revenues in the year ended immediately prior to the date of the relevant breach;

injunctions related to the construction of new facilities and equipment;

restrictions on the operation of existing facilities and equipment;

temporary suspension from participating in bidding processes for new concessions;

intervention by ANEEL in the management of the concessionaire in breach; and

termination of the concession.

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In addition, the Brazilian government has the power to terminate any of our concessions prior to the end of the concession term in the case of bankruptcy or dissolution, or by means of expropriation for reasons related to the public interest.

We are currently in compliance with all of the material terms of our concession agreements. However, we cannot assure you that we will not be penalized by ANEEL for breaching our concession agreements or that our concessions will not be terminated in the future. The compensation to which we are entitled upon termination of our concessions may not be sufficient for us to realize the full value of certain assets. If any of our concession agreements is terminated for reasons attributable to us, the effective amount of compensation by the granting authorities could be materially reduced through the imposition of fines or other penalties. Accordingly, the imposition of fines or penalties on us or the termination of any of our concessions could have a material adverse effect on our financial condition and results of operations.

We may not be able to fully pass on the costs of our electricity purchases and could be forced to enter into short-term agreements to meet customer demand, and the price of electricity under short-term purchase agreements may be substantially higher than the price of electricity under our long-term purchase agreements.

Under the New Industry Model Law, an electricity distributor must contract in advance, through public bids, for 100% of its forecasted electricity needs for its distribution concession areas. If our forecasted demand is incorrect and we purchase less or more electricity than we need, we may be prevented from fully passing on the costs of our electricity purchases. For instance, the New Industry Model Law provides, among other restrictions, that if our forecasts fall significantly short of actual electricity demand, we may be forced to make up the shortfall with shorter term electricity purchase agreements. If our acquisitions of electricity in the public auctions are above the Annual Reference Value (*Valor Anual de Referência*) established by the Brazilian government, we may not be able to fully pass on the costs of our electricity purchases. We cannot guarantee that our forecasted electricity demand will be accurate. If there are significant variations between our electricity needs and the volume of our electricity purchases, our results of operations may be adversely affected. See The Brazilian Power Industry The New Industry Model Law.

ANEEL may limit distributions that our regulated subsidiaries may make to us.

The amounts that our regulated subsidiaries may distribute to us in the form of dividends depend on such subsidiaries making a profit in any given fiscal year, and these profits are calculated in accordance with Law No. 6,404 of December 15, 1976, as amended and supplemented, or the Brazilian corporation law. Despite our subsidiaries generating a significant cash flow, our results are affected by the amortization of goodwill created upon the acquisition of such subsidiaries. As a result, this limitation may eventually prevent some portion of the cash generated by our regulated subsidiaries from being distributed to us to the extent that an eventual capital reduction that would enable our shareholders to receive distributions would be subject to previous approval by ANEEL. One of our distribution subsidiaries, RGE, is operated as a joint venture with PSEG Americas Ltd., or PSEG, and PSEG's consent would also be required for RGE to distribute dividends.

We generate a significant portion of our operating revenues from customers that qualify as potentially free consumers, and who are allowed to seek alternative electricity suppliers upon the expiration of their contracts with us or by providing at least one year prior notice if their contract with us is for an undetermined period of time.

We hold concessions to distribute electricity in 261 of the 645 municipalities in the state of São Paulo and 262 of the 497 municipalities in the state of Rio Grande do Sul. Within our concession areas we do not face competition in the distribution of low voltage electricity to residential, commercial and industrial customers. However, other electricity suppliers are now permitted to compete with us in offering electricity to certain consumers that qualify as potentially free consumers, to whom our distribution subsidiaries may supply electricity only at regulated tariffs. Potentially free consumers are those whose demand

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generally exceeds 3 MW, supplied with electricity at a voltage equal to or higher than 69 kV or at any other voltage, so long as the supply began by 1995. Such potentially free consumers may elect to opt out of our regulated distribution system upon the expiration of their contracts with us or by providing one year prior notice if their contract with us is valid for an undetermined period of time. At June 30, 2004, we supplied energy to 144 potentially free consumers, that accounted for approximately 6.8% of our gross operating revenues and approximately 16.3% of the total volume of electricity sold by our distributors during the first six months of 2004. In addition, customers that consume between 500 kW and 3 MW, as well as those with demand equal to or higher than 3 MW supplied with electricity at a voltage lower than 69 kV, to whom supply began before 1995, may become free consumers if they move to energy from renewable energy sources, such as Small Hydroelectric Power Plants or biomass. At June 30, 2004 we had a total of 1,335 of these customers that accounted for approximately 11.4% of our gross operating revenues and approximately 18.2% of the total volume of electricity sold by our distributors during the first six months of 2004. The New Industry Model Law and related regulations allow for an argument that consumers with demand equal to or higher than 3 MW supplied at any voltage may be entitled to choose their electricity supplier. A decision by our potentially free consumers to become free consumers and purchase electricity from electricity suppliers serving free consumers located in our concession areas could adversely affect our market share and results of operations.

Our operating results depend on prevailing hydrological conditions.

We are dependent on the prevailing hydrological conditions in the geographic region in which we operate. In 2003, according to data from the National System Operator (*Operador Nacional do Sistema*), or ONS, a non-profit, entity responsible for the operational management of the generation and transmission activities of an Interconnected Power System linking Argentina and Venezuela to Brazil, more than 92% of Brazil's electricity supply came from hydroelectric generation facilities and, during the first six months of 2004, more than 91% of Brazil's demand was met by electricity from hydroelectric generation facilities. Our region is subject to unpredictable hydrological conditions, with non-cyclical deviations from average rainfall. The most recent period of low rainfall was in the years prior to 2001, when the Brazilian government instituted the Rationing Program, the program to reduce electricity consumption from June 1, 2001 to February 28, 2002. A recurrence of low hydrological conditions that result in a low supply of electricity to the Brazilian market could cause, among other things, the implementation of broad electricity conservation programs, including mandated reductions in electricity consumption. We cannot assure you that periods of severe or sustained below-average rainfall will not adversely affect our future financial results.

Construction, expansion and operation of our electricity generation and distribution facilities and equipment involve significant risks that could lead to lost revenues or increased expenses.

The construction, expansion and operation of facilities and equipment for the generation and distribution of electricity involves many risks, including:

- the inability to obtain required governmental permits and approvals;
- the unavailability of equipment;
- supply interruptions;
- work stoppages;
- labor unrest;
- social unrest;
- weather and hydrological interferences;
- unforeseen engineering and environmental problems;
- increases in electricity losses, including technical and commercial losses;

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construction and operational delays, or unanticipated cost overruns; and

unavailability of adequate funding.

If we experience these or other problems, we may not be able to generate and distribute electricity in amounts consistent with our projections, which may have an adverse effect on our financial condition and results of operations. We do not have insurance for some of these risks, including certain weather risks and earthquakes.

Our equipment, facilities and operations are subject to numerous environmental and health regulations that may become more stringent in the future and may result in increased liabilities and increased capital expenditures.

Our distribution and generation activities are subject to comprehensive federal and state legislation as well as supervision by Brazilian governmental agencies that are responsible for the implementation of environmental and health laws and policies. These agencies could take enforcement action against us for our failure to comply with their regulations. These actions could include, among other things, the imposition of fines and revocation of licenses. It is possible that enhanced environmental and health regulations will force us to allocate capital expenditures towards compliance, and consequently, divert funds away from planned investments. Such a diversion could have a material adverse effect on our financial condition and results of operations.

If we are unable to complete our proposed capital expenditure program in a timely manner, the operation and development of our business may be adversely affected.

We plan to spend approximately R\$1,630 million during the period from 2004 through 2008 on the construction of new power generation facilities and the maintenance of our existing power generation facilities. Our ability to carry out this capital expenditure program depends on a variety of factors, including our ability to charge adequate tariffs for our services, our access to domestic and international capital markets and a variety of operating, regulatory and other contingencies. We cannot be certain that we will have the financial resources to complete our proposed capital expenditure program, and failure to do so could have a material adverse effect on the operation and development of our business.

We are strictly liable for any damages resulting from inadequate rendering of electricity services, and our contracted insurance policies may not fully cover such damages.

Under Brazilian law we are strictly liable for direct and indirect damages resulting from the inadequate rendering of electricity distribution services. In addition, our distribution facilities may, together with our generation utilities, be held liable for damages caused to others as a result of interruptions or disturbances arising from the generation, transmission or distribution systems, whenever these interruptions or disturbances are not attributed to an identifiable member of the ONS.

The impact of an electricity shortage and related electricity rationing, as in 2001 and 2002, may have a material adverse effect on our business and results of operations.

Hydroelectric power is the major source of electricity for Brazil, representing approximately 78% of Brazil's installed generation capacity in 2003. Below average rainfall in the years prior to 2001 resulted in low reservoir levels and low hydroelectric capacity in the southeast, central west and northeast regions. Attempts to offset dependence on hydroelectric plants with gas-fired thermal generation plants have been delayed due to regulatory and other issues. In response to the energy shortage, on May 15, 2001, the Brazilian government created the Electricity Crisis Management Chamber (*Câmara de Gestão da Crise de Energia Elétrica*) or GCE to regulate and administer the program for reduction of energy consumption to avoid the interruption of electricity supply. This program, known as the Rationing Program, established limits for energy consumption for industrial, commercial and residential consumers, which ranged from a 15% to a 25% reduction in energy consumption, and lasted from June 2001 until February 2002. If Brazil

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experiences another electricity shortage, the Brazilian government may implement policies to address the shortage which could have a material adverse effect on our financial condition and results of operations.

We are controlled by a few shareholders that act in concert to control us and our subsidiaries, and their interests could conflict with yours.

As of the date of this prospectus, VBC, 521 and Bonaire owned 44.36%, 36.96% and 15.25%, respectively, of our outstanding common shares. These entities are parties to a shareholders' agreement, dated as of March 22, 2002, pursuant to which they share the power to control our operations. The initial term of the shareholders' agreement is for 25 years. Our controlling shareholders may take actions that could be contrary to your interests, and our controlling shareholders will be able to prevent other shareholders, including you, from blocking these actions. In particular, our controlling shareholders control the outcome of decisions at shareholders' meetings, and they can elect a majority of the members of our board of directors. Our controlling shareholders can direct the actions of CPFL in areas such as business strategy, financing, distributions, acquisitions and dispositions of assets or businesses. Their decisions on these matters may be contrary to the expectations or preferences of our minority shareholders, including holders of our ADSs. See Principal and Selling Shareholders' Shareholders' Agreement.

We are exposed to increases in prevailing market interest rates, as well as foreign exchange rate risk.

As of June 30, 2004, approximately 82.8% of our total indebtedness was denominated in *reais* and indexed to Brazilian money-market rates or inflation rates, or bore interest at floating rates. The remaining 17.2% of our total indebtedness was denominated in U.S. dollars and substantially subject to currency swaps that effectively converted these obligations into *reais*. Accordingly, if these indexation rates rise or the U.S. dollar/*real* exchange rate appreciates, our financing expenses will increase.

Our substantial leverage and debt service obligations could adversely affect our ability to operate our business and make payments on our debt.

We are highly leveraged and have significant debt service obligations. As of June 30, 2004, we had debt of R\$5,528 million. Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay when due the principal, interest or other amounts due in respect of our indebtedness. In addition, we may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions applicable to our existing indebtedness. If we incur additional debt, the risks associated with our substantial leverage, including our ability to service our debt, would increase.

We may acquire other companies in the electricity business, as we have in the past, and these acquisitions will absorb our management's time and may not result in increased operational efficiency.

We regularly analyze opportunities to acquire other companies, if they are available at attractive prices, which engage in activities along the entire electricity generation, transmission and distribution chain. If we do acquire other electricity companies, it will consume a portion of our management's focus and could increase our leverage or reduce our profitability. Furthermore, we may not be able to integrate the acquired company's activities and achieve the economies of scale and expected efficiency gains that often drive such acquisitions, and failure to do so could harm our financial condition and results of operations.

If we are unable to successfully control electricity losses, our results of operations could be adversely affected.

We experience two types of electricity losses: technical losses and commercial losses. Technical losses are losses that occur in the ordinary course of our distribution of electricity. Commercial losses are losses that result from illegal connections, fraud and underbilling. Our total electricity losses in 2003 were 8.7% at Paulista, 6.7% at Piratininga and 10.0% at RGE, in each case, of total electricity distributed. We cannot

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assure you that the strategies we have used will be effective in combating electricity losses. An increase in electricity losses could adversely affect our financial condition and results of operations.

Risks Relating to the ADSs and Our Common Shares

You may not be able to sell the ADSs or our common shares at the price or time you desire because an active or liquid market for the ADSs or our common shares may not develop.

Prior to this offering and the Brazilian offering, there has not been a public market for either the ADSs or our common shares. We have applied to list the ADSs on the NYSE and our common shares on the BOVESPA. We cannot predict, however, whether an active liquid public trading market, or any market, for the ADSs or our common shares will develop or be sustained. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Liquidity of a securities market is often affected by the volume of shares that are publicly held by unrelated parties.

The relative volatility and illiquidity of the BOVESPA may substantially limit your ability to sell the common shares underlying the ADSs at the price and time you desire.

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The BOVESPA is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, your ability to sell the common shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the BOVESPA than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented 56.3% of the aggregate market capitalization of the BOVESPA as of December 31, 2003, as compared to just 19.0% of the aggregate market capitalization of the NYSE. The top ten stocks in terms of trading volume accounted for 56.5% and 53.5% of all shares traded on the BOVESPA in 2002 and 2003, respectively.

Holders of the ADSs and our common shares may not receive any dividends.

According to Brazilian corporation law and our by-laws, we must generally pay our shareholders at least 25% of our annual net income, as determined and adjusted under the Brazilian corporation law, as dividends. See "Dividends and Dividend Policy." This adjusted income may be capitalized, used to absorb losses or otherwise appropriated as allowed under the Brazilian corporation law and may not be available to be paid as dividends. We may elect not to pay dividends to our shareholders in any particular fiscal year if our board of directors determines that such distributions would be inadvisable in view of our financial condition.

Holders of our ADSs may encounter difficulties in the exercise of voting rights.

Holders of our common shares are entitled to vote on shareholder matters. You may encounter difficulties in the exercise of some of your rights as a shareholder if you hold our ADSs rather than the underlying common shares. For example, you are not entitled to attend a shareholders meeting, and you can only vote by giving timely instructions to the depositary in advance of the meeting.

If you surrender your ADSs and withdraw common shares, you risk losing the ability to remit foreign currency abroad and certain Brazilian tax advantages.

As an ADS holder, you will benefit from the electronic certificate of foreign capital registration to be obtained by the custodian for our common shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the common shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw common

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shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the common shares, you will not be able to remit abroad non-Brazilian currency unless you obtain your own electronic certificate of foreign capital registration or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration. If you do not qualify under the foreign investment regulations you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, the common shares.

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our common shares or the return of your capital in a timely manner. The depositary's electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

You will likely suffer dilution in the book value of your investment.

The initial public offering price per ADS is expected to exceed the net book value of the equivalent number of our common shares after this offering and the Brazilian offering. Accordingly, investors purchasing the ADSs or our common shares in this offering or the Brazilian offering will likely suffer immediate and substantial net book value dilution. Based on (1) an assumed initial public offering price of US\$18.95 per ADS, the midpoint of the price range per ADS set forth on the cover of this prospectus, (2) an assumed initial public offering price of R\$18.50 per common share, the midpoint of the price range per common share in the Brazilian offering, and (3) our net book value as of June 30, 2004, the amount of such dilution would be US\$10.12 per ADS or R\$10.48 per common share (using the commercial selling rate reported by the Central Bank on June 30, 2004 of R\$3.108 to US\$1.00 as the applicable exchange rate). In addition, to the extent that outstanding and future options to purchase the ADSs or our common shares are exercised, including the IFC subscription option, there may be additional dilution.

The protections afforded to minority shareholders in Brazil are different from those in the United States, and may be more difficult to enforce.

Under Brazilian law, the protections afforded to minority shareholders are different from those in the United States. In particular, the legal framework with respect to shareholder disputes is less developed under Brazilian law than U.S. law and there are different procedural requirements for bringing shareholder lawsuits, such as shareholder derivative suits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholders than it would be for shareholders of a U.S. company.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the ADSs.

According to Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. If the disposition of assets is interpreted to include a disposition of the ADSs, this tax law could result in the imposition of withholding taxes on a disposition of the ADSs by a non-resident of Brazil to another non-resident of Brazil. Because Law No. 10,833 has been recently enacted and no judicial guidance as to its application yet exists, we are unable to predict whether an interpretation applying such tax laws to dispositions of the ADSs between non-residents could ultimately prevail in the courts of Brazil.

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Substantial sales of the ADSs or our common shares after this offering could cause the price of the ADSs or our common shares to decrease.

We and the selling shareholders have agreed that, subject to certain exceptions, we and they will not issue or transfer, until 180 days after the date of this prospectus any ADSs or our common shares or any options or warrants to purchase the ADSs or our common shares, or any securities convertible into, or exchangeable for, or that represent the right to receive, ADSs or our common shares. After these lock-up agreements expire, their ADSs and common shares will be eligible for sale in the public market. The market price of the ADSs and our common shares could drop significantly if the holders of the ADSs or our common shares sell them or the market perceives that they intend to sell them.

Holders of ADSs may be unable to exercise preemptive rights with respect to our common shares.

We may not be able to offer our common shares to U.S. holders of ADSs pursuant to preemptive rights granted to holders of our common shares in connection with any future issuance of our common shares unless a registration statement under the U.S. Securities Act of 1933, or the Securities Act, is effective with respect to such common shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to our common shares, and we cannot assure you that we will file any such registration statement. If such a registration statement is not filed and an exemption from registration does not exist, The Bank of New York, as depositary, will attempt to sell the preemptive rights, and you will be entitled to receive the net proceeds of such sale. However, these preemptive rights will expire if the depositary does not sell them, and U.S. holders of ADSs will not realize any value from the granting of such preemptive rights.

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USE OF PROCEEDS

Based on an assumed initial public offering price of US\$18.95 per ADS, which is the midpoint of the price range per ADS set forth on the cover of this prospectus, and on an assumed initial public offering price of R\$18.50 per common share, which is the midpoint of the price range per common share in the Brazilian offering, we will receive total estimated net proceeds of approximately US\$236.7 million, or R\$680.2 million. The total estimated net proceeds includes approximately R\$ million from the sale of our common shares in the Brazilian offering, or R\$ million if the Brazilian underwriter exercises its overallotment option in full, and approximately US\$ million from the sale of our ADSs in this offering, or US\$ million if the international underwriters exercise their overallotment option in full, in each case, after deducting estimated underwriting discounts and commissions and expenses of the offerings that are payable by us. Each ADS represents three common shares. We intend to use the net proceeds from this offering and the Brazilian offering primarily to fund investments of approximately R\$350 million (US\$120 million) in our Foz do Chapecó and CERAN generation projects and the upgrade of our small hydroelectric power plants. The remainder of the funds are intended for general corporate purposes, including future expansion projects and potential future acquisitions. We will not receive any proceeds from the sale of our common shares and ADSs by the selling shareholders.

The exchange rate used to translate *real* amounts into U.S. dollars, and vice versa, in the preceding paragraph was the commercial selling rate reported by the Central Bank on September 21, 2004 of R\$2.8737 to US\$1.00.

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There are two principal legal foreign exchange markets in Brazil:

the commercial rate exchange market; and

the floating rate exchange market.

Most trade and financial foreign-exchange transactions are carried out on the commercial rate exchange market. These transactions include the purchase or sale of shares or payment of dividends or interest with respect to shares. Foreign currencies may only be purchased in the commercial exchange market through a Brazilian bank authorized to operate in these markets. In both markets, rates are freely negotiated but may be influenced by Central Bank intervention.

In 1999, the Central Bank placed the commercial exchange rate and the floating rate exchange market under identical operational limits, which led to a convergence in the pricing and liquidity of both markets. Since February 1, 1999, the floating market rate has been substantially the same as the commercial market rate, and the system relying on the foreign exchange rate band has been eliminated. However, there is no guarantee that these rates will continue to be substantially the same in the future. Despite the convergence in pricing and liquidity of both markets, each market continues to be regulated separately.

Since 1999, the Central Bank has allowed the *real* U.S. dollar exchange rate to float freely, and during that period, the *real* U.S. dollar exchange rate has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future. For more information on these risks, see Risk Factors Risks Relating to Brazil.

The following table sets forth the commercial selling rate, expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated.

	Period-end	Average for Period	Low	High
	(reais per U.S. dollar)			
Year Ended:				
December 31, 1999	1.789	1.851(1)	1.208	2.165
December 31, 2000	1.955	1.835(1)	1.723	1.985
December 31, 2001	2.320	2.353(1)	1.936	2.801
December 31, 2002	3.533	2.998(1)	2.271	3.955
December 31, 2003	2.889	3.060(1)	2.822	3.662
Month:				
March 2004	2.909	2.908(2)	2.875	2.941
April 2004	2.945	2.913(2)	2.874	2.952
May 2004	3.129	3.081(2)	2.957	3.205
June 2004	3.108	3.134(2)	3.103	3.165
July 2004	3.027	3.034(2)	2.994	3.075
August 2004	2.934	2.999(2)	2.934	3.064
September (through September 21)	2.874	2.902(2)	2.868	2.936

Source: Central Bank

(1) Represents the average of the exchange rates on the last day of each month during the period.

(2) Average of the lowest and highest rates in the month.

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MARKET INFORMATION

Market Price of Our Shares

Prior to this offering, there has been no public market for the ADSs or our common shares. We have applied to list the common shares on the BOVESPA and the ADSs on the NYSE. We cannot assure you that an active trading market will develop for the ADSs or our common shares, or that the ADSs or our common shares will trade in the public market subsequent to the offering at or above the initial public offering price. Each ADS will represent three common shares.

Trading on the BOVESPA

The BOVESPA is a nonprofit entity owned by its member brokerage firms. Trading on the BOVESPA is limited to member brokerage firms and a limited number of authorized nonmembers. The BOVESPA has two open outcry trading sessions each day from 11:00 a.m. to 1:30 p.m. and from 2:30 p.m. to 5:45 p.m., São Paulo time, except during daylight savings time in the United States. During daylight savings time in the United States, the sessions are from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 4:45 p.m., São Paulo time, to closely mirror trading hours. Trading is also conducted between 11:00 a.m. and 6:00 p.m., or between 10:00 a.m. and 5:00 p.m. during daylight savings time in the United States, on an automated system known as the Computer Assisted Trading System (*Sistema de Negociação Assistida por Computador*) on the BOVESPA and on the National Electronic Trading System (*Sistema Eletrônico de Negociação Nacional*). This system is a computerized system that links electronically with the seven smaller regional exchanges. The BOVESPA also permits trading from 5:45 p.m. to 7:00 p.m. on an online system connected to traditional and internet brokers called the after market. Trading on the after market is subject to regulatory limits on price volatility and on the volume of shares transacted through internet brokers. There are no specialists or officially recognized market makers for our shares in Brazil.

When shareholders trade in common or preferred shares on the BOVESPA, the trade is settled in three business days after the trade date without adjustment of the purchase price for inflation. The seller is generally required to deliver the shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, *Companhia Brasileira de Liquidação e Custódia*, or CBLC.

In order to better control volatility, the BOVESPA adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of the BOVESPA falls below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session.

The BOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. As of December 31, 2003, the aggregate market capitalization of the 366 companies listed on the BOVESPA was equivalent to R\$582.2 billion (US\$201.8 billion) and the 10 largest companies listed on the BOVESPA represented 56.3% of the total market capitalization of all listed companies. In contrast, as of December 31, 2003, the aggregate market capitalization of the 2,750 companies listed on the NYSE was approximately US\$12.2 trillion and the 10 largest companies listed on the NYSE represented approximately 19.0% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may trade on the BOVESPA, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by government entities or by one principal shareholder. See Risk Factors Risks Relating to the ADSs and Our Common Shares. The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the common shares underlying the ADSs at the time and price you desire.

Trading on the BOVESPA by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes, a non-Brazilian holder, is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on Brazilian stock

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exchanges in accordance with the requirements of Resolution No. 2,689, of January 26, 2000, of the National Monetary Council (*Conselho Monetário Nacional*, or CMN), or Resolution No. 2,689. Resolution No. 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions and be registered with a clearinghouse. Such financial institutions and clearinghouses must be duly authorized to act as such by the Central Bank and the CVM. In addition, Resolution No. 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock exchanges or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through a private transaction. See *Taxation Brazilian Tax Considerations Taxation of Gains* for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution No. 2,689.

Corporate Governance Practices and Novo Mercado

In 2000, the BOVESPA introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and the New Market (*Novo Mercado*), aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the BOVESPA, by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

To become a Level 1 (*Nível 1*) company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (1) ensure that shares of the issuer representing 25% of its total capital are effectively available for trading; (2) adopt offering procedures that favor widespread ownership of shares whenever making a public offering; (3) comply with minimum quarterly disclosure standards; (4) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers involving securities issued by the issuer; (5) disclose any existing shareholders' agreements and stock option plans; and (6) make a schedule of corporate events available to shareholders.

To become a Level 2 (*Nível 2*) company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (1) comply with all of the listing requirements for Level 1 companies; (2) grant tag-along rights for all shareholders in connection with a transfer of control of the company, offering the same price paid per share of controlling block for each common share and 70% of the price paid per share of controlling block for each preferred share; (3) grant voting rights to holders of preferred shares in connection with certain corporate restructurings and related party transactions, such as (a) any transformation of the company into another corporate form; (b) any merger, consolidation or spin-off of the company; (c) approval of any transactions between the company and its controlling shareholder or parties related to the controlling shareholder; (d) approval of any valuation of assets to be delivered to the company in payment for shares issued in a capital increase; (e) appointment of an expert to ascertain the fair value of the company in connection with any deregistration and delisting tender offer; and (f) any changes to these voting rights; (4) limit the term of all members of the board of directors to one year; (5) prepare annual financial statements, including cash flow statements, in accordance with U.S. GAAP or International Accounting Standards; (6) if it elects to delist from the Level 2 segment, hold a tender offer by the company's controlling shareholder (the minimum price of the shares to be offered will be determined by an appraisal process); and (7) adhere exclusively to the BOVESPA Arbitration Chamber for resolution of disputes between the company and its investors.

To be listed in the *Novo Mercado*, an issuer must meet all of the requirements described above, in addition to (1) issuing only common shares; (2) granting tag-along rights for all shareholders in connection with a transfer of control of the company, offering the same price paid per share of controlling block for each common share; and (3) preparing quarterly financial statements, including cash flow statements, in accordance with or reconciled to U.S. GAAP or International Accounting Standards.

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In order to maintain high standards of corporate governance, we will enter into an agreement with the BOVESPA to comply with the requirements for listing on the *Novo Mercado*.

Regulation of the Brazilian Securities Market

The Brazilian securities markets are regulated by the CVM, which has regulatory authority over the stock exchanges and securities markets, as well as by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities markets are governed by Law No. 10,198 dated February 14, 2001, Law No. 10,303 dated October 31, 2001, and Law No. 10,411 dated February 26, 2002, which introduced new concepts and several changes to Law No. 6,385 dated December 7, 1976, as amended and supplemented, the principal law governing the Brazilian securities markets, as well as the Brazilian corporation law and by regulations issued by the CVM, the CMN and the Central Bank. These laws and regulations, among others, provide for disclosure requirements applicable to issuers of traded securities, criminal sanctions for insider trading and price manipulation, and protection of minority shareholders. They also provide for licensing and oversight of brokerage firms and governance of Brazilian stock exchanges. However, the Brazilian securities markets are not as highly regulated and supervised as U.S. securities markets.

Under the Brazilian corporation law, a company is either publicly held and listed, a *companhia aberta*, or privately held and unlisted, a *companhia fechada*. All listed companies are registered with the CVM and are subject to reporting and regulatory requirements. A company registered with the CVM may trade its securities either on the BOVESPA or in the Brazilian over-the-counter market. Shares of companies listed on the BOVESPA may not simultaneously trade on the Brazilian over-the-counter market. The shares of a listed company may also be traded privately, subject to several limitations. To be listed on the BOVESPA, a company must apply for registration with the BOVESPA and the CVM.

The trading of securities of a listed company on the BOVESPA may be halted at the request of such company in anticipation of a material announcement, and companies are sometimes required by law to request such suspension. Trading may also be suspended on the initiative of the BOVESPA or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a significant event or has provided inadequate responses to inquiries by the CVM or the BOVESPA.

Trading on the BOVESPA by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for the common shares underlying the ADSs must, on behalf of the depositary for the ADSs, obtain registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds therefrom. If you exchange your ADSs for common shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for five business days after the exchange. Thereafter, you may not be able to obtain and remit abroad non-Brazilian currency upon the disposition of or distributions relating to the common shares, and will be subject to a less favorable tax treatment on gains with respect to the common shares, unless you obtain a new electronic certificate of foreign capital registration or qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on the BOVESPA without obtaining separate electronic certificates of foreign capital registration.

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The following table sets forth our current debt, long-term debt and total capitalization at June 30, 2004 on an actual basis and as adjusted to reflect the issuance and sale of 39,579,729 common shares, including common shares in the form of ADSs, in this offering and the Brazilian offering. The adjustments are based on an assumed initial public offering price of US\$18.95 per ADS, which is the midpoint of the price range per ADS set forth on the cover of this prospectus, and on an assumed initial public offering price of R\$18.50 per common share, which is the midpoint of the price range per common share in the Brazilian offering. Based on these assumed offering prices, we will receive total estimated net proceeds of approximately US\$236.7 million, or R\$680.2 million (using the commercial selling rate reported by the Central Bank on September 21, 2004 of R\$2.8737 to US\$1.00 as the applicable exchange rate). The total estimated net proceeds includes approximately R\$ million from the sale of our common shares in the Brazilian offering, or R\$ million if the Brazilian underwriter holding the overallotment option exercises it in full, and approximately US\$ million from the sale of our ADSs in this offering, or US\$ million if the international underwriters exercise their overallotment option in full, in each case, after deducting estimated underwriting discounts and commissions and expenses of the offerings that are payable by us. We will not receive any proceeds from the sale of our common shares and ADSs by the selling shareholders. There has been no material change in our capitalization since June 30, 2004, except for a 1-for-10 reverse stock split on August 13, 2004, which reduced the aggregate number of our outstanding shares to 411,869,796, a US\$40.4 million loan contracted by us with Banco ABC Brasil S.A. on August 4, 2004, and except as reflected in the following table. You should read this table in conjunction with the information under Presentation of Financial Information, Selected Financial and Operating Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited interim consolidated financial statements and the related notes included elsewhere in this prospectus.

Solely for the convenience of the reader, *real* amounts as of June 30, 2004 have been translated into U.S. dollars at the commercial market rate as reported by the Central Bank on June 30, 2004 of R\$3.108 to US\$1.00. The commercial market rate as reported by the Central Bank on September 21, 2004 was R\$2.8737 to US\$1.00. The U.S. dollar equivalent information should not be construed to imply that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

At June 30, 2004				
	Actual	As Adjusted	Actual	As Adjusted
	(In millions)			
Current				
Loans and financing	R\$ 942	R\$ 942	US\$ 303	US\$ 303
Debentures	251	251	81	81
Accrued interest	133	133	43	43
Swap transactions				
Total current debt	1,326	1,326	427	427
Long-term debt:				
Loans and financing	2,269	2,269	730	730
Debentures	2,067	2,067	665	665
Swap transactions	3	3	1	1
Total long-term debt	4,339	4,339	1,396	1,396
Shareholders' equity:				
Common stock	3,397	4,133	1,093	1,330
Accumulated deficit	(3)	(3)	(1)	(1)
Total shareholders' equity	3,394	4,130	1,092	1,329
Total capitalization(1)	R\$ 7,733	R\$ 8,469	US\$ 2,488	US\$ 2,725

(1) Total capitalization includes total long-term debt plus shareholders' equity.

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At June 30, 2004, we had a net book value of R\$8.24 per common share or US\$7.95 per ADS. Net book value represents the amount of our total assets less total liabilities, divided by 411,869,796, the total number of our common shares at June 30, 2004 that would have been outstanding on such date after giving effect to the 1-for-10 reverse stock split that occurred on August 13, 2004. After giving effect to the sale by us of 39,579,729 common shares (some of which will be in the form of ADSs offered by us in this offering and some in the form of common shares offered by us in the Brazilian offering, and assuming the international underwriters' and the Brazilian underwriter's overallotment options are not exercised) after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our net book value estimated at June 30, 2004 would have been approximately R\$9.15 per common share or US\$8.83 per ADS based on an assumed initial public offering price of US\$18.95 per ADS, which is the midpoint of the price range per ADS set forth on the cover of this prospectus, and an assumed initial public offering price of R\$18.50 per common share, which is the midpoint of the price range per common share in the Brazilian offering. This represents an immediate increase in net book value of R\$0.90 per common share or US\$0.88 per ADS to existing shareholders and an immediate dilution in net book value of US\$10.12 per ADS to purchasers of ADSs in this offering. Dilution for this purpose represents the difference between the price per ADS paid by these purchasers and net book value per ADS immediately after the completion of the offerings.

The following table illustrates this dilution of US\$10.12 per ADS to purchasers of ADSs in this offering:

Assumed initial public offering price per ADS	US\$ 18.95
Net book value per ADS at June 30, 2004 (after giving effect to the 1-for-10 reverse stock split that occurred on August 13, 2004)	7.95
Increase in net book value per ADS attributable to new investors	.88
	<hr/>
Pro forma net book value per ADS after this offering and the Brazilian offering	8.83
	<hr/>
Dilution per ADS to new investors	US\$ 10.12
	<hr/>

The exchange rate used to translate *real* amounts into U.S. dollars and U.S. dollar amounts into *reais* in this section was the commercial selling rate reported by the Central Bank on June 30, 2004 of R\$3.108 to US\$1.00.

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PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial statements as of December 31, 2003 and 2002 and for the three years in the period ended December 31, 2003 and the unaudited interim consolidated financial statements as of June 30, 2004 and for the six months ended June 30, 2004 and 2003, as included in this prospectus have been prepared in accordance with Brazilian Accounting Principles, which differ in certain respects from U.S. GAAP. Note 30 to our audited consolidated financial statements provides a description of the principal differences between Brazilian Accounting Principles and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity.

We have translated some of the *real* amounts contained in this prospectus into U.S. dollars. Except as otherwise specified, the rate used to translate such amounts was R\$3.108 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of June 30, 2004 as reported by the Central Bank. The U.S. dollar equivalent information presented in this prospectus is provided solely for convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate. See *Exchange Rates* for more detailed information regarding the conversion of *reais* into U.S. dollars.

Certain figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not sum due to rounding.

Combined Presentation for Periods Prior to our 2002 Restructuring

In August 2002, we completed a transaction, which we refer to as the *restructuring*, in which we acquired our current interests in our principal subsidiaries from our controlling shareholders. Before then, our principal shareholders separately held direct and indirect interests in Paulista (and, through Paulista, Piratininga and RGE) and Geração. In December 1999 and October 2001, our principal shareholders executed shareholders' agreements to formally establish joint control over Paulista and Geração, respectively. In March 2002, our principal shareholders executed a shareholders' agreement to establish joint control over us. For all periods prior to the restructuring, CPFL, Paulista and Geração were under common management. In August 2002, our shareholders contributed to us their interests in Paulista and Geração, which we consider to be our predecessor entities.

Our audited consolidated financial statements are presented on a combined basis for periods prior to the restructuring. This means that we included Paulista and Geração in our financial statements for 2002 and prior periods, because they were already under common management with us in those periods. For simplicity of presentation, throughout this prospectus we refer to information for all periods and dates as consolidated.

Proportionate Consolidation of Certain Subsidiaries

We own 67.07% of the shares of RGE, one of our principal distribution subsidiaries, and PSEG owns approximately one-third of the total shares, with minority shareholders holding less than 1.0%. Under our shareholders' agreement with PSEG, RGE is effectively under joint control since certain corporate decisions require a unanimous vote that prevents either us or PSEG from acting unilaterally. Those decisions include, among others, the distribution of dividends, electing members of the board of directors, any form of capital restructuring and capital reductions and increasing pre-approved authorized capital. Under Brazilian Accounting Principles, we account for RGE using proportionate consolidation, which means that, after eliminating intercompany transactions, we include in our financial statements 67.07% of each item in the financial statements of RGE.

Under U.S. GAAP, we would be required to account for RGE on the equity method, which means that, after eliminating intercompany transactions, we would generally present 67.07% of its net income on a single line of our statement of operations and 67.07% of its shareholders' equity on a single line of our balance sheet. The difference in presentation would not affect our net income or shareholders' equity. See Note 30 to our audited consolidated financial statements. We would, however, present lower

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revenues, operating income and cash flows if we accounted for RGE on the equity method under Brazilian Accounting Principles.

We acquired our interest in RGE in July 2001. Under Brazilian Accounting Principles, the acquisition was accounted for at book value, and the difference between the book value of RGE's net assets and the purchase price was recorded as goodwill. Under U.S. GAAP, the acquisition was accounted for as a purchase. We have included in this prospectus separate financial statements for RGE, including the audited financial statements as of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001.

We also account for four of our generation facilities currently under construction that are owned by our subsidiaries using proportionate consolidation. The ownership interests in these subsidiaries included, as of December 31, 2003, 65.0% of Companhia Energética Rio das Antas, or CERAN, an indirect stake of 40% in Consórcio Foz do Chapecó, or Foz do Chapecó, 48.72% of Campos Novos Energia, or ENERCAN, and 25.01% of Energética Barra Grande, or BAESA. See Note 2 to our audited consolidated financial statements.

Acquisition of Piratininga in 2001

Through September 2001, our subsidiary Paulista had a 42.44% interest in Bandeirante Energia S.A., or Bandeirante. In a series of transactions in 2001, Bandeirante was divided into two companies – Bandeirante and Piratininga – and, after an exchange of shares, Paulista owned a 96.48% interest in Piratininga. In August 2002 we increased our equity stake in Piratininga to 97.41%. As a result, our audited consolidated financial statements reflect full consolidation of Piratininga beginning in October 2001, and prior to that date they reflect proportionate consolidation of Bandeirante. As with RGE, the acquisition of Piratininga was accounted for at book value under Brazilian Accounting Principles and as a purchase under U.S. GAAP. See Note 30 to our audited consolidated financial statements.

Acquisition of Semesa in 2001

On December 26, 2001, we purchased a 100% stake in Semesa S.A., or Semesa, from VBC, one of our controlling shareholders. The principal asset of Semesa is the Serra da Mesa power plant, located on the Tocantins river in the state of Goiás with an installed capacity of 1,275 MW. We have the right to purchase 51.54% of the Assured Energy of Semesa. ANEEL approved the transfer of Semesa to us on December 21, 2001. As a result, our audited consolidated financial statements reflect full consolidation of Semesa beginning in December 2001. As with RGE and Piratininga, the acquisition of Semesa was accounted for at book value under Brazilian Accounting Principles and as a purchase under U.S. GAAP. See Note 30 to our audited consolidated financial statements.

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SELECTED FINANCIAL AND OPERATING DATA

The following table presents our selected historical financial and operating data. You should read the following information in conjunction with our audited and unaudited interim consolidated financial statements and related notes, and the information under Presentation of Financial Information and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

The financial data at December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The financial data as of June 30, 2004 and for the six months ended June 30, 2004 and 2003 are derived from the unaudited interim consolidated financial statements also included elsewhere in this prospectus. The financial data for the six months ended and as of June 30, 2004 are not necessarily indicative of the results of operations that you should expect for our entire fiscal year ended December 31, 2004. The financial information included in this prospectus has been presented in accordance with Brazilian Accounting Principles, which differ in certain respects from U.S. GAAP. Note 30 to our audited consolidated financial statements provides a description of the principal differences between Brazilian Accounting Principles and U.S. GAAP, as they relate to us, and a reconciliation to U.S. GAAP of net income (loss) and shareholders' equity.

Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2003 and as of and for the six months ended June 30, 2004 have been translated into U.S. dollars at the commercial market rate as reported by the Central Bank on June 30, 2004 of R\$3.108 to US\$1.00. The commercial market rate as reported by the Central Bank on September 21, 2004 was R\$2.8737 to US\$1.00. The U.S. dollar equivalent information should not be construed to imply that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

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	For the Six Months Ended June 30,			For the Year Ended December 31,					
	2004	2004	2003	2003	2003	2002	2001	2000	1999
(In millions, except per share and per ADS data)									
Brazilian Accounting Principles									
Operating revenues	US\$ 1,492	R\$ 4,637	R\$ 3,765	US\$ 2,601	R\$ 8,082	R\$ 6,823	R\$ 5,953	R\$ 3,604	R\$ 2,928
Net operating revenues	1,114	3,461	2,829	1,949	6,057	5,264	4,842	2,785	2,242
Operating costs:									
Electricity purchased for resale	537	1,670	1,421	972	3,020	2,557	2,314	1,260	1,089
Electricity network usage charges	100	311	210	144	446	314	386	181	94
Personnel	32	98	92	54	169	162	154	175	133
Pension	28	87	102	27	84	129	114	6	11
Materials	5	17	9	7	22	22	31	16	14
Outside services	13	40	41	27	84	87	48	31	28
Depreciation and amortization	42	129	128	82	256	223	201	145	131
Fuel usage and energy development quotas	70	218	161	109	339	292	290	138	80
Services provided by third parties				2	5	3	4	3	1
Other	1	4	5	3	10	10	18	23	10
	828	2,574	2,170	1,428	4,436	3,796	3,562	1,978	1,591
Operating expenses:									
Sales and marketing	27	84	62	48	148	176	133	100	99
General and administrative	43	133	122	90	279	282	205	162	136
Amortization of goodwill	22	69	264	171	532	528	407	323	99
Other	4	11	13	6	20	16	10	15	36
	95	296	461	315	980	1,001	755	600	370
Operating income	190	590	198	207	642	466	525	207	281
Financial expense, net	(99)	(309)	(506)	(264)	(821)	(1,301)	(594)	(312)	(260)
Nonoperating income (expense), net	(2)	(5)	14	14	44	10	(29)	(5)	(86)
Income and social contribution taxes	(39)	(120)	(14)	(36)	(111)	88	(123)	(46)	(40)
Net income (loss) before extraordinary item and minority interest	50	156	(308)	(79)	(247)	(736)	(221)	(156)	(105)
Extraordinary item, net of taxes(1)	(5)	(16)	(16)	(11)	(34)	(34)			
Minority interest	(3)	(10)	7	(1)	(2)	21	(8)	3	(20)
Net income (loss)	US\$ 42	R\$ 130	R\$ (317)	US\$ (91)	R\$ (282)	R\$ (749)	R\$ (229)	R\$ (153)	R\$ (125)

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Net income (loss) per share, before extraordinary item and minority interest(2)	0.01	0.04	(0.09)	(0.02)	(0.06)	(0.22)	(0.07)	(0.05)	(0.06)
Net income (loss) per share(2)	0.01	0.03	(0.09)	(0.02)	(0.07)	(0.22)	(0.07)	(0.05)	(0.07)
Net income (loss) per ADS, before extraordinary item and minority interest(2)	0.04	0.11	(0.27)	(0.06)	(0.18)	(0.65)	(0.20)	(0.15)	(0.18)
Net income (loss) per ADS(2)	0.03	0.09	(0.28)	(0.07)	(0.21)	(0.66)	(0.20)	(0.15)	(0.22)
Number of common shares outstanding at year-end(2)(3)	4,119	4,119	3,391	4,119	4,119	3,391	3,374	3,041	1,727

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For the Six Months Ended June 30,			For the Year Ended December 31,					
2004	2004	2003	2003	2003	2002	2001	2000	1999
(In millions, except per share and per ADS data)								
U.S. GAAP								
Operating revenues			US\$ 2,298	R\$ 7,142	R\$ 5,999			