

## Y 2012 Earnings Call

### Company Participants

- Eduardo Karrer, Chief Executive Officer and Investor Relations Officer
- Marcus Bernd Temke, Implementation and Operation Officer
- Rudolph Ihns, Chief Financial Officer
- Unidentified Speaker
- Xisto Vieira Filho, Energy Trading and Regulation Officer

### Other Participants

- Bruno Pascon, Analyst
- Diego Moreno, Analyst
- Lilyanna Yang, Analyst
- Marcio Prado, Analyst

### Presentation

#### Operator

Good afternoon, and welcome to MPX Conference Call for an update on the Company's performance. At this time, all participants are connected in listen-only mode. And later on, we will initiate our Q&A session when further instructions to the participants will be provided. (Operator Instructions). I would like to remind you that this conference call is being recorded. Now, I would like to give the floor to Mr. Eduardo Karrer, CEO of MPX. You may proceed.

#### Eduardo Karrer {BIO 15883150 <GO>}

Thank you, and good afternoon. I would like to welcome our participants in this conference call. I am here together with the Board of the Company, and also the officers from our Investor Relations Department. I would like to begin by telling you some of the highlights of this fourth quarter of 2012 and also early this year. I would like to highlight the start-up of our Pecem I, Itaquí, and Parnaíba startup, totaling almost a 1000 megawatts. I think this was the first wave of our operation. This was a very relevant landmark, and now we have 360 megawatts in the first turbine. Then Itaquí TPP with 360 megawatts and the first two turbines from Parnaíba totaling a 169 megawatts.

I think it's also very important that we look at these numbers because we were able to get a COD from the second machine in Parnaíba as we communicated to the market today. And we are also very pleased to say that this morning, ourselves in our EDP, we were able to synchronize the second Pecem unit. It's already synchronized to the grid and so, this is

also very important to us because we were able to achieve full operation at the Pecem unit.

Another important highlight is the gas production in the Parnaiba basin. Today we are moving 2.1 million cubic meters a day. This is a very significant volume achieved in a very short period of time. I would also like to highlight the commerciality of Gaviao Branco gas field. It was the third field to have a declaration of commerciality. And so with that, we already have three fields that already received their official commerciality declaration and the estimated volume is 0.2 tcf to 0.5 tcf.

The other highlight is the acquisition of the TPP MC2 Nova Venecia project with a capacity for 176 megawatt, subject to authorizations from the Mining and Energy Ministry. We are still taking the last measures and it's part of the strategy to allocate in the existing TPP -- the fifth turbine -- the PPA, the fifth turbine, because since the very beginning, we had already included one additional turbine in Parnaiba.

The other significant mention is the reduction in the spot market exposure, with postponement of PPA on Pecem II. It was postponed to May of this year and Parnaiba I was postponed to April 1, 2013. So, in terms of the commercial operation, we will start with Parnaiba followed by the three other units that will come forth in the next few weeks as we will highlight further on.

Well, this is the first time that we will split the call between operation power plants and others. We will concentrate now in the power plants in operation. I would like to give the floor to Marcus Temke, our Operations Officer, that we'll give you the main highlights on slide number four.

### **Marcus Bernd Temke** {BIO 15883157 <GO>}

Good morning. On slide four, we have a list of all of the units that are in operation. Pecem I, which started its commercial operation as of December 1st of last year, and we have here figures from February 5th. The first turbine, February 1st and the good news given by Eduardo is that we already included the second turbine on February 20th. So it's already in its commercial phase. We already have four units in commercial operation and we'd all of the other figures that you are familiar with fixed revenue and average megawatts.

In the next slide, we have a list of our power plants under construction. Eduardo already gave you the -- a piece of good news that the second unit of Pecem I just synchronized this morning, which lead us then to the less space prior to COD, which is to conduct some electrical tests to certify that the power plant complies with all of the grid requirements, and once the tests are concluded, we will increase the capacity and then we will ask for the COD which should take place in the next 10 days.

Pecem II, we have here, we forecast a COD in the second quarter of this year, and the second turbine at Parnaiba, we already mentioned that the COD happened today. The third and the fourth turbines will be connected in the last quarter. So maybe also in the second half of March, the first and second turbines at Parnaiba II will be in operation. And

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in early April, we will have the other turbines in operation in Parnaíba II, that is the project that we sold in the auction of -3 in 2011 is moving according to schedule. And the turbines we will operate in open cycle this year and in early next year, we expect to anticipate the contractual date for CCEAR [ph] and then we will be able to take some advantage of a positive landscape in the energy market. The synchronization, which I already mentioned, Pecem I and the second turbine, it's been synchronized today as we mentioned before.

In the next coming slide, slide number six, we see current pictures of Pecem. The left lower hand corner, we see a lot of coal and today, one of the jobs we did is to monetize this coal to generate cash. Our stock levels were higher than normal. And with that, we will generate positive cash flow with this coal.

In general, we see the paving of the streets and all of the final touches in place. And now, the script is different. Now, the plants are operational and they will move on with their regular routines. So it's a new era.

And in addition, I am calling you from Itaqui, where I am at the moment. We are, as you can see on slide seven, we see pictures, current pictures from Itaqui. Things are looking very good, well-structured. The construction sites that you see are just minor things that have to be concluded, but the power plant is well advanced.

Now on slide number eight, I also have here some pictures from Parnaíba TPP. In the upper corner, you see the project that was auctioned at -3 in 2011 and then the small picture on the left shows the open cycle turbines to our -- in the commercial phase and the other three are in the last phases of synchronization.

Now I'll give the floor back to Eduardo for the next slide, slide nine.

**Eduardo Karrer** {BIO 15883150 <GO>}

Now, looking at slide nine, looking at the Parnaíba basin in upstream, in the case of Gaviao Real field, the commercial production took place in January of this year and we had already drilled and concluded many wells that were ready into production clusters. The production started and very quickly, it reached 1.05 million and then that was higher when the second machine was in operation. We reached full capacity of the units in only one or two days, and this really shows how the plants performed very best in the field have excellent productivity. The entire system of production, distribution is in place; the pipelines and the oil pipelines, everything is according to our regional schedule.

Our GTU with a capacity of three million cubic meters a day and we will reach 7.5 cubic meters a day and this will be the last project of those investment phase in Parnaíba that in the second half of the year will start operating in open cycle and then the rest will be concluded in the first half of the next year. In the case of Gaviao Branco, we have the declaration of commerciality presented to ANP. That was a very significant achievement, the total estimated volume in place of between 0.2 Tcf and 0.5 Tcf.

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We have three ongoing exploratory wells; OGX-105 and in the case of 107, Fazenda Chicote, the company is very optimistic with the results of this well. We already communicated that to the market, we didn't test it yet. We will then tell you the results after the well has been tested. But the initial results are very optimistic and we are very pleased with it and that's why, we are happy with the results because now, we can see that all of the gas exploration in that basin is in the right direction, because we were able to map all of the identified reservoirs and the perspective potential for that basin.

So in Parnaíba, we made important progress. We have three rigs in the area and due to the exploratory success, we may need an additional rig. This is yet to be considered -- giving the results of the current wells that are being drilled. We are going to look at numbers on the exploration side in drilling. We still have a large area to be drilled in Gaviao Real.

On page 10, we see a few pictures from our Natural Gas E&P operation. I would just like to say that this unit became productive in only two years. Last year in Parnaíba, we were still preparing the site, but looking at the pictures, we can be very proud. When we look at the distribution and delivery operations for downstreams and upstream in Parnaíba, there are 3000 people working in the area. We invested R\$3 billion. So, this is a major change for that region of Brazil.

Now, to talk about the financial highlights, I would like to give the floor to our financial director, that we'll highlight the main figures of the company.

### **Rudolph Ihns** {BIO 15372505 <GO>}

Good afternoon. I would like to start on slide 12. When we talk about the net operating revenues in the fourth quarter, our revenue was R\$174 million. This is an increase of R\$174 million and that means, the beginning of the commercial operation at Pecem I TPP, where our part of the revenue was R\$114.9 million. And now, we have all of the plants operating in the third quarter and this will mean an additional revenue in the first quarter, because of all of these operations -- this transaction. Our total net revenue was R\$491 million when compared to 178 of last year. So the company is now beginning to enter its operation phase.

Now in terms of the results, in the fourth quarter, we had R\$135 million. So to put it in a nutshell, R\$99 million came from our need to purchase energy for the two Pecem units and then one in December and this cost was around R\$99 million for MPX. If we were to deduct that cost, our quarter will come close to a slight loss. But most of the loss in the fourth quarter was due to purchases for Pecem and this number will not appear again in the other quarters.

Now, we have focused a lot on the E.ON Participacoes at the end of the year. We worked based on the cost structure of MPX as a company that works in the projects and then we promoted a reduction of personnel of 10.9% on MPX when compared to the previous year. And that was for personnel and we also had promoted reductions in outsourced services. There is a reduction of 2.3% in outsourced services. But we believe that the

digital work that we did, that the bulk of the impact will come in 2013, because the contracts were reduced, and the effects will be -- will appear in 2013. Operating expenses also had a 2.4% reduction, vis-a-vis the year before.

On slide 14, we talk about our debt profile. Our debt is R\$6 million and as you know, most of this debt is long-term, 70% of the debt is long-term. We increased the debt between September and December.

Basically by raising debt on MPX, reallocating it to the projects that are being finalized now and the investment was transformed into loans and at the end, you will see that Pecem and Itaqui, the loans are around 650 million, referring to loans that MPX does for the projects, and now our purpose with the projects that are now getting into their operation phase is that, we will be able to refinance the debt to a lot [ph] of the projects and this 650 million will then go back returns to MPX in the second and third quarters of 2013. So this is a debt that belongs to MPX, but this money will be returned to MPX further on.

You will also notice in the chart that even though our short-term debt in -- still in 2013, I would like to refer to the profile of this debt of 1.7 million which refers to Parnaiba II, is a project between Parnaiba I and Parnaiba II. We elongated -- we extended the debt of Parnaiba I in December of last year. So we reduced the short-term debt of 400 million, there is still a balance from Parnaiba I, which is contracted at BMDS and other banks and there is 550 million from Parnaiba II, that will be extended at the end of the year, so 723 of debt in 2013 is for Parnaiba that is now being extended to long term.

And there is another 234 million that refer to debt amortization for Pecem I, II and Itaqui and the operations of Parnaiba I and this debt will be amortized in 2013 because of this final operations phase. It's also interesting to see that our OpEx and CapEx of 886 million contemplates the cost to purchase energy for Pecem I and in the debt disbursement, 700 million was long-term debt for Parnaiba, which is part of that 1.1 billion and we were also able to amortize our short-term debt of 744 million which appears in the -- in our cash position. So basically, this is our consolidated cash position in the fourth quarter.

In terms of capital expenditures, we have the total investment in 2012 of R\$1.8 billion in these projects that I mentioned before, and in fact, if you look at our share in OGX Maranhao is one third and also investments in other projects. Even in that JV, we are a company that invested close to R\$2.1 billion in CapEx. And in the fourth quarter, R\$374 million was invested in the projects that are listed here and other projects that are now starting their operation.

It's also important to mention that these projects even though it's not part of this table, you were talking about R\$7.1 billion in investments in the total [ph] project and basically, they are now in their final investment phase. I would just like now to give the floor back to Eduardo. So, thank you.

**Eduardo Karrer** {BIO 15883150 <GO>}

Thank you very much. Now, we've seen the highlights about the -- financial highlights and also the more technical parts. So let's open to questions now.

## Questions And Answers

### Operator

(Operator Instruction). Our first question comes from Mr. Diego Moreno of Bank of America.

#### Q - Diego Moreno {BIO 16605588 <GO>}

My question has to do with expansion. We have seen that probably all -- we will have regional auctions as we have had this blackout fear. So what do you think? Do you think this is a reality for this year to think we can expect that this year we might have a regional auction and you might have more of a capacitive advantage than your peers?

#### A - Unidentified Speaker

Thank you for your questions. I would like to ask Xisto Filho, who's going to answer your questions.

#### A - Xisto Vieira Filho {BIO 2378129 <GO>}

Well, Diego, the problem is as follows. Obviously, -- well, what we think is that there is a great possibility of having perhaps not regional auctions, but (inaudible). We think there will be a thermal auction, perhaps only a thermal and A-5, which involves hydroelectric et cetera. And as far as we know, there will be an auction per source focusing only on thermoelectric. Now, what seems to be more difficult to happen this year is the auction for gas [ph].

### Operator

Our next question comes from Marcio Prado from Santander.

#### Q - Marcio Prado {BIO 15398968 <GO>}

Good morning. I would just like to follow up Diego's question regarding the auction. As Xisto said, there might be a thermal auction. I would like to know if there is a possibility regarding availability as well or -- but quantity rather. And if so, this would improve the relative competitiveness of MPX?

#### A - Eduardo Karrer {BIO 15883150 <GO>}

We heard O'Neil making some remarks about a very high price with thermal energy and perhaps there might be an auction for quantity and this might have an impact on competitiveness. Well as we see it, a quantity auction and energy auction would be better if it were an auction for, well, a traditional auction because of the characteristics of a hydrothermal system. It's more adequate than auction for capacity, because you can

mould the dispatch -- thermal dispatch in one fold by reserve, you can do it differently. I don't believe in the auctions by energy in the traditional auctions.

### A - Unidentified Speaker

I will complement Eduardo and adding to Xisto's comment, I think the challenge is that what we have ahead of us is to improve the thermal base to have more efficient plants and have a better BTU and you could really have those thermal plants of very high CVU perhaps for the last mile. So I think that the challenge that I hope that we as a company expect for the next auctions is the additions to the thermal basis of highly efficient projects and of the competitive CVU to create a very good efficiency.

### Q - Marcio Prado {BIO 15398968 <GO>}

Thank you so much.

### A - Unidentified Speaker

Well Marcio, I would also just like to add the following. MPX is very well prepared for these auctions. We already made projects in the South, we have licenses et cetera. So we're just doing the polishing to improve every day. But we are in a very good competitive position and we can be very strong in these auctions.

### Operator

(Operator Instructions) Our next question comes from Mr. Bruno Pascon from Goldman Sachs.

### Q - Bruno Pascon {BIO 16451201 <GO>}

Thank you very much for your call. Still on the question of auctions. I would like to understand about the auction -3. Is it just to work with the closing of the cycle or will it involve Parnaiba with these new wells being drilled or perhaps a new site, the possibility of something from say indoors to Parnaiba. And also recently the destination of the 159 mega, and is that the focus?

### A - Unidentified Speaker

Well, it depends on the will of the government, with the focus we get, the closing of the cycles and perhaps -- and part of the -- second part of the Parnaiba. I will answer your question in the following way. I think that the closing of the cycle of the Parnaiba projects, in fact, these are very competitive projects. And I think that we would always be well-positioned on the energy contracts. There we'll always be candidate to (inaudible).

Regarding new discoveries in the Parnaiba, we in fact have a cycle, having a successful well and to be able to estimate volumes, there is a whole lot of procedure with the E&P and the military et cetera. So it will depend on what we manage to do in terms of cycle -- project cycles and compared to the timetable of the auctions.

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Regarding coal, we will participate as long as the government opens windows for us. What I think is good in our portfolio is that we have the option of sources. We have the option for projects and regions, which leads to the fact that the company is very well-positioned for any energy auctions, which might come along. And besides the question of coal and gas, we have already registered last year, but of our wind projects, this year, we will have projects greatly with all the necessary measurements of wind for -- to participate in the auction. So we can add the wind projects to the grid of what we can offer to the next auctions.

**Q - Bruno Pascon** {BIO 16451201 <GO>}

A follow-up to Parnaiba, what is the expectation of drilling for now? What is the expectation -- I think it was going to conclude the exploratory campaigns and equity [ph]. So what would be your next step until the middle of next year?

**A - Unidentified Speaker**

Well, in the case of the exploratory campaigns, in fact we have several objectives that we are seeking simultaneously. One is to continue to have success to incorporate new discoveries and then, new -- fine new reserves. And second, in fact cover in this exploratory campaigns, the seven or eight blocks, that we have under our responsibility. So we have a date, I think it's up to April of next year or 2014, we have already a campaign.

So we have exploratory objectives, production development objectives and objectives of covering all this area partly in -- of the blocks which we haven't even started to drill yet. So I think the amount of rigs which we have today, that it's a question of fully funded today from the point of views of the ANP with the financial equation, which we have for this year.

Possibly we will have to add more rigs as I have said before. If we have the exploratory success then that will be for a good reason, increase your budget for exploration and production development. There's always this possibility. Let's wait for the results of the drilling that we're doing at the moment. And we will continue not only with the auctions this year, but also our commitment to maximize this perception phase with ANP and see what will happen next year.

**Q - Bruno Pascon** {BIO 16451201 <GO>}

Thank you.

**Operator**

Our next question comes from Ms. Lilyanna Yang, UBS.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Thank you very much for this opportunity. I have a question which refers to short-term dividend, this 1.9 for 2014.

**A - Unidentified Speaker**

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Well, Lilyanna, the R\$1.9 billion, we have some directly in MPX, 900 and 1 billion for the project. As I have said, we have a short-term debt to the Parnaíba, which is R\$550 million, and this debt, we will extend until the half of the year and how to extend? We take the part of the BNDES and the important part, perhaps a debenture which we will issue long-term.

So when you manage to have the -- when you get to the long-term, you will settle that. Parnaíba I, the debt has been taken and it's just a question of disbursement. Now, we have disbursed 700 and there is still an installment to be disbursed another 140 more or less. So the Parnaíba will be equated, Parnaíba I contracted and Parnaíba II will be for long term, but this is already forecasted.

When I talk about rollover projects, we have been paying all the debt amortizations and interests since July of last year and we did not re-negotiate debt and we put in money and we will pay during 2013, the estimated 34 million regarding the amortization on the part of the project. The MPX's debt is left over and part will be amortized when this money comes back from the debts which will be paid by Pecem and Itaipu projects. And part of this debt, we have a plan towards the middle of the year to extend it. So perhaps, we will issue a debenture or a bond and this eliminates over the short-term debt from our balance sheet.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

And what is your investment estimate for 2013 and 2014.

**A - Unidentified Speaker**

We have approved a budget here of 600 million CapEx for all the projects to conclude Parnaíba II, and Pecem I and II, or to conclude all these projects. So we will not have more CapEx in 2014, just a residual balance. Therefore, we will our CapEx of 600 million and we will do everything that we will -- have decided to do.

**Operator**

(Operator Instructions) We will now close our Q&A session and I would like to ask Mr. Eduardo Karrer for his final remarks. You may proceed sir.

**A - Eduardo Karrer** {BIO 15883150 <GO>}

Thank you very much. Thank you for the participation of you all in our call. We are very pleased because in fact this is the first quarter, where we feel the impact of the start up of our new projects and our next calls will be showing company operating on a large scale. So in spite of all the difficulties that companies that have great investments in Brazil have to face, we are very proud to see that we already have more than 1000 megawatts in operations and by the end of the year, we will have three gigawatts, in projects in those from our partners.

So I think that we are contributing to the Brazilian Electric Sector, to the Brazilian Government and we are very proud of seeing all our plants in operation and the

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management's commitment is that not only at the end of this wave of our investments, but we'll have focus on costs and discipline in management -- asset management, so that we can truly be creating value for our shareholders; not only in implementation, but in the management of our operating assets.

I would like to thank you all and say that after the call, we will be disposed -- to a disposition and the whole management team. Thank you so much and good afternoon.

## Operator

MPX's conference call is finished. Thank you very much and have a good day.

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