

Q1 2012 Earnings Call

Company Participants

- Eduardo Karrer, CEO
- Eliezer Batista, Director
- Leonardo Moretzsohn, CEO
- Rudolph Ihns, CFO
- Unidentified Speaker, Unknown

Other Participants

- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Marcio Osako, Analyst
- Marcio Prado, Analyst
- Raphael Biderman, Analyst
- Sergio Tamashiro, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. Welcome to the result conference call of MPX. At this moment, all participants are connected only in a listen-only mode. Later, we will have our Q&A session and instructions to the participants will be supplied. (Operator Instructions) This call is being recorded.

Now, I would like to ask Mr. Eduardo Karrer, CEO of the Company to take the floor.

Eduardo Karrer {BIO 15883150 <GO>}

Good morning, everybody. Good afternoon to some. We are here today broadcasting our results call. I have with me, besides Rudolph, the CFO. And Flavia, I have part of the management also with me; Leo Moretzsohn, the CEO of the Company; Daniela Tinoco, IR; and Eliezer Batista [ph] as well. And I will make some initial remarks. And then I will share with some of our friends from CCX my colleagues from CCX some additional information.

Now on slide 4, for those of you who are following our presentation, some highlights. First of all, the signing of the definite contracts, which led to the creation of the joint venture as announced in January. I would like to highlight that it seems -- that it seems trivial. But it

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was quite fantastic; the time period in which the Company has managed to close the definite agreement as from our MoU signed in January. So in eight weeks we were able to transform principles or general agreements and definite contracts, which show the effort that the companies took in this very speedy joint venture, which will be one of the highest or best generators in Brazil.

And with this contract or through these contracts, we will be acquiring a stake of 10% in MPX with an increase of capital of BRL1 billion. Obviously, we will make an adjustment in the stakes between the controlling company. And this should occur by the end of this year.

A very important thing to mention is that we actually consolidated this issue of financing by -- on equity of MPX in the projects approved by the JV. And this will have a very important effect on the growth of this new company, which starts up now in the Brazilian and Latin American market.

So I think that this is a very important leverage for growth. And I think that the investors and shareholders will realize this in the next few months through -- when these first projects come through. And another highlight, of course, was the question of the coal assets, which will be spun off and there will be an independent company also in the Novo Mercado, the CCX. And we will further on give you greater details and talk about this material information and this important announcement for MPX and CCX, which occurred last night.

These studies and these events have indicated the feasibility or the pre-feasibility with the economic activity of the mining activity. And the future CCX will be in Colombia and I will mention two facts here and we will talk about it later.

The coal reserve, 671 million tons, 92% of reserves of the special type. And a commitment of ours, everyone -- when we are asked MPX what we expected if there were more reserves or less reserves? I always say something very clear that our objective was to have resources and reserves which would sustain the productive system of 20 years of production; and we surpassed this amount.

So this shows that we have been very successful in achieving this and has been very important transfer from MPX to CCX. I'd also like to mention now in the next slide, number 5, a little bit about the creation of CCX and the transaction with E.ON. We have signed all the definite contracts on the 17th of April. We have until tomorrow, which is the deadline, to convert the debentures which was approved unanimously in the general meeting of the debenture holders.

This is a very important step which was taken. Tomorrow we will have this final -- we'll have the conversion or the request for the conversion -- and on the 24th, we'll have the General Meeting approving the transaction, the final transaction. And on the 21st, after the Annual General Meeting, we will have the effect of startup of the commercialization of the negotiation of CCX on Bovespa.

So we still have, let's say, a very busy week with these very important events until the effective startup of the CCX as a company listed on the Bovespa Novo Mercado.

Now talking a little bit about the operating highlights, on slide 7, I'd like to say the growth of the net operating income in view of the greater number -- or greater volume sold, we have an increase of 80% when compared to the First Quarter of last year.

I have always said to all investors of the market that MPX understands that the trading arm now under new management, which is the trading arm of the joint venture, is a very important arm for the generation of wealth for investors.

And I think that each year we are having a consolidation of our trading arm as one of the most active in the Brazilian market. And I personally have the expectation to have an ever greater profitability through operations, let's say, of monetization in line with our assets Parnaíba to start with in the coal assets, which will also come in the second phase. So I see a very promising future for our trading, which is one of the three main businesses of our joint venture.

So another highlight is the final commissioning of Pecem. We have this already going on to the turbine and the Itaqui. We are starting the load tests. So we have an excellent position to be able to have in the next few days the first synchronization of Pecem. It's important to say that with this first tuning, we will have the beginning -- first sales of the mill. And our commercialization operation has to follow the minimum protocol. This will be done in the minimum of time. But we will have the startup of sales. And with the numbers of PLD that we have, these are numbers that are very adequate.

And the tests and the fully into -- the commercial operation we have all our map drawn, because all the tests have been done and now we are adjusting the specifications of steam, et cetera. So the last 100 meters before the commercial operation of the first Pecem machine.

In the case of Itaqui we have 97% concluded. We also have basically now focused on instrumentation and the final tests for some systems, before we start the test load and the commercial part. And the Parnaíba, the TPP Parnaíba, we have overcome or we have passed the rainy season very successfully.

The weather helped because it didn't rain so hard in the interior of Maranhão. So we have finished 90% of our land clearing, which was a concern which we had. And we now have our first turbine settled on its base. And we have three turbines and three generators on the site and another two sets in the port, two on the way.

So we have all the supplies absolutely on-time, on-schedule. And so both on the side of production development and also on the side of energy generation we are on time. And we will have gas supply between August and September of this year and commercial operation of the plant starting by December this year. This is very important because we are going into the drier season now. And -- so it is important to be on-time up there in the TPP Parnaíba.

Now a little bit about operating expenses. I would like to ask Rudolph to tell you a little bit about this. We are on slide number 8.

Rudolph Ihns {BIO 15372505 <GO>}

Good morning, everybody. Regarding the expenses, we are keeping steady in the MPX the same level of expenses as the previous year or the previous quarter of 2011. And you will see that consolidated has increased expenses. But basically because of the SG&A in Colombia. And obviously, this will drop now for the consolidated part and Parnaiba because of the works there, which will bring our consolidated SG&A down as things advance.

Regarding cash position, we had at the end of the First Quarter BRL1.3 billion in cash, consolidated; BRL1.5 billion if we consider the paid amount. And we have a debt consolidated regarding the projects of BRL4.9 billion. And you will see that we have increased the short-term debt because we drew a bridge loan for Parnaiba-I, BRL825 million. And this -- we will be extending this debt. And we also drew BRL225 million for the Parnaiba-II, which will be extended till the end of year.

Besides that, we are now in May, we have released another BRL325 million of the Caixa Economica Federal. And -- so BRL325 million plus BRL200 million as it is -- as it goes. So these two Parnaiba projects that have a CapEx of BRL2.2 billion basically are already financed until the end of year.

And in Colombia, we have a debt -- consolidated debt of BRL328 million, which is \$220 million. And in May Colombia has this debt. So from the MPX point of view, we will have this long-term debt. The long-term profile is BRL3.4 million. Amortization is 40 years -- 14 years, with the BNDF [ph] and the weighted average is 9.4%. The average duration or tenure is 5.8. So we will have debt coming due in 2012-2013. But these are the debts -- they will be extended. So the amortization profile is BRL254 million a year considering the extension of the debt.

Now going on to CCX; before asking Leonardo to take the floor, I just like to make a few remarks by saying that MPX is very honored to close this cycle of wealth generation in Colombia after 3.5 years, almost four years, after our decision to enter Colombia.

We have had a result of this work in our pre-feasibility study, which was disclosed. And we are very glad -- and you will be finding out more and more details about the engineering project, of our Colombian project, which is a spectacular project. And as it shows how right the Company's decision was and our positioning regarding the thermal coal and the PCI supplies, showing that the Company's shareholders' each dollar, each real that was invested in Colombia has a wealth generation, which is quite extraordinary. So I think that the CCX is starting off in a great fashion.

And (inaudible) MTX are very honored to be able to say that we have participated not only in the generation of wealth. But also in the creation of such a fantastic company, which is our CCX.

I will now ask the CEO of CCX, Leonardo, to take the floor. And he is going to discuss with you the main successes and tell us also what will happen in the near future.

Leonardo Moretzsohn {BIO 15216920 <GO>}

Good morning. Good afternoon for some. I am very pleased to be here with you to announce the results of this campaign and this work which has been carried out in the last four year by MTX since May of 2008, when the Company acquired the first coal in Colombia.

The results that we are disclosing is a result of an asset carried out together by MTX and by well-known companies, engineering companies like (inaudible) for the development of railroad support and AMEC for the certification of the -- the Golder for the certification. It was only in these years of 2009 and 2010 about 30,000 meters of welding of 10 kilometers -- hectares of La Guajira. And this together with the use of 3D seismic with OGX has given us a degree of trust in the data made available for the reports on reserve. And these results of the seismic 3D were also used by the certifier.

This has made it possible that all the exploratory campaign be very successful, because all the boreholes that were carried out here presented positive results and confirmed the Company's expectation that the coal reserves or deposits of MTX, now CCX, is a continuation of this formation. And it is a deposit which is adequate for the use of longwall technology, which is the process for producing -- which is a very efficient coal producing technology.

Another very important point we may assign to the use of the 3D seismic is the quality of the information that we have. We have identified a good resource of 5.6 billion tons, of which 5.2 million refer to resources that indicated. And 426 million, less than 10%, of resources inferred. Besides the precision of this information, it is worthwhile reminding the very excellent quality of the coal found.

We hope to have during the lifetime of the project an average production of more than 6,200 calories per kilo with a low content of ash and volatility, because this allows us to classify this product as being a special kind, which can be used not only as thermal coal but also as a replacement of coal used in steel mills. And the practical result of all of this is that we can use or sell this coal with a premium of 30% vis-a-vis the price of thermal coal.

We hope that the geologic coal research that we continue do to the south of province of Cerrejon, besides the 10,000 hectares that we have studied to begin with, confirmed that this formation extends to the south to San Juan. And this initial result was positive, because the first well drilled has indicated a seam of 24 meters of coal. So confirming the expectation of the Company. So this is a very interesting data, which confirms MPX's expectation regarding this project we started four years ago.

On the next slide we will talk about the economic aspect. And I'd like to give this back to Leonardo, who is the CFO of the Company to share with you some of this information.

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Rudolph Ihns {BIO 15372505 <GO>}

Good afternoon, everyone. It's a pleasure to be here. It's an honor to be part of this project. In slide 13 we show you a curve, which is our mining curve. Here we have the ramp up. We are starting into '17 with a speedy ramp up to year seven, where we will get to 28.9 million tons. And, two years later, 29.2. And average production of 25 million tons between 2017 and '48 until production of 672 million.

In the next slide, we see cost. I'd like to point out the mining cost per ton, \$31.3 per ton, very competitive. We brought the cost down with transport and railways \$3.4 per ton, considering shipping as well within this \$3.4; port \$2.2; and mining rights, which are the royalties that we pay to the former owners of these rights, on average \$2 per ton; a total \$38.9.

In Colombia, as many of you know, we have royalties of 10% on the FOB cost minus logistic cost in case of a production over 3 million tons a year. And we intent to get there by 5%. So we are thinking about \$9.4 per ton of OpEx of \$48.3 per ton. This CapEx places the San Juan Mine in the first quartile of the coal industry.

Say -- we have this very favorable prospect. And our coal will get to Asia at a CIF cost. China more competitive than Australia, which has equivalent quality coal. And when we compare with Indonesia, which gets there at a lower cost; their quality is much lower quality than ours. So we are also more competitive than Indonesian coal. So at this cost level we can compete face-to-face with Australia, Indonesia on the Chinese market, which no doubt is the fastest growing market in the world.

Next slide, slide 15, shows CapEx, which the Company estimates for the Company \$5.5 billion. That covers mine, railway and port; \$3.5 billion mine, \$1.1 billion railway and \$900 million to port. This CapEx obviously is distributed -- is concentrated in the beginning of the production in 2017. And, as I said before, this CapEx will -- so far be first to get to peak production over 28 million.

So we have a CapEx by year seven, also including pre-production years CapEx of ten years. And this CapEx is based, as Leonardo said, on technical estimates and also on the estimates made by our consultants.

Now I pass the floor back to Eduardo. We are on slide 16. Thank you.

Eduardo Karrer {BIO 15883150 <GO>}

Well I'd like to wrap up this part on CCX saying that we are very happy to see this wealth generation of 1 to 10, 1 to 15 according to the metrics that you use, showing that in fact we've made a very intelligent -- very clever business decision. I'd like to highlight something else that is of great importance to MPX and to CCX, which is actually the trade agreement, the agreements that are to be signed for coal supply between Colombia and South America -- and this JV between MPX and E. ON or the trading arm.

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We are talking about 3 million tons and another 5 million, if we considered the projects in Chile. So I believe that MPX has access to high quality compliance coal. And today we buy Colombian --- people buy Colombian coal. But from now on they will buy CCX coal. And part of this production is based on short, medium and long-term contracts with MPX and E.ON.

So this is a win-win operation, as I believe we will yield great fruit -- great results to shareholders in MPX and CCX. So I really like to say how personally pleased I am to be delivering to the market everything that we promised we would deliver. And I am very pleased to say that at this moment we've achieved an important position. I am sure that Leonardo will be able to improve the project and will bring great news to the shareholders in CCX.

I believe that we've now completed this as part of our call. And now I'd like to open up to questions and answers.

Questions And Answers

Operator

Excuse me, ladies and gentlemen. we'll now start questions and answers. (Operator Instructions)

Marcio Prado, Santander.

Q - Marcio Prado {BIO 15398968 <GO>}

First of all, I would like to congratulate MPX on conclusion of this phase. And the new company, CCX, I wish the best of luck.

And I will ask questions about both companies. So MPX, Eduardo, if possible I'd like you to give us more detail about the trading arm of MPX. You have announced a slight change to the power contract of Parnaiba; the first part MMX will buy energy from MPX trading arm and only from the plant later on. So if you could talk about that? There was a material fact that was announced not long ago.

Then about cost, Rudolph mentioned cost. Could you give us a guidance, first, to -- including the model of your consolidated cost or the holding company cost, what percentage does CCX account for?

And I also like to ask about CCX a very simple question, about the business plan. Papayal and Canaverale, there were no details. We saw the CapEx, for instance, port, rail. I would like to know where the -- if there is a synergy with MPX open pit mines and how we should think about the open pit mines relating to this plan that talked about --- talked mostly about the underground mines? Thank you very much.

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A - Unidentified Speaker

Thank you very much, Marcio. I am going to answer the first; Rudolph, the second; and Moretzsohn the third. Well I would like to tell you the following. You know that for a long time we've been talking about making money being a thermal power generator. And what you saw at MMX was exactly that.

We signed a long-term contract with MMX. And then owing to market conditions -- as you know, we are closing the Parnaiba cycle to meet this agreement within the high production modality with very competitive price to MMX and with again a split between generator and consumer, what happened, since the market was very favorable to the buyer.

What we did with MMX was, we signed an agreement on the free market for an initial term of five years, that is we obtained more favorable prices we've have gained for the MPX trading arm and MMX. And we had already captured half the benefit of the high production, that is wealth generation that was incredible in the first year.

We released power with a CapEx. And the power that I will have in this power tranche to sell more power on the free market or on the regulated markets. So I have reallocated the market. I released power to increase sales for those open-cycle machines that I am installing at Parnaiba, closed cycle. And with the same win for MMX.

So this is a very clear demonstration that when you are in full control of your fuel, your trading arm can do incredible contract management generating wealth both to generators and to buyers because basically you tap on market opportunities or inefficiencies in a structured way to create wealth to Company shareholders.

And to answer the second question, I am going to pass to Rudolph, who is going to talk about cost.

A - Rudolph Ihns {BIO 15372505 <GO>}

Hi, Marcio. We did this exercise because there are two effects, not only the spin-off of CCX that will have a separate structure. But the JV. We are transferring practically two executive boards that were at MPX there. So trading and new businesses environment, et cetera, because it's mostly connected to the development of new businesses.

So here we have a target at MPX of getting to about BRL60 million to BRL70 million. And this already envisages the CCX adjustment and the spin off. So our SG&A -- long-term SG&A must be around that. But we have projections that as you implement Parnaiba and those BRL1.5 million revenue that is already contracted and implemented, in principle we would be able to adjust this SG&A.

The third question, Leonardo?

A - Leonardo Moretzsohn {BIO 15216920 <GO>}

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Thank you, Marcio. The project that was presented has enough infrastructure to ship 35 million tons of coal a year. And the project is focused on the underground mine of San Juan. Now, the mines in Canaverales and Papayal that together are expected to produce 5 million tons will be incorporated into the underground mine project, by which time we expect to deliver the final feasibility study of the San Juan project. And that would be the First Quarter of 2013. But today we believe that these mines will be outsourced, operated by third parties. And they will start up as soon as the logistic plan is done.

Q - Marcio Prado {BIO 15398968 <GO>}

Very well. So just a follow-up question. CCX's focus today is on San Juan, because you are giving so much attention to San Juan and Papayal; and Canaverales has some attention. But as you said, they're going to be -- the management is going to be outsourced. So your focus will be on San Juan and then later on Papayal; and San Juan will be outsourced. Is that it?

A - Unidentified Speaker

Well today the focus that has been pursued by MPX recently was to certify this coal reserve that we found to the south of the La Guajira province. So the study that we are announcing refers to the development and feasibility study of the San Juan mine, which is expected to produce 25 million tons. And we will try to increase this capacity up to 30 million tons. And first, to have a healthy project. We will incorporate Canaverales and Papayal mines, which are to be managed in the scope of this integrated project early next year.

Q - Marcio Prado {BIO 15398968 <GO>}

Thank you.

Operator

Leonardo Correa, Barclays.

Q - Leonardo Correa {BIO 16441222 <GO>}

I have two questions about CCX. First of all, cost. You said that OpEx would be \$48 FOB. If we look at the global mining industry, we see inflation trends around 20% year upon year in some cases. So just to confirm if this OpEx is based on 2012, what inflation rate do you expect in the future? And perhaps to help us in the startup in 2016, what sort of level of OpEx will we have? I think this would help a lot.

And the second question around the PCI proportionate in total of sales. We've been monitoring the PCI coal market, which has reduced. So I would like to understand of the total volume, what is the proportion of PCI that you expect to sell? These are the two questions. Thank you very much.

A - Unidentified Speaker

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Thank you, Leonardo. All the projections that were announced referring to OpEx are based on the April 2012 dollar rate. We did not include or build-in any inflation projections. Now as regards PCI, actually it was a very pleasant surprise to see the quality and the amount of PCI contained in our reserves. We expect to sell this project at a premium of 30% on top of chemical [ph] prices.

Q - Leonardo Correa {BIO 16441222 <GO>}

Do you have any estimates of the proportion or the percentage of PCI being sold in total sales?

A - Unidentified Speaker

Well we estimate in our markets that we are starting up with 20 million tons -- I am sorry, 20% of total production it will be PCI sales with a 30% premium.

Q - Leonardo Correa {BIO 16441222 <GO>}

Okay. Thank you very much.

Operator

Marcio Osako, Itau BBA.

Q - Marcio Osako {BIO 6748109 <GO>}

Congratulations for the results. First question -- well, two questions regarding CCX. Could you give us an update about the environmental licensing process in Colombia, the underground mine and also the railroad and port and the CapEx? The program that you showed has about \$4 billion in Capex to be carried out until the beginning of operation of the mine. So what is your design? What are you thinking about to finance this investment until 2016-'17 for the startup?

A - Unidentified Speaker

Well thank you for your question. Regarding the licensing process, this process is already ongoing. This is a separated license for the rail, port and mine. And regarding the rail, the Company has already been carrying out since last year some consultations, public hearings in the communities along the railroad.

And regarding the port, for the first time we have been able with -- the Company has been able to bring together the four Indian tribes in Sierra Nevada and Santa Marta. And we started a consultation process with the four indigenous tribes. And this is very important for the licensing process.

Regarding the San Juan mine, now that we have the pre-feasibility study completed we will submit this project to the authorities so that the licensing process can start.

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It is worth saying that last year MPX managed to get a pre-environmental license which is a certificate for environmental license, which is called DAA in Colombia, for the railroad and the port. We hope to have all the licenses for mine, rail and port obtained throughout the first half of the year of 2013 to start the building by the beginning of the second half of 2013.

We are working very hard on this. And it is worthwhile mentioning that we have had great support from the Colombian authorities to obtain these licenses. And we have a very competent team in Columbia, experienced people. And we have also the team of MPX, who have already achieved many -- 150 licenses. And we think that the schedule presented is a very feasible program. And we will be able to deliver.

Regarding CapEx, I would like to ask Leonardo to talk more about that.

A - Rudolph Ihns {BIO 15372505 <GO>}

Well Marcio, the CapEx and the funding, it's important to say that CCX has an equity above \$400 million and much of this equity will be brought in now by MPX at the spin-off. So just to simplify, we will be of the balance of -- to start with, there will \$350 million in cash and a debt of \$220 million. This cash is enough to fulfill that, as Leonardo has just said. So that we can finish the feasibility study, the pre-feasibility study, that we can progress with the licenses and obtain everything by the middle of 2013. And thus, we will have enough equity to continue with this phase and then go for the necessary financing to get on with work.

We have 30/70 capital structured debt/equity for a project like that. This is our objective. And for the debt, we will be seeking -- with the feasibility study and with all the plans in hand and project financing as such, we will be evaluating a -- perhaps a combination of certain alternatives. And in equity, we have the full support of the controlling shareholder. So when necessary we will have the necessary contributions of 30% equity for this project.

I am not sure whether I have answered your question, Marcio

Q - Marcio Osako {BIO 6748109 <GO>}

Now it's very clear. Thank you.

Operator

Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Congratulations for this -- your presentations. I have two or three questions. First, the resources on your reserves. I'd like to understand whether in this initial study you already have a volume of reserves proven and tested. Secondly, the operating rate for CPT [ph] until you come the yield?

And a third question; with the CapEx of \$900, I understand this is for the port. In the first phase you might use some for road. I'd like to know what is this cost and the timing for the startup of the port?

A - Unidentified Speaker

I'll ask Eliezer Batista, who is our Director of Natural Resources to answer your questions regarding the reserve and certification.

A - Eliezer Batista {BIO 1523633 <GO>}

Good afternoon. Your first question has to do with the reserve level that we have. Today these reserves of 671.8 tons are the NQ43, which is a Toronto standard, compared to the standard that you mentioned, which was a JORC, which is a little higher than the Australian JORC. So perhaps -- well, a direct comparison, our reserves and resources in fact were certified with a standard above that of JORC.

Regarding the recovery of that which will be mined and what becomes product, the methods that we are using in the operation of San Juan, which is longwall, allows not only the recovery of 100% of the coal. But because of our coal in-situ is very high quality we do not have to do any processing or washing. So the coal which comes out of the underground mine is also in the right size and 2-inches. And it can be shipped immediately. The recovery is 100%. No other processing is needed.

A - Unidentified Speaker

I'd like to add to Eliezer's comment that not only the quality and the method of certification that's being used is good. But the quality of the resources that were informed, of the 5.6 million [ph] tons, 5.2 million refer to resources that are measured and indicated. And only 426 refer to inferred resources. This gives the market comfort and investors comfort regarding the robustness of the coal segment that MPX came across in the La Guajira department or province.

Regarding the port CapEx, the port we are working with the concept of integrated mining. So this project might be totally successful, it is necessary that CCX controls not only the building. But also the alterations of logistics. And the port is a terminal for shipping coal, which is 2.9 kilometers into the sea. It is a port which is protected and the waters are naturally deep, which will not need much dredging.

And the port is big enough to have capsize ships. And the O [ph] yard will be connected with the railroad of this line of 150 kilometers, which connects the port to the mine. So it is a great project of integrated mining, which will guarantee not only an efficient mine. But also the transportation and the shipping of the coal, which is very favorable.

The way -- where the railroad will be built will encompass a certain area. And along this way there is already a road. So we will not be going scuttling down any forests or parks or any native forests.

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Q - Ivano Westin {BIO 17552393 <GO>}

Thank you.

Operator

Sergio Tamashiro, Banco Safra.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

I'd like to go back to the question of logistics in CCX. In the business plan that was disclosed a couple of years ago, you were mentioning that initially -- in the initial phase you would be using third party roads and ports. Well this -- so this costs \$3.4 per ton and \$2.2. And using just the port -- and your own port and road, or do you include in this also the use of third-party logistics?

A - Unidentified Speaker

Thank you for the question, Tamashiro. The costs which have been presented here today refer to the cost of dedicated logistics, which will be built by CCX. The operating cost of transportation by the railroad, shipping at the port of the coal produced by CCX. And does not take into account any transportation or any cost referring to transportation or shipping by third parties.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

So in your business plan today, you do not consider the use of third-party logistics?

A - Unidentified Speaker

Well what we will confirm in our next years' data is that the Canaverales open mine will start its production before our logistics is ready. In this case -- and we would use the railroad and a third-party port to start the Canaverales. When it reaches the peak of production, it will find our own logistics already in operation.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Second question, regarding the dispatch of the thermal mills. Regarding the market, which will reach 50% -- well, what is the estimate of this year and the next years, which is feasible so that we can use this in our models?

And a second question or the third question regarding the phase of the Parnaiba work. Do you think that this is an advanced stage? But we see here by the tests in Itaquí and Pecém that all this commissioning is a little bit slower. And, Parnaiba, you have little bit more than six months for the startup of production. So I would like to know what's the schedule? Can it be slightly delayed?

A - Unidentified Speaker

Well first of all, the question of average dispatch. Since the conception of the products of the thermal projects, we work with 50 or 50% of dispatch. And our estimate continues to

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be this -- we have seen a greater volatility of the market, which leads to a number of calls of dispatches beyond normal. But I would say that in general you can have an estimate between 50% or 55% and you will be very close to what we will be observing in the next few years.

So in spite of a greater volatility in the prices, let's say. And the question of the average level of reservoirs, we will be working with the same average level of dispatches for the next few years. Regarding the Parnaiba, what we do in the Parnaiba is totally different from what we do, let's say, in the coal mines or the coal power plant. Let's say you test 500 instruments in the coal power plant, let's say. So it is a power plant that you put into operate one-third of the time, one-fourth of the time. You commission in 15% of the time.

So in fact both the installations for the development of production, which are very simple, the gas pipes -- there are two production headers and one unit for gas treatment. And the turbines, which are going to come in this year. These are the units which are very easy to be commissioned. So us and OGX, between the first gas entering and being burnt in the turbine and the creation of commerciality, it will be -- this will be very short time, because the number of systems is very low. It's a very low complexity for building and for operating.

Now, regarding the coal powered plant that we won in the auction, which will come on-stream in 2014, no, it is intermediary complexity between coal and gas. So -- even so, it's much less complex because of the size than a coal power plant. But it's much more complex than an open cycle. But in our case, this commitment is for 2014 according to the auction which we won last year.

So I will say to you that therefore the -- we have a lot of trust in the schedule. Once this rainy period is over, we are going to start burning gas in September and machines will be running in December, not only ourselves. But OGX. And so, for 2014, it's still all on schedule, right.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

And going back now, you were talking about the volatility of the spot market. Just to understand, do you believe that with the entry of these Pecem I and II it will reduce this volatility for the spot or will it not have this effect?

A - Unidentified Speaker

Well Tamashiro, I think not. I think we will bring about more trust for the north and northeast regions. We will be injecting energy alongside important building areas, the Estrella [ph], which is north and northeast. I think the supply quality will improve. And the confidence and reliability. I think that OMX will contribute greatly to these power plants to supply the expansion of this market.

But as an interlinked system, I think that you improve -- but I think the question is much more a structure one. In our case, it's 1,500 megawatts. I think it will improve. But I think we will continue here in Brazil being in -- first of all, it will be a question depending on

water or rain. So 1,500 megawatts will improve. But it will still have volatility. I think we will earn a lot of money with our trading arm, because those who sell power earn money with the spot price down -- way down or way up. Therefore, I think for the next 10 to 20 years those who have a good trading arm of their own fuel I think will make their shareholders very pleased. This is our theory. Thank you.

Operator

Raphael Biderman, Banco Bradesco.

Q - Raphael Biderman {BIO 1529743 <GO>}

My question is about the extension of the coal seam. There was a chart today with the various routes [ph]. And I'd like to understand whether this could reduce the feasibility of the project or the cost or if this has already been factored in the study when it established reserves of 600 million in a cost of 38? Because if the seam is too thin -- if it's too thin for the longwall, there is dilution of the coal grade. So information about this?

A - Unidentified Speaker

Good afternoon, Raphael. All the longwall panels that were designed for San Juan used a minimum width of two meters of coal seam. Of the 19 seams we are mining, the total -- the average widths of the seam is 3.5 meters. We have more than six seams that we are going to mine, all with widths over three meters. And three seams beyond five meters up to eight meters. So all seams are appropriate. The equipment has been designed for this kind of seam to optimize precisely this issue of dilution. So everything was factored into the design of the mine, which will enable us to recover high grade coal and very low dilution.

Q - Raphael Biderman {BIO 1529743 <GO>}

Okay. So the seams -- the thin seams have been discarded by you when you estimated the reserve?

A - Unidentified Speaker

Yes. For this reserve that was published at 671.8 million tons, we've only considered this criterion where we are mining seams that are over two meters wide. But there is great potential for the seams that are less than two meters wide and those who are below 1,200.

We did a number of tests that we call wash ability of the coal seams. And because this medium separates high and low density coal the levels of recovery that we've achieved is over 85%. And there is still additional studies that we are going to conduct to test how we are going to add reserves using these high ash seams. But at the moment, we've only got seams over two meters wide and we have a 100% recovery.

And the difference between the 5 billion and the reserves of 600 million, it's not that the 5 billion taking into account the thin seam. It's just that the reserves of 600 million are closer to where you have a greater density or the holes are less far apart. Now, when we

establish the resources -- and this is what we used. The certifiers have to look into anything that can become a reserve in the project. (Technical difficulty) there is technology available today in longwall technology outside Colombia, where you can recover seams of up to 50 centimeters width. And so, this went into the resource calculation. However, in the mine design, we've only used seams that were over two meters wide.

FINAL

Q - Raphael Biderman {BIO 1529743 <GO>}

And I'd also like to hear from you a bit more detail, you said that you obtained license for the rail. If you could talk a little bit about that, what it means, the details of the procedure of licensing for the railways and the public hearing? And what does it mean too if you have a public hearing, if you could elaborate on that?

A - Eduardo Karrer {BIO 15883150 <GO>}

Well last year MPX obtained from the certifying agencies, from the port and the rail the guarantee of pre-feasibility for the project in environmental terms. The licensing process in Colombia is very similar to what we have here in Brazil.

So when I say pre-consultation, it's the same as a public hearing. So we have to conduct a number of previous consultations with the local communities that are around in the surroundings of the project. And I believe that the great difference between this process in Columbia and in Brazil is that there when you start up a process, you have a deadline.

So this gives the licensing process great visibility and provides entrepreneurs with more guarantees that there will be a deadline. And over there, a public consultation is no more than a public hearing. The Internal Affairs Ministry of Colombia is the agency responsible for coordinating these licensing process. And after this pre-feasibility that MPX has obtained already the process becomes, I'd say, more -- it gains visibility and it's -- entrepreneurs gain control over it.

And I like to emphasis that Colombia within the strategy of President Santos wants to expand coal production and exports. And MPX and now CCX project has received good support from the government. The Guajira province is already a traditional coal producer and the Cerrejon mine has been producing for long time.

So we have the favorable atmosphere. We have the coal reserve located only 150 meters from a deep-water port in an investment grade country such as Colombia that provides all the supports to mining activities.

A - Unidentified Speaker

I would like to add to what Karrer is saying, two important points. The project -- the robustness of the project in terms of logistics and environmental licensing when we ended up choosing right [ph] locations for our port. And this occurred in conjunction with the Colombian government after looking at 7, 8 potential sites. And we decided for this location for the port. So the entire process was supported by the Colombian government, who has been a formidable partner.

FINAL

And I would like to say something that Leonardo said and it's very cool. And I believe that CCX shareholders will see this in this future. It's that this project earned its features not only in the scale and the competitiveness inherent to the project, it has this structuring ability because it will consolidate a higher load for south, starting with CCX that will expand to the south, where we will have more reserves, more resources.

The rail will be extended and the country will have the possibility to ship production that is stranded in the south. All of this will impact or will provide better unit -- lower unit cost to MPX or those who have the privilege to use this structure. So that this asset will be increasingly more consolidated as a low cost asset among coal assets of the world. So at any way you look at it, the project has unrivalled competitiveness and quality features. The best investment opportunities in the world are there. In fact, the project is really amazing. It looks like a Cartagena for coal.

Q - Raphael Biderman {BIO 1529743 <GO>}

Now a small follow-up. You talked about a date, what is the date for -- what is the deadline for the environmental licensing and the public hearing with the communities, or when is it going to happen?

A - Eduardo Karrer {BIO 15883150 <GO>}

Well Leonardo is going to answer.

A - Leonardo Moretzsohn {BIO 15216920 <GO>}

We expect to obtain all environmental permits by the end of first half year 2013. The public hearings have started. They started last year along the way of the railroad and with the Indian population of Sierra Nevada and Santa Marta. They started May 4th, 2012 with the participation of all competent authorities in the four indigenous communities that live there.

Q - Unidentified Participant

Okay. Thank you very much.

Operator

Thank you very much. This concludes the question-and-answer session. At this time, I'd like to pass the floor to Eduardo Karrer for his final remarks.

A - Eduardo Karrer {BIO 15883150 <GO>}

Well I'd like to leave you with a message. I believe that as of the 25, those who are MPX shareholders and CCX shareholders or shareholders in both companies, I believe that we will be offering the market to wealth creation platforms that are unrivalled at CCX, not only by the arrival of the 3 gigawatt, which has put it in the top position. But this fantastic joint venture with E.ON. You will be able to see what we will share with the market in terms of creation of value, acquisition of projects, participation in auctions. You will see fantastic activities with this new joint venture.

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In the case of CCX, my friend Leonardo Moretzsohn and his team, I'm sure that they will continue creating top wealth to shareholders. And I am very proud to say that this is one of the main opportunities of integrated coal production in the world. And I believe this will make shareholders very happy in CCX, in MPX. And I'm sure that this is a world class asset and will create lots of wealth for every shareholder.

Thank you very much for your participation. Thank you very much to my colleagues. And tell you that Investor Relations area of CCX and MPX are at your disposal before and after the 25th to answer any questions you may have.

Thank you very much. Have a good day.

Operator

Thank you. This concludes today's presentation. We thank you very much for participating. Thank you very much.

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