

Q4 2011 Earnings Call

Company Participants

- Bruno De Rossi Chevalier, Project Development and Sustainability Director
- Eduardo Karrer, President
- Flavia Heller, IR Manager
- Marcus Temke, Engineering and Implementation Director
- Rudolph Ihns, CFO

Other Participants

- Marcello Britto, Analyst
- Marcio Prado, Analyst
- Pedro Manfredini, Analyst
- Sergio Tamashiro, Analyst
- Vladimir Pinto, Analyst

Presentation

Operator

Good morning. And welcome to the conference call of MPX. Right now all participants are in listen-only mode. Later on we are going to start the Q&A, when further instructions for your participation will be provided. (Operator Instructions) We would like to remind you that this conference call is being recorded. Now, I'll turn the call over to Mr. Eduardo Karrer, President and CEO of MPX. Please, Mr. Karrer, you can go ahead.

Eduardo Karrer {BIO 15883150 <GO>}

Good morning, everyone. On behalf of the Company management and most are here with us, Investors Relations, we are all welcoming you in our call to talk a bit about the year of 2011 and subsequent events.

I would like to start with the highlight that 2011 was a very special year for the Company for everything that we're able to achieve in terms of growth, financial restructuring. I think the Company doubled its size and the market acknowledged that suitably. So 2011 was a very good year for the Company and our challenge now is to reproduce in 2012 the performance that we had in 2011.

If we were then to focus on the highlights of the year I would say that along the year of 2011 that was completed in January this year with the partnership that we established with

E.ON and, thus, we were able to accelerate our growth and by means of JV become one of the main players in energy and generation in Brazil. That was a very important event.

We're very pleased to be able to complete the first phase on January 11. And I think the model the Company adopted with the integration of fuel, thermo generation and commercialization that proves to be a very successful business model. We made a correct decision three years ago, which was to follow investments upwards. And we started to reap the fruits last year and we are going to reap fruits this year as well. I think it was a very good decision that the Board of Directors enabled the Company to make.

And so we have now reached to the 2,000 [ph] megawatts in the plants in which we have a share, ensuring a growth in the long term that is very differentiated, also the declaration of commerciality of two gas fields in the Parnaiba Basin, Gaviao Real and Gaviao Azul. I think that also by means of our sister company, OGX [ph], we have an extraordinary job fulfilling important stages with the regulatory agency to be able to have this declaration of commerciality, take part in the auctions and sell energy.

I think we were able to be very efficient in the process and I think that very few times before the industry produced that in Brazil. So again, our company -- our sister company, OGX, really helped us to materialize the Parnaiba Basin project.

Also, I would like to reiterate [ph] our financial restructuring with the BRL1.4 billion raised through convertible debentures. That was very important for us to move on with Company investments. We had consolidated investments of approximately BRL2 billion and Gunther's [ph] going to talk about that further on. So I think the financial restructuring was very important for us to keep up with the speed of investments.

We also had a capital increase of approximately BRL1 billion as part of the E.ON transaction. This is going to be a new stage in the financial structure of the Company. It's important to highlight the bridge loan of BRL825m, plus BRL1.6 billion long-term financing for TPP Parnaiba, again showing the robustness not only of the contracts. But of the project as well, all the elements that are part of the project. And finally, a BRL600 million bridge loan for gas production development in OGX Maranhao. So, again, for us to speed up projects in the year 2011 -- 2012, forgive me.

Also, a significant process -- progress in Colombia, over 30,000 meters drilled, reaching a peak of up to 10 rigs last year. So a very intense campaign, the most active drilling campaign that Colombia has witnessed in recent years. And I think that we are going to bring very good results for EBX and CCX, which is our new company that is going to be listed in Bovespa very soon. And I would say that the whole of the campaign as a final result will lead to the pre-feasibility study that is expected in the upcoming weeks that we're going to talk very soon.

Also, the plants of Pecem and Itaqui are about to be ready. We are going to talk about the schedule. But for us it was very important to see the progress that we had in the two of the plants. Remember this is a BRL6 billion investment program, one of the largest investments in the growth acceleration program of the Brazilian government. And we see

almost 100% of execution, great satisfaction, despite all the difficulties that this type of investment brings to implementation.

So going to our investments, our thermal plants, I'm going to turn the call over to Marcus Temke that is going to give us an update of investment next steps and the startup of the plants.

Marcus Temke {BIO 15883157 <GO>}

Good morning, everyone. I'm going to talk a bit about Pecem. We are in the finally commissioning phase; the scenario there. We have manufacturers, operation technicians. We are testing out the systems. The systems have already been individually tested. We have all utilities, compressed air, water, coal. We have already unloaded five ships with coal. We have coal in the shipyard. So all the pre-requirements for us to start operation, peripheral systems, connection with the electrical system.

We already lit up the boiler. We had the blowing and cleaning up the lines. And now this weekend we are going to the final phase, which is the phase where you're going to generate steam and blow steam to the turbine and very soon connect the electrical system and have the last tests that we supposed are going to be completed by April 15. The idea was to finish in March. But we had some problems in Pecem with a strike, a small one in February and now in March. That has been settled. And so that has been a problem. That escapes a bit our control but is being dealt with.

So I think the focus is that we are no longer in construction. We are in commissioning now and very soon we are going to have the plant in operation. It's also important to highlight that we had an approach with ANEEL highlighting the events that we had that were outside our control, as ANEEL says, excluding factors and they recognize 4%, 204 days of excluding factors out of our responsibility. And we know we had already an approval for 150 days and -- for 60 days and now we are settling the additional days.

So in Itaquí a very similar scenario. We have already carried the boiler. We are going to start the blowing of the lines. We are a month something behind the thing but within the same mindset. We are checking the fine equipment. We unloaded seven ships of coal. The shipyards are ready. Everything is just ready to start.

So Parnaíba, on slide number seven, this is an update of the implementation of our Parnaíba plant. Remember we have 1,553 megawatts contracted last year. We have all our EPC contracts signed and in full speed with Duro Felguera and Initec, Duro Felguera responsible for phase one of Parnaíba, those projects that we've acquired from Perching [ph] and Initec responsible for the plants that we won in the auction. So the progresses are in place. We call them phase-one and phase-two projects and we are within the expected timeline.

It's very important that we already have five turbines of the seven already acquired. Two are on site, two are on the part of Itaquí and two are already being shipped to Brazil so,

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again, GE is really securing supply. This is very good for you to understand that we are going to meet all of the deadlines, as we have done so far.

Another important thing is that we are very advanced in the implementation of the site sub-stations, thermal equipment. We have more than 200 people on site. Everything is moving as expected. I think the most important thing is that development of production, gas pipeline, everything again moving on very smoothly in our schedule for us to have, as of the next half of the year, being able to provide gas to turbines.

Just remember that we are talking about additional 2.2 gigawatts. That's very important to have 230 that equates [ph] to have a total capacity of injecting this additional energy in the line in the system. So I think the challenge that remains is to have more contracts with the Parnaiba complex. And this is the effort of the Company to continue growing and making Parnaiba one of the greatest sectors of growth in the Brazilian region -- in this Brazilian region. Also important to remember that the BRL825 million bridge loan has already been disbursed to Parnaiba one -- phase one in December 2011 with BRL600m.

As for natural gas at Parnaiba Basin, we have already eight wells drilled in Gaviao Real so production wells we already have the -- six wells, sorry, already completed. We had also two exploratory rigs -- wells that we are going to turn into production. So the idea is to have the total wells that are going to take up the needs of our thermal plants in phase one and phase two. And very soon we are going to see the results of those wells and, again, we are within schedule to have all the production network ready by this year.

It's very important to say that we just added a new rig to Parnaiba. It's already operating in the region. Part of the equipment is already concentrated in Gaviao Real for development of production. Drill rigs; we already have one rig operating in the south for exploratory wells. And now the idea is that updating projects have been signed by OGX.

We are already in the first drilling. The idea is to have one rig directed for drilling. If necessary we are going to have another rig. We are also going to have an onshore rig that's already been mobilized for us to streamline the process using the large rigs for drilling and so that we can meet the program of Gaviao Real. So we have four rigs aligned and we are thinking of perhaps another piece of equipment but, again, the flow is going to be very good of Parnaiba.

And the objective again is to drill the whole 16 production wells and also be able to maximize out of the project whatever is possible this year. We have much clarity that whatever we can find out we do have a market. So we are just running against time. We are going to drill. If we have an exploratory success we have to work with the agency to approve additional reserves and provide growth for the Company.

So again, as I mentioned in the beginning, for us it's very important to reproduce the growth that we had last year. That is, last year is already passed, this year the Company is going to grow and we are upstream, downstream working for this growth to happen.

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Going to Colombia, again, we had 27,000, almost 28,000 meters completed, an additional 10,000 added since the beginning of 2012. So a total of 37,000 meters, a very good result from the beginning of last year. We've suffered a lot in terms of productivity of rigs, training and we were able to cope with that. As of July we started to have very good performance. We recovered the monthly events of Colombia and that led to the result of 27,000 last year and 10,000 this year.

So today we are at a level of productivity there that is very, very good and that brings us lots of satisfactions. We have six drill rigs. We had a peak of 10 last year for us to meet the 30,000 -- 37,000 meters, all positive, with seams of up to 14 meters thick. The San Juan Mine is using very good results so far. And I would like to say something. That our team of mining and geologists worked with OGX and for the first time in the coal industry we used processing techniques with very high quality.

We used facilities in the States, in China, Brazil. So it was an extraordinary work that gives us a quality of processing of seismic studies 2B, 3B, that gives us the confidence in the engineering projects that we are developing that I believe we're pioneering in the coal industry. No other industry had this set of tools, because we just put together technologies of oil and coal to have this quality of processing that we had in Colombia. It was perfect, really spectacular.

And it's also important to say that our certification for reserves and resources is being conducted by the best companies, AMEC, Golder Associates. And you know in terms of the drilling campaign and the mining campaign we really can say that we have one of the best technical teams in the world. And I hope you all see that when we start to issue our reports to the market. You're going to see the quality of the engineering projects that we are having in Colombia very nice that gives us the confidence for the development of CCX.

In the case of licensing it's important to say that we had the first meeting with some indigenous people and we have another one set for May with the four communities. So we are forwarding this process of public hearings with all the stakeholders. It's a -- Colombia is a process like any other process in Brazil. But it's a process that we look at 360 degrees to meet the needs of the stakeholder. So we're doing there exactly as we do in Brazil.

So we are advancing along these lines. The Colombian government has been very helpful to understand the structuring degree of our project, because it's a project that has highways, mining. It's going to be one of the largest investments in Colombia for the next years and we've been supported by the government. And this is very important. It actually confirms the excellence of Colombia in terms of welcoming and encouraging investments -- investment in infrastructure and natural resources.

In terms of the right of way we have five teams working in mine areas. This is also an area for attention, for concern. We're mapping out and engaging in negotiations so that we can accelerate the deployment of the project itself. Licensing of San Juan Underground Mine will start soon after the completion of the mine plan and reserve certification. Then

we'll go for the licensing into the pipeline together with a port permit or license and the railway, with a project that has already advanced quite a bit.

So I think Colombia -- I would also like to highlight that the work conducted at MPX together with the team of CCX, which is totally on board with us. So we're working together, more hands that is. It's been a great work with Leonardo Moretzsohn, the CEO for the Company. And the management team. They're all working with us in the phase-in, phase-out process, which is very adequate with the team MPX, team in Brazil supporting this effort. And this shows a very good degree of maturity in this transition that will result into another company of our Group that will be listed, that is, CCX.

I'm confident that CCX will be created with all processes already running smoothly, management running at 150 per hour and the -- each investment relations also totally on the same page and in line. It's a very successful project and it will lead to very good negotiation.

Talking about the joint venture with E.ON, some highlights. The idea was to create the largest private energy solution provider in Brazil with the goal of 20 gigawatts. This is a great challenge. This implies that we have to grow one or two gigawatts per year. And an important aspect that should be highlighted here about this partnership. And I would really like to emphasize this, is that we said we already have a backlog of projects that's unique here in Brazil in terms of natural gas and coal. And now with our partnership we are adding renewable sources very materially.

The new trading that will be global trading using the energy platform that we have in Brazil, together with E.ON's global platform for fuel, I think this is going to be one of the most profitable units in the partnership, because we are present throughout the value chain. I think this joint venture increases the options for growth with these four drivers and, thus, it increases our probability for growth, our chance for growth in all these levels.

It's going to be a challenge, as I said. The management team is totally dedicated to that. It's negotiating contracts with E.ON. So it's a lot of work. We're working 24 hours a day so that in the short run we'll be able to reach good results. Then we'll take action to the other steps, which is the debenture holders, the approval of the merger and so on.

Another important aspect has to do with the funding possibility or part of the equity by E.ON. As we have disclosed before this is an important aspect, gives us financial standing and supports our growth.

CCX will be a company that will start as a listed company in the market with this transfer for cash with -- of BRL814m. So solely operational from start with a cash position that will enable it to deploy the Colombia project, which is going to be one of the largest projects in that country.

I've talked a little bit about the most important businesses. I talked about the four business units. It's important to say that, in parallel with that, we are going on with the celebration of the final documents, defining the ownership structure, the appointment of

representatives for new -- for the new company. So soon after we celebrate these contracts the new company will be working and building the organizational structure which will be the total of the two companies, MPX and E.ON.

So I see this running at full speed with lots of commitment from the teams, great efforts from the human resources areas of both companies to speed up the beginning of operation of the Company, which should happen in the next few weeks.

Here we have on page 13 the time schedule. From the signing of the documents you have another 85 days until the conclusion of MPX capital increase. It could be a little more or little less, depending on the opportunities that may have come up, maybe a small delay here or there. But we think this is basically the time schedule we should work with. And this will lead us to June if these contracts are celebrated in the timeframe that we expect. By the end of June we should have this operation fully concluded.

On page 14 I'm going to give it to Rudolph, our CFO, to talk about the financial performance for the Company.

Rudolph Ihns {BIO 15372505 <GO>}

Morning, everybody. I'd like to say that in 2011 we invested BRL2b, one of the largest investors in Brazil in nominal terms. With this kind of investment we need to put in the projects and, in the holding itself, resources to -- for development. And due to the IFRS characteristics part of this investment goes to S&A -- SG&A. And here we have what's happening with the holding.

We went down 7% from 2010 to 2011. You'll see that there's a migration, as planned, of the people -- of the personnel from the holding SA to the projects and, more importantly, Parnaiba, a new project that started last year. But also other projects that are starting to operate now. So this decrease of -- from the holding is expected. With the spinoff of CCX this will go on happening. So this line of SG&A will decrease along the timeline.

Next page you see the consolidated SG&A. So due to the high investments in projects which are advancing very fast, like Parnaiba, a project of 1,500 megawatts. And Castilla in Chile. And also the beginning of operation of Itaquí, we have an increase of personnel for these projects, new hires and some people being migrated from the holding to these projects.

So part of the development of these projects is made with third-party resources. So here we're talking about engineering company in Colombia, AMEC. All the environmental legal comes from Chile, communication also. In Parnaiba we also see third-party services, because in the past we would capitalize this. Today we have to put it as expenses. So the highest level of expenses in 2011 is explained by this fact. And as these projects mature and start to operate the expenses of consolidated SG&A will be reduced.

In regard to financial performance we also see an increase of financial expenses. This is something to be expected as we invest. But there is one specific factor, which is the

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debenture that was captured mid-year, which enabled us to get this cash and accelerate the Parnaíba project, a project with very fast returns. But we had interest expenses of BRL50 million with the entering of E.ON. And the capitalization of this debenture in 2012 we don't have these expenses any more. So you're going to see a drop of this entry in 2012.

But we have BRL62 million which must be explained. It will be accountable for the future. We calculate the fair value for the debenture. And the rule is if the price of the shares goes up the derivatives will increase. So it's a purely book cost. The real cost of this debenture was BRL50m. This is just for booking purposes.

So going to the debt, I would like to say how we're managing our debt. Our position is currently very comfortable. We have increased the profile of the debt for the projects. Today the maturity profile is 14 years, BRL3.3m. The most important thing is that the debt that shows for short term is a debt that was contracted by the end of December, BRL600m [ph] bridge loan to Parnaíba plus BRL279m. So the total amount of resources for Parnaíba Un [ph] is already there to move on with the project. This was something done together with BNDES, Itaú, Bradesco and Santander. So a mix of private banks and BNDES.

Additionally, the short-term debt also accounts for BRL280 million allocated at MPX Colombia. So with the creation of CCX this debt will go to the CCX balance sheet. So we're going to increase the profile of the Parnaíba debt. By June the Company should not have any short-term debt. It will only have short-term debt regarding new projects.

The average cost is very competitive, 8.9% per year. And the average tenure 6.7 years. So you'll see that we finished the year with BRL1.5 million cash consolidated. And the amortization of the debt is BRL672m, in 2013 BRL910m. And part of this will still be elongated. So we don't have any -- have amortization for the next two years.

To wrap up the investment aspects, in 2011 we accelerated investments for generation. So we have BRL1.8 billion in investments only for generation Pecem I, Pecem II, Itaqui, Parnaíba, the big hike being Parnaíba, where we have practically all the investment made by mid-year this year, Parnaíba (spoken in foreign language) phase one with the four turbines and the starting of energy production by 2013. So we already have these resources in cash. And if you include Colombia here you will see an investment of BRL2 billion in our balance sheet, which is what I referred to previously.

Let me now give the floor to Flavia, who's going to talk about the performance of shares last year.

Flavia Heller {BIO 20420964 <GO>}

It was spectacular I think due to all the conquests, everything that we've managed to do from our eighth IPO on. The shares increased 90% during the year. I think something to be highlighted is the increase of the average volume -- daily average traded volume, which reached BRL15m, an increase of 30% against 2010. This is a very important point.

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We have to ever -- to grow ever more. We are planning a split of the shares to boost even further the liquidity of these securities. And this will be after the closing of the transaction with E.ON.

Now (inaudible) Eduardo Karrer.

Eduardo Karrer {BIO 15883150 <GO>}

Before we go onto the Q&A session I'd like to highlight two aspects, two figures which seem important to me. And perhaps we have not duly talked about it. With these contracts, if we analyze the total amount of nominal values for the Company I think we're talking in excess of BRL20m. You see how robust the long-term revenue is for the next 20 years. So this is an important piece of data to understand what the Company's going to be worth in the next 15, 20 years.

The second piece of data is that the level of investment that we saw last year, which is similar to what we're going to do this year, places the Company among the largest investors in private companies, the largest investors in Brazil -- I mean the largest listed companies. There are not many companies that can be proud to say that they've invested something close to BRL2 billion in the last two years, BRL2 billion per year. So this is very important.

This shows the level of execution and materialization of projects that we see in our Company. Again, there are not too many companies in Brazil which can be proud to say that they did this and will do again this year. So these were the two pieces of data I wanted to share with you just to show the robustness of the process for deployment that we see here in the Company.

Now I'd like to open for Q&A.

Questions And Answers

Operator

Ladies and gentlemen. we will now start the Q&A session. (Operator Instructions) Our first question comes from Marcio Prado from Santander.

Q - Marcio Prado {BIO 15398968 <GO>}

Good morning, Eduardo, Rudolph, Flavia. Thanks for the call. I have two questions, the first with regards to the drilling campaign in Colombia. If you could give a bit more detail about the main milestones along the first half of 2012. In previous calls you talked about the possibly issuance of a report with an update of the drilling campaign. So if you could give us a bit more detail on what to expect in terms of targets for your drilling campaign.

And my second question is with regards to the so-called Bertin projects of Parnaiba. As for construction deadlines, in our understanding MPX is going to follow the same times

that were scheduled for Bertin Group. Since we are seeing a bit delay in Pecem and Itaquí what could you say about meeting the deadline in Bertin? Is that your expectation, to be able to have the startup in line with what the Bertin Group had committed later on -- earlier on, sorry?

A - Eduardo Karrer {BIO 15883150 <GO>}

Well thank you for your question. First, with regard to Colombia the situation today is the following. We are in several work fronts to advance and complete our resources and reserves report. Our target is to have those reports ready very soon. I would say that we are not far from releasing those reports. I think it's going to be in the coming weeks. We have people working in the States, in London. So lots of people working for that. So the work is developing as planned in terms of scheduling.

We completed our campaign in December last year, part of it. We still have very positive drills along this year. So basically what we wanted was to adjust the number of drills that we wanted to have in the report. Then again in the coming weeks you're going to have our resources reports. But I would say that we are in line with what's expected in terms of times.

And we have an HH that is very good. We have one group working with resources, the other with reserves and engineering. So we have different work fronts that are working simultaneously. So we are in line with what we disclosed to the market in terms of time. So I do not see any major variations from what was previously expected.

As for Parnaíba, in the case of gas, with the first wave of projects that are being developed this year, we are talking about open-cycle turbines. Now, if we were to divide projects into three groups I would say the simplest group -- and Marcus Temke is going to give me a hard time -- are the open-cycle turbines, then a combined-cycle gas turbine and then a coal turbines company. And that's why we have three, four years for our coal plant and one to two years for our gas plant.

So I would say that the speed -- the development of execution of a gas contract is huge. So for example, if you think of it today we have our contracts with a 40% advance in EPC and advances are very fast, because events are very simple. The turbine comes in. You have to have the foundation. You have to work with substation. So things happen very fast. And we see that. We monitor the progress of each of our sites on a weekly basis and it's great.

So is it challenging? It's challenging. Are we going to start operations this year? We will. OGX is going to deliver gas to us in August and September. This is strictly on time. But it is a race with obstacles. We have to have our turbines in place. GE has met all the deadlines. They even gave us turbines in advance. We have 1,200 men working on site.

So what is important is that we adopted a strategy, both ourselves and OGX, of having lots of pre-manufacturing work off site. That helps us. So we -- on the site we have preassembly and conditioning and so, of course, we don't have as much stress. But it is

stressful and they are challenging sites. But we are going to deliver this year. We are going to start operations this year. And you are going to see the progress of this process.

I was talking to Flavia. I think that as of June or July I think it's a good time for us to start taking investors, banks, partners, stakeholders to the site and then you're going to see the level of the project. As of June you're going to see the turbines in place. It's going to be very nice. And you're going to see how fast it is to start up the turbines in open cycle.

Q - Marcio Prado {BIO 15398968 <GO>}

Okay. Thank you very much, Eduardo.

Operator

Our next question comes from Sergio Tamashiro from Safra.

Q - Sergio Tamashiro {BIO 2274485 <GO>}

Good morning, everyone. I have some questions. I'm going to pick two. The first is about the delays and the approval of ANEEL because of the delays, 90 days for Itaquí, 150 days for Pecem. I would like to understand what all that means. Is it just losing revenues, or you're not going to have fines being collected? You're not going to have revenues. You won't have to buy in the spot market. So I would like to know what the financial portion is going to be like until startup.

The second question is about CapEx. In the beginning of the year in future -- in previous press releases you gave expectations for CapEx in each one of the plants. So we would say 2.8 for Pecem I [ph] 30% of CapEx to be performed in 2011. And almost all of them meets the expectations of what was realized. Starting Pecem I 2.8 30% gives you BRL855 million and all together you only invested BRL296m. So I would like to know why the difference. Thank you.

A - Eduardo Karrer {BIO 15883150 <GO>}

Well Tamashiro, I'm going to answer the first question. But let me tell you as for startup what happened when ANEEL recognized us the days -- 200-some days of exemption of responsibility and liability. We requested 60 days for Itaquí and 90 days for Pecem and, by the way, we were going to deliver on time but we had the two strikes, one in February and one in March. But we're all subject to that. And we are doing this today.

We are having a second adjustment with the agency after a series of justifications and we are going to calibrate the beginning of operation with what ANEEL is going to authorize in terms of startup. And with that we are adjusting the issue to avoid any kind of penalty or fine to the plants.

As for revenues, we had a loss of revenues because we did not start operations on January 1. And our strategy is very clear. We are working with the plants. We have EPC

contracts in place with a series of guarantees and terms and by means of these contracts we are going to seek to re-establish the initial economic conditions or terms of the plants.

So our strategy is an engineering strategy. But also financial. Bruno Chevalier our legal officer is also working with us. So it's a 360-degree management of contracts. And our commitment is that we are going to start up late. We have 90 days in one plant, 100-some in the other. But preserving the economic indicators of the project by means of this integrated management of engineering at implementation and financial and legal in the suitable management of our EPC contracts.

Q - Marcio Prado {BIO 15398968 <GO>}

Just for further clarification. So, you no longer have the revenues. But are you obliged to buy in the spot market? What part the EPC contractors would be responsible for?

A - Eduardo Karrer {BIO 15883150 <GO>}

No. With due forgiveness. So to speak, of ANEEL we do not have to buy energy in the spot market. We are exempted from -- exempt from this liability.

I am going to ask Flavia to answer your second question.

A - Flavia Heller {BIO 20420964 <GO>}

As for the difference of CapEx, the number that was being disclosed was 100% of the project. Now this is the accounting number. So you're seeing 50% of the project.

Q - Marcio Prado {BIO 15398968 <GO>}

Okay, I got it. Thank you very much.

Operator

Our next question comes from Vladimir Pinto from Bradesco.

Q - Vladimir Pinto {BIO 1554020 <GO>}

Hello. Good morning, everyone. I have two questions. The first is about the prospects for auctions this year. We know there was a delay of A minus three and A minus five. So given this additional time period would MPX have the means to qualify other projects specifically from Parnaiba?

And second, just for me to understand better. So we can say that the expectation of the first unit would be mid-April, mid-May for Itaquí. And Pecém I [ph], is it going to be June?

A - Eduardo Karrer {BIO 15883150 <GO>}

Well as for the auctions I think that the postponement of A minus three, although it's going to be held in June, the registration of projects is still in a very, very short time

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period. So I think that in our case you are not going to see our projects applying because, again, we are running against time.

We are going to have exploratory success, basically, because of our partnership with OGX. And reaching success we have subsequent work with the agency to recognize the numbers for us to be able to take part in the auction. So for A minus three it's not realistic to think that we are going to have gas reserves or declarations of commerciality that can support that.

For A minus five, in the second half of the year, depending on the date, that is a bit more possible. So it is strategic objective again to push people to work hard so that we can materialize projects for A minus five. But again we depend on additional exploratory success. But for A minus three I don't think it is possible -- feasible.

Again, we are always looking into opportunities in the market, projects that can be available. So this is another growth factor for Parnaiba that I never rule out. We are really paying attention to opportunities in the market. So perhaps if we do have the means we may work with Parnaiba by means of acquisitions for participation in auctions.

As for Pecem, it's true we are going to be in the beginning of April, the first fortnight. We do not have the exact date. But around the first fortnight in mid-April we want to start up operations. We are planning to operate here following the spot price that shows the importance of thermal plants for Brazil.

We cannot live in a country where it runs 80% in a month and the spot price goes from 15 to 140. So it's too volatile. We have to have high-efficiency thermal plants in the system. That's the only one for us -- only way, sorry, for us to improve the quality and robustness of the energy complex in Brazil.

For Itaquí, also correct, we are going to start operations in May. I mentioned 40 days after Pecem. But the second machine in Pecem is going to start operations in June. So it's very important for you to know the schedule. Pecem II we are going to start up in advance. Remember the PPA is just for January next year. So if we have a spot price I'm going to settle it in spot and it's going to be good. That's what I'm demanding from engineering. You know, of course, we depend on hydrological conditions. But that's steady [ph].

Just going back for the auction, I talked about gas and thermal companies. But I would like to mention that with the partnership with E.ON we are also working very hard to have a backlog [ph] of wind energy projects. We are going to have material presence in renewable sources. We want the market to see that in a suitable manner in coming months. So there is the possibility that also in A minus five we can go in with wind projects in addition to gas projects. So the message is you are going to see growth in the Company in gas, wind energy, or coal.

Q - Vladimir Pinto {BIO 1554020 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Pedro Manfredini from JP Morgan.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Morning, everybody. I have two questions, very fast ones. The first, briefly, CCX and then I would like to explore the strategies and talk about the growth for this year and for next year, as Eduardo was starting to talk about.

About CCX I would like to understand a bit better. I understand we have -- must have a business plan update before the subpoena to give us a better view for the market in terms of reserves, for adoption, logistics. I think all these matters are important.

But first of all I would like to understand this first cash transfer that you're going to operate to CCX of BRL814m. What do you -- what can you do with this BRL814m? Is it the first phase for the port? Is it the highway? Are you going to start any operations? Could you give us an idea what you will be able to make with BRL814m, what you will have in terms of coal production with this amount? Then I'll ask my second question, okay, which is a bit more -- it's a bit longer.

A - Eduardo Karrer {BIO 15883150 <GO>}

This responsibility will be for CCX's management. But what I see with our 43101 with our report on resources, which will be disclosed shortly, we're going to have a good ground, a good basis to review or to have a very robust business plan in the short, medium and long run for the development of San Juan Mine.

Additionally, we also have reserves from the other open mines. So all the conditions for an investment plan will be given in the next weeks and then, of course, CCX's management will update the business plan, which was the original business plan for MPX Colombia. And it's going to transform it, make it a CCX for -- a CCX business plan. And it will share with the market in the next two, three months. Then the company will be listed as of June, as I said. So they will generate the business plan, the update and they will talk about the reserves.

As for the cash that's being transferred, due to the higher or lower attractiveness of this area, that area, this asset, that part of the asset, I think the management team will prioritize allocation of this cash to whatever will give more returns to the shareholders.

So we have to decide how much you're going to allocate for exploration campaigns, how much you want from this CapEx to be invested into the mine planning and development of the first open mine. That's the managerial decision which will take place after the disclosure of the report and after the update of the Company's business plan. I think the Company will have enough cash to take some decisions and the sequencing of the exploration or the development of mining.

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As regards the licenses, I think we are moving forward and something that will be extraordinary for CCX will be to make -- have these licenses as soon as possible. Because we're going to have logistic gains, extraordinary logistic gains with our own port, our own highway -- or railway, rather, vis a vis what we would have to pay to third parties. So this will also be specified and will be taken to consideration.

CCX is already updating some drilling for San Juan. The time schedule for the drills will be decided upon after the issuance of the reserve report. So everything will be shared with the market in the next months.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Thank you very much for your answer. Can I ask a second question now, starting from the point that you left off and from Vladimir's question, A minus three, A minus five for this year. So for the next three to five years what do you see in terms of the balance for supply and demand?

What we've seen here so far talking to some agents is that today we have an oversupply which might lead to a limit in demand for the next auction. So my question is split into two questions. How do you see -- is there a possibility of limitation of demand for the next auctions? How do you see MPX growing in this scenario via auctions?

And the second question, as you said, there is a possibility for growth for -- through M&A, as was the case of Perching [ph]. And I remember the contract that you signed with MX and other partners in the pre-market for self-production. Is there such a possibility? How do you deal with it? Because in my mind this is a market where today, due to all the self-production scheme, you could have very attractive returns.

A - Eduardo Karrer {BIO 15883150 <GO>}

What we see is -- so, first of all, I think we are undergoing the final times of the short -- the short-term signals are switched. They are switched because you have an artificial balance, the official deck of many assets that will not start or go into operation. So when you see that the distributor is over supplied or over contracted this is not true. Because it's based on a gas, it's not going to happen. So this will show up, will emerge in six months, a year, year and a half, when you see the elastic turning very strongly to the side of the contract.

I don't work with short-term signals. I work with medium; and long-term signals, a growth that I imagine to be 4 megawatts or 5 gigawatts per year to support the growth projected for Brazil.

Another thing that will also accelerate this -- these contracts is that what has been supporting the growth in Brazil from the perspective of power and energy is the small industry and the emergence of these new markets. So we are beating consumption records. The industry has not shown its face yet. The day the industry starts operating and Brazil really grows in this area I think the train will leave the station and will no longer come back. So you will see the elastic provoking a very important hike in terms of contracts.

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So our take is that if you're going to contract 1,000, 2,000 this year, or 5,000 or 6,000 next year, this doesn't matter. In a two-year horizon the total amount is already set. At some point we're going to do the write off of this capacity. Industry will pick up again. You cannot grow a company only with power plants without reservoirs.

Today we have 120 plus 60 insured that's above load. This leads to a high volatility of prices, going from BRL10 to BRL140 in a given month. So this is not robust in the long term. This has to be corrected one way or another. So what I usually say is from our 10 gigawatts I don't know what is going to come first.

I don't know if coal is going to come this year, or gas, or wind. But everything will have to go into the grid. I have no doubt about that, because this volatility cannot be withstand. You cannot have a situation where in one month you have rain and the price goes up to BRL150. No. This has to be changed. So my take is -- you ask how will I grow. Well in a scenario of fewer contracts, as apparently it's going to be this year, I have two possibilities to grow.

Either I have the most competitive projects in the market and I'll have my last megawatt going into the plot that's going to be contracted. And I think this is the case. If I get more gas for Parnaiba I'm going to bid and I'm going to win. Nobody can beat us in terms of competitiveness. Much more now that we have 2,000 megawatts our incremental capacity is absolutely competitive. Everything in terms of infrastructure, the development for production, everything is already planned for it. So we are competitive due to the assets of our projects, which places us in a scenario even -- competitive even in low contracts.

And due to the reasons I explained I think Brazil will require more demand in renewable or in thermal and it will be open for negotiation. This will also lead to growth for us. So competitiveness in our portfolio added to the level of assets that we are going to see in the medium run make us confident that we are going to reach the mid-term target of 20 megawatts for the joint venture.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Thank you for the explanation.

Operator

Next question comes from Marcelo Britto from Citigroup.

Q - Marcello Britto

Good morning. I have a question about CCX and another one about Castilla. As to CCX, I'd like to understand the success level that you have in the negotiations in terms of the right of way in Colombia. And also do you have an estimate of the right of way in Colombia? Who grants it? Is it the owner to the sell this right of way, or is it something that's granted by the public power? They offer it for a certain number of years. And what is the compensation for the property for your port?

And the question about Castilla in Chile. We saw that they suspended the environmental license and led it to the Supreme Court. So this changed the environmental classification for the project. So what will happen if the Chilean Supreme Court reaffirms this new classification? Do you have to re-adapt the project, or do you go back to the drawing board, to ground zero? Or do you need other approvals? Does it change in terms of soil used for Castilla?

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A - Eduardo Karrer {BIO 15883150 <GO>}

In terms of the first question I'm going to give the floor to Bruno. The second one will be answered by Bruno.

Well Colombia is very similar to Brazil. You have the same legal mechanisms in terms of right of way. The routines for this possession or use for projects for government interests, they're very similar to Brazil.

So we could just lie down and expect that these mechanisms work. But due to our strategic philosophy, as we always do, we are mapping the properties. Whatever makes sense for us to buy we're going to buy to accelerate projects. So we are going to buy beforehand whatever we can buy and should be bought to accelerate the implementation time schedule.

We did this for the port. We have almost 90% of the area. We are mapping out for the railway, for the mine area. So we intend to maximize the possession of areas, a certain exchange according to a certain strategy that we have here. And whatever is not ours we're going to follow the legal procedures in Colombia. Their legal system is very well established and it's very similar to ours, I should say. So the mechanisms and the strategies adopted in Brazil are exactly the same ones that we adopt in Colombia.

As to the Castilla question I'm going to ask Bruno to answer.

A - Bruno De Rossi Chevalier {BIO 15883148 <GO>}

Well let me add something about Colombia. We did an initial survey of the land. Then we complemented when we felt the need for more details. We did a mapping with the teams in the field to start negotiating and buying these lands and the right of way. So we are -- the second phase has already been finished, the mapping.

We have already engaged in the second round of implementation and we are now at a phase of negotiation. The legal rights are practically the same that we had in Brazil, right of way. But in some cases the mining project will be integrated with the logistics so that we gain leverage in terms of public interest.

Of course, we start negotiating and then, if need be, will -- we are going to use other tools. So we have tested the system, we know how it works and we don't see any difficulty in having access to these areas or taking possession. So this makes us very comfortable.

As to Chile, it's a legal matter today. I was reading the Chilean press defending us, which was surprising to us. They are actually criticizing the government, saying that when a company obtains a license after all the paperwork and you're ready to start construction and then the legal system comes and stops it. So we have already appealed last Monday to the Supreme Court and in two or three months we should reach a result, an opinion.

We are very confident. I don't think we have anything to fear in this respect. But it's an internal discussion. And the same thing that happened to us in the electric industry, there are several multi-nationals in mining that have already also suffered the same problems and had to stop their work.

So it's a phenomenon that has been worsening in Chile. But everybody is looking out for that. I don't think though there is going to be any problem. We don't have to go back to the beginning. The license will be valid and we'll resume construction.

We are going on with the negotiations with the contract, with the financial discussions. We're validating the plan. So our expectation is that when this legal decision is reached everything will be ready and we'll be able to announce the beginning of the project.

Q - Marcello Britto

Just to add, if there is a negative decision in terms of environmental classification what do you have to do? Do you have to change your project to meet the new level, or do you go back to ground zero?

A - Bruno De Rossi Chevalier {BIO 15883148 <GO>}

Well this change, when discussed previously, we already made the necessary adaptation. So the theory that was raised now is not that the environmental classification is stricter and you will have to change a project, reduce -- increase filters, or reduce CO2 emissions and then it's going to be the thesis or the hypothesis that was raised by this court. That is in a different region from ours. It's not the same court that judge it initially. It is as if you were talking about a (inaudible) issue. But you were discussing it in San Paolo.

So our court said no. So they're appealing to other courts, which is possible in Chile. In Brazil this wouldn't be possible. But in Chile this is. But anyway there is no way we could adapt to the project because, in fact, you were meeting the loans. What the court decided is that it is not -- the problem is not with the emissions. It is an urbanistic problem. So you are meeting with all requirements. But that's not enough.

The mere existence of any substance in the production process would be enough for you not to get the license. But if this is true there wouldn't be any thermal company in Brazil, steel company, nothing, because you do have emissions at some level. So what the law says, if you are within the limits -- and in Chile they are similar to the most strict limits at world level. Anyway, if you would meet those limits you would have a license granted and you would be able to operate. So our thesis and what we have in our report is that the Company is ready to operate.

But this court is saying that any emission, regardless of limits, will not make the license feasible, which would paralyze the whole of the Chilean industry. So what we are trying to show is that this is not feasible in a country that wants to have companies. And our court has already decided on that.

Q - Marcello Britto

Okay. Thank you.

Operator

We are now closing the Q&A session. I would like to turn the call over to Mr. Karrer for his final remarks. Please Mr. Karrer.

A - Eduardo Karrer {BIO 15883150 <GO>}

Well I would like to thank you all for attending our call today. And to summarize, 2011 was a good year a year in which we met our challenge of growing. But December 31 is the closing of a year. We are starting a new year. We have plans to deliver gas, thermal. We have CCX. We have lots of news for this year and rest assured that the Company is following its responsibility of reproducing this year what we had last year. So this is the commitment of our management.

And any questions you may have, myself, IR Officers, they are all here for you. Thank you very much.

Operator

The MPX conference call is now closed. We thank you very much for attending and have a good day. Thanks for using Chorus Call.

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