# Q1 2013 Earnings Call

## Company Participants

- Eduardo Karrer, Chief Executive Officer
- Marcus Bernd Temke, Chief Operating Officer
- Rudolph Ihns, Finance Director
- Xisto Vieira Filho, Energy Regulation and Trade Director

## Other Participants

- Felipe Leal, Analyst
- Sergio Tamashiro, Analyst
- Tatiana Feldman, Analyst
- Unidentified Participant

## Presentation

### Operator

Good morning. Welcome to MPX conference call to discuss the results of the first quarter of 2013, an update of its projects. At this moment, all participants will be in listen-only mode. Later on we are going to start a question-and-answer session when further instructions will be given. (Operator Instructions).

I would like to remind you that this conference call is being recorded. I would like to now give the floor to Mr. Eduardo Karrer, CEO of MPX. Mr. Karrer, you may proceed.

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

Good morning to all. Thank you for joining us. I have with me the management of the company in addition to our Investor Relations Officer. Before talking about the highlights for the quarter, I would like to make an introduction. I think that the company recognizes that this quarter was very difficult.

The company's result was bad due to a combination of challenges both industry related and company related. We are the one that added the most megawatts to the energy industry in Brazil, but that coincided with a moment of stress in the industry in terms of prices. So we had a double challenge and this is reflected in the figures that we disclosed last night.

The company recognizes that and is working to address each and every one of these points. What mitigates this a little is that most of these events are non-recurring events and that has to do with the start up of each one of the plants. As for the figures that we disclosed, basically our loss, 70% is given to the energy account and a good deal of the rest are higher costs given the ramp-up curve of the plants, particularly the coal-fired plants.

I would like to highlight that in this quarter we did intense regulatory work by our shareholder group working with ANEEL. They did very good technical work and (inaudible) important games in terms of adjusting the start up of the plant in essence of having the recognition of revenues and values to be reimbursed to the company. As of the beginning of the power purchase agreement, PPA. So this is very important work that will continue in the coming months. And we expect to have very material results both from the regulatory financial standpoint and from the standpoint of moving along in the technical discussion with the regulatory agency.

Something else I would like to point out, there is something that we see as positive, which is after the stabilization of the coal plants, particularly Itaqui, we see these plants with a relative leeway for our equipment turbines, boiler. So that -- I believe that after we stabilized at contracted levels, I see a very positive outlook, positive chances in the future that we will be able to have an additional production, if we are able to continue to stabilize coal plants in higher levels and Marcus Temke is going to talk about that.

Something else I would like to mention is that despite all of these non-recurring events and that are typical to start-up operations, the company is working strongly on rationalizing our corporate costs involving corporate services, shared services, the direct SG&A expenses of the company. And we're working operationally at each one of the FPEs [ph] and I would like to share with you that this is a continuous ongoing work in the company. The management is weekly devoted to fulfill our goals asset by asset in the company.

If we look to slide three, we have some highlights for the first quarter. Well, obviously the definitive agreements that were signed between our controlling shareholder EBX and E.ON to transfer 24.5% to MPX at a price of R$10 per share. And the subsequent capitalization of the company R$1.2 billion will enable the company to capture growth that we expect to happen in the short-term, because we see the industry with a short-term stress, but this will also lead to very good opportunities that will allow us to make a growth leap and the capitalization will be key for that.

In the next two to three months, we will complete the reintegration of the joint venture, the JV MPX-E.ON that will be reintegrated to MPX at book value, about 50 million and that will be an important value and will lead to an optimization of the organization.

I would like to highlight the capacity in operation. This was the first quarter that where we had effectively a large scale operation, difficult to compare with last year when we had three big projects being built. In this quarter we have the capacity in operation reaching 1.4 megawatt and the volume of energy sold of 1.363 gigawatt hours.

It's very important to highlight that consolidated net revenues in a very accelerated process of evolution, R$196 million according to IFRS standards. But if we talk about our power, MPX power trade unit, then that's more in terms of revenue for the company, the revenues are going to be very different from last year. We're going to have very significant sales number in the end of the year. Another important thing was the conclusion of the acquisition of TPP MC2 Nova Venecia with 176 megawatt and the transfer of this project to the Parnaiba complex. With that we fulfill the capacity of the machines that we have in the Parnaiba complex.

And finally, I'd like to highlight the agreement with Kinross for implementation of 56 megawatt gas-fired thermal project in the free market. It's important because it opens a door with ongoing exploration over there. In the future we'll be able to sign more contracts in the free market, because we see this as a healthy option having regulated free market and I think that Parnaiba is a generation complex that meets the needs of this market.

Moving to slide four. I'm going to give the floor to our Operations Officer, Marcus Temke, who is going to talk about our power plants in operation and under construction.

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

Good morning. On slide four, we have our five operational sites. Going over them very quickly, Amapari's mature operation, we'll be doing various continuous improving work, routine management and the results are improving a lot in terms of all the indicators. Itaqui, the project has been operational since February 5th and we see ongoing improvement of all indicators, either in generation or in terms of reliability. We still have room to improve. We still have some gaps there we're working on, but as Eduardo mentioned, we have identified the problems. We have an action plan for each one of these items.

And basically, what's been a headache for us are little problems and issues in peripheral equipment, some adjustments and controls, what we call childhood diseases. We've had excellent support from E.ON in all areas, in processes, in operation, and now we've tried having more support in engineering as well. So that kind of reinforcement and support is welcome so that we can achieve excellence. We've been also benchmarking and we're working very strongly.

And I believe you have followed our information disclosure informing that we have satisfactory generation levels. And we've been consistently producing above 360 megawatts. We are confident that we can operate this plant in higher levels and that can open some path to an upside of ensuring an increase in physical guarantee and exploring some alternatives commercially speaking.

Pecem I, turbine 1 had a start up in December. We've been generating the basics in some occasions with very optimized and improved reliability. We had a maintenance downtime recently, but the unit is back to operate, back on operations and I'm seeing that we're generating the basics, because lately given the spillway in the (inaudible), generation has been restricted in some occasions. But Turbine 1 is back on track, it's operational, and we're going to be sharing with you the performance. Turbine 2 is also operational. It's not commercial yet, but it is synchronized. It's generating above 250 megawatts and we are just now waiting the declaration of commerciality from ANEEL so that we can start the commercial phase of Pecem I Turbine 2.

Pecem II, we are in the final commissioning phase with run a number of activities and we should be synchronizing the machine in the second half of the month of May, after which we will request commercial approval. What we can say is that all of the deadlines, all of the phases, commissioning phases for Pecem II have been reduced, compared to other units, given our learning curve and the continuous improvement process.

Parnaiba, you are undoubtedly following our progress. We have four turbines operating at the basic level. We have been very, very happy with the start-up of these machines. From the first burn, first gas submission to the turbines until it was operating at base load. And two of then, it took 25 hours, even for GE that was a record. And while we see stability in generation and high reliability with performance indicators corresponding to those of matured plants. We're very happy with what we are having, what we're seeing in Parnaiba.

And we have our solar plant Taua with results above expected, partly because of climate reasons, climate sectors, and partly because of improvements that we added to the project. I don't know, Eduardo, if you would like to talk about the exploratory blocks.

## Eduardo Karrer {BIO 15883150 <GO>}

I'm going to talk about slide five, natural gas, E&P in this quarter. We have some important events. In Parnaiba upstream, with discoveries to the north of where we are producing now in the field of Gaviao Real. We announced, I think, the Chicote accumulation, Santa Isabel and Sao Raimundo with a net pay varying from 24 to 66 meters, showing that this is a very prolific basin for gas.

The major challenge is that, well, gas is all over the basin, so we have to get to the right point where we have the trapping of the reservoirs. And we have that with this these three discoveries. We now have, as we speak, we have two rigs, one geared to exploration and one to development. And I'd like to mention something very important about Parnaiba, which is the efficiency gains and cost reductions that we have seen in OGX Maranhao with a substantial reduction of the unit terms or deadlines for the drilling of wells. Total well costs encompassing exploration and completion, in other words, we are gaining speed, we're gaining momentum that's changing the dynamics at Parnaiba, which makes us to be able to cover more areas with fewer resources and lower costs, and we've been very, very happy with that. That's one of the elements that we expect to continue to have, because it will be a competitive edge for our company vis-a-vis other companies that might have an integrated activity as MPX.

Gaviao Real field, as Temke mentioned, has a very stable operation generating the basic level. Current gas production of 4.1, 4.5 million cubic meters per day. We started with 4 million. So that's like steeplechase, involving generation and developing production, finetuning the machine, testing, and that will be part of Parnaiba's routine in the coming years. Gaviao Branco field, we have the declaration of commerciality submitted to ANP, total estimated volume in place between 0.2 and 0.5 Tcf.

In Parnaiba, there is going to be a lot of work in addition to the Gaviao Real field. We're talking about 10, 20, 30 kilometers, there will be a lot of work involving MPX, OGX, etcetera and all of the shareholders trying to have the future interconnection among all of these fields taking gas where we have the licensed site. So you can expect very intense activities in Parnaiba in the next two to three years, both in the front of exploration, production, gas treatment, generation. In that site we're going to have the full value chain for gas in the coming years.

Having said that, I'm going to give the floor to Rudolph, our CFO, who is going to talk about the financial highlights for the quarter.

## Rudolph Ihns {BIO 15372505 <GO>}

Good morning. In this quarter, we had consolidated net operating revenues of R$196 million, 159% more compared to the same quarter of last year. But if we use the criteria of recognizing 50% of the commercial operation, our revenue considering the old accounting standard will be more than R$500 million. The revenue would be above 2 billion considering that the plants are dispatching all the time.

For Itaqui, among the 196 million, we have two major plants, Itaqui with 129.6 million with generation that's started in February and with the pass-through of the cost of energy that we have to do in the month of January, the pass-through of the Energy acquisition costs, during January when the plant was not generating for Parnaiba I. We see here that we have all three turbines operational in the first quarter. Turbine number 4 had its start up in April, as you know. And with this ramp up we were able to generate R$57.5 million from turbines 1, 2 and 3 and all of the operations have full capacity today.

Another important point that I will cover right now, our operating expenses. And now we have, like Eduardo said, an optimization of our structures for the start-up of the holding company. And we also have used through the corporate structure, which involved, first of all, the spin-off of Colombia because we are comparing to the first quarter of last year when we already or still had an overhead related to Colombia CPX [ph]. And also the JV creation and improved costs at the company level.

As to personnel expenses, our reduction here is shown in our balance sheet as 24.3% book value, basically due to our optimization. As to third-party services, Eduardo mentioned that we are working right now in order to have internal services those that previously were made by our parent company. So this has been made in-house now and we are reducing outsourced services. And as a result, we had a 45.1% reduction in outsourced services with good results.

As for leases and rents, once again we're already working in order to reduce the use of our leases and rents. And with these changes, in addition to the spin-off of CPX, we also had great benefits cost wise in terms of lease and rents expenses. As you know, this quarter was a quarter in which we've started to operate all the plants, virtually all at the same time, which was quite a challenge. And because we had a huge impact in terms of Energy acquisition at that time, now we show in Itaqui slide how our result would have been.

Assuming we would have to be without this huge impact, purchasing Energy when the spot price was high. So that's an analysis, Itaqui, for instance. It would have generated as a book value as it posted net revenue of R$129.7 million, but you will see that is a cost of R$164.9 million as Energy purchase. As a result, here we posted a negative EBITDA for Itaqui, in the first quarter accounting for 95.3 million of negative EBITDA.

Now when we adjust the figures, basically we consider improved in fixed revenue on an adjusted basis. Basically, because we have a partial DCO in March and April. And if we had the full DCO that would be a slight difference, but still we would have 46 million as fixed revenue. And we made an adjustment, if we hadn't purchased Energy. And if we had operated here with deficiencies, we have observed for coal and diesel oil, diesel oil is used to start up the plants. And then our adjusted EBITDA, assuming they were operating normally, even considering we only started as of February, Itaqui would be generating R$37.3 million as EBITDA with a margin close to 60%.

We worked on a similar exercise, through the half, we have in PC I, Pecem I. Basically the net revenue for Pecem, 103.8 and part of it obviously is related to the pass-through of Energy, which was 57.2 [ph]. But this transfer costed us 135.5. So, you have a negative EBITDA due to this impact brought from Energy purchase. And our negative EBITDA would be 71.7 in 50% of this plants. Now, during the same adjustment, I explained previously to Itaqui, our normal operation in this time frame, basically on one unit, which is the second unit that only started in April. We would have a positive EBITDA of R$32.3 million, and in this case negative income of R$41.1 million.

So when we focus on these two effects of Pecem I and Itaqui, there is a one-time impact, and only impact over the quarter and we don't expect it to be repeated, since we are not purchasing more Energy in the second half of the year except for the second unit of Pecem I, which is starting up right now. But R$236 million is the impact added to our EBITDA, so it was a strong impact, one time, it only happened in the first quarter and because our EBITDA or proportional EBITDA, how should I put it, the one that we posted is lower than that. We would have had a positive EBITDA in the first quarter based on our assumptions or the impact of Pecem I and Itaqui.

In the second quarter, I think Temke mentioned it, the four gas-fired turbines will be full-time, Itaqui full-time, Pecem unit I also with the DCO ready. And as of May, we expect to have the commercial operation of the second unit in PC I. So you will see that in the second quarter, our performance will be big compared to what we had in the first quarter, once again, with no significant impact caused by Energy purchase in the second quarter.

On page 11, I also show the result of OGX Maranhao, an operation that started up in January in Gaviao Real fields. We have nine production wells currently. And in the first quarter, we checked net revenues of R$35 million and EBITDA, even in the earlier ramp up, of R$17 million. So our margin is close to 50% in the first quarter. And today with the four turbines working full-time, our gas consumption is greater than 4 million cubic meters per day, which is normal. And obviously, there will be an income because the equity income of our stake on the field is already coming from the second quarter.

Now the slide on investment, I would like to say that we really had a reduction in our investments in CapEx. We invested in the first quarter in plants that are being consolidated in our balance sheet, R$305.6 million CapEx. If you consider 50% of Pecem I and another 29 million, because Pecem I is at the latest phase of investment as well as Itaqui, Pecem I, Parnaiba and Pecem II are still in the investment phase. I would like to say that we've invested another 9.7 million in Parnaiba Basin over this period.

We're in the late or at the last phase of investment to consolidate the 16 production wells. And as to surplus, I think it's important to mention that for May and June, for instance, we will no longer have for PC I and nor to Itaqui or Parnaiba I. We have a small increase in PC II, due to the last phase of construction. And for Parnaiba II, we still expect to see around 36 million. And we start with Parnaiba II now at BNDES with 100% stake. We know Petra has 30% stake, but today we have 100% stake in the project and chances are, we'll be injecting another bridge, another additional bridge, and we don't expect to see a lot of cash disbursement over the second or third quarter in this project. There is also a cash advantage, because you'll be having the integration of the JV, we'll be completing the process with E.ON, and (inaudible) we'll have about R$100 million as cash from the JV, the joint venture, also for MPX use.

As to indebtedness, our accounting debt in March, and by the way, this has been the level of R$5.5 billion, the only difference you will see in this case that this does not consider the R$1 billion, which is our Pecem I debt, and that's because we are not consolidating this way right now. But basically considering this debt, the majority of the debt, they are project time and there are two short-term debts at project level that I would like to mention.

And within this maturity for 2013 in short-term debt, we have R$740 million from Parnaiba I and II and they are equated at the project level, and there is still as bridge loan on a short-term to be settled once we have the long-term financing that is being released for Parnaiba I, in full, and in Parnaiba II to be released in the second quarter. And we have additional 204 million, which is the short-term debt, actually it is long-term, but for an accounting purposes, it is short-term for Parnaiba I, Itaqui and Pecem II.

Additional debt that you will see in the first quarter was an operation we've performed this way. In other words, we have a debenture at Itaqui level and it is expected to happen over the third quarter. And by the way this is with the bank that is supporting us with the project and they anticipate a R$350 million in the first quarter at the holding company level and when they raised the money in Itaqui, which is already guaranteed, then we will pay the remaining debt with the holding company, so the holding company can settle the debt. So temporarily, 350 million is the additional amount of the debt, but it will be settled with the proceeds of the deleverage of Itaqui that we're working on right now. So that was basically at the level of December, except for additional 100 million that you will see in the short-term basis. The debt that MPX is at R$1 billion is the debt that we are working on right now, so that in the third quarter we can extend the debt and we consider a five to seven year extension by issuance of debenture.

And we also expect the best time to make it happen once we have the results of the third quarter to be announced in August and capitalization of E.ON and all the plants up and running. We expect to have a very good rating to extend the debt for that time frame. So we'll have 1.2 billion cash stemming from the capital, from the increase, from the market and E.ON and we'll be equating our long-term debt, bringing the 350 million that I mentioned for Itaqui and extending R$1 billion, which is an extension we already working on. So these are the financial highlight, that's my feedback. And I'd like to give the floor back to Eduardo.

## Eduardo Karrer {BIO 15883150 <GO>}

Now we covered the financial highlights and we will be open to answer any questions you may have now in the Q&A session.

# Questions And Answers

## Operator

Ladies and gentlemen, we're starting now the Q&A session. (Operator Instructions). Our first question comes from Marcelo Sabre [ph], Brasil Plural.

## Q - Unidentified Participant

Good morning, everyone. I have two questions actually. First of all, I'd like to have a better understanding about what you would do in order to increase the assured energy maybe for coal-fired plants. It's not so clear for me, what's the upside in that sense?

And my other question is, could you comment on the timing for the follow-on of 1.2 billion considering the price of stock today is lower than R$9. Could you elaborate on that please? Thank you.

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

Thank you, Marcelo. Answering your first question, Xisto, is going to answer and explain step by step how we're working on it.

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

Marcelo, answering your first question, the increase in the physical guarantee. We have already submitted to the Ministry of Mines and Energy the request to increase physical insurance taking into account the data that we used in the auction and also the actual machine data allowing us to have an increase in our physical guarantee and naturally to be calculated by the Ministry by about 7 average megawatts. I don't think this should be a problem. The Ministry has to work on the figures now.

Answering your second question, about the follow-on. We've been working in order to come to the final closing of the short-term operation and then there will be a series of subsequent events like the new Board appointment, the formal operation and our timeline indigenous appraising to have the operation over June. So that's the schedule of the company right now. Thank you.

## Q - Unidentified Participant

Thank you.

## Operator

Next question Mr. Felipe Leal, Merrill Lynch.

## Q - Felipe Leal {BIO 2015017 <GO>}

Good morning, everyone. My question, well, I would like to hear from you how you envisage the auction of the 29 [ph] A-5. What are the projects you have readied to be involved and participate in the auction, and what is your expectation?

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

Felipe, here is Eduardo. Actually, we started the auction process, as you know, we have this option in our portfolio. It is really helpful, so we started with projects both for national gas, domestic, imported, coal and also considering the variable cost of units and other matters to be also be disclosed. So I guess the auction will prove to be very powerful, that give a lot of potential for coal-fired plants. That's how we see it, obviously depending on other conditions to be announced. But as you know, we have a project in the south of Brazil, actually, we have two projects involving MPX south and we have our Azul project.

So we're working through the JV and we have very intense work performed, so we can have proposals and get ourselves ready to compete with these two plants, the plant in Southern Brazil and also Azul plant in order to offer these two platforms for growth in the August auction process.

## Q - Felipe Leal {BIO 2015017 <GO>}

Thank you.

## Operator

Next question Tatiana Feldman, Brasil Plural.

## Q - Tatiana Feldman {BIO 16528278 <GO>}

Hi, Ed. Another question about the auction. What about coal opportunities and how do you envisage that? And then I have a next question, another question?

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

In the case of coal, I think that the variable cost of unit, CVU, leaves a 100% thermal environment to one more geared to coal or domestic gas, which we believe are the sources that can state the CVU of a cap of R$105.

In our case, we have different approaches. In the south of Brazil, coal has a lower price. It's a different technology for revised bed given the characteristic of Brazilian coal. And in the case of Azul, it is a technology adapted to imported coal, in our case, Colombian coal, which is basically the coal that we are using to operate our plants.

A good thing about these projects is what we call scalability. These projects have a lot of megawatts licensed and we can have a strategy for future growth. So we see this not only in the short term of growing this year, growing the number of megawatts, but we see it as a platform for growth for each one of these sites.

If growth comes along where we are going to have a very good chance of perpetuating growth in the coming years, both in the south of Brazil and in Azul, because based on our own experience if we get the Pecem site, for example, this is what happened to Pecem II compared to our first bidding round, which was Pecem Energy. We gain competitiveness, and that's the differential once you get the first project in the platform of 5 to 10 years. So we see this with a lot of optimism, obviously, expecting that the bidding round conditions will be adequate.

We also have financial discipline. We are not going to go for anything below our threshold of profitability that we disclosed to our shareholders and to the market overall. But we are fine, [ph] excited about the future growth in the company this year.

## Q - Tatiana Feldman {BIO 16528278 <GO>}

And I have one more question. You talked a lot about Parnaiba, and I think we share your enthusiasm about Parnaiba. Recently there was an announcement of a farm out by OGX, so I'd like to see how do you see the position of OGX Maranhao? And what about MPX, what kind of strategy would you adopt if OGX wants to sell their stake in OGX Maranhao?

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

Well, Tatiana, the company is fully operational today. We have dedicated people and with all the cash generation of the company over there because of the plants are already generating the base load. And in the short-term, we believe this is going to be the reality for the coming months at least.

So we have a self-sufficiency in OGX Maranhao, which is quite good. If you look at the economics of the company, if we see the cash inflow in our learning curve that I mentioned, the decrease in costs along all the production chain of OGX. I believe that OGX Maranhao is going to be one of our affiliates that will make us very happy both at MPX and OGX.

I have no comments to make about a possible divestment of OGX, this is nothing that I know about and I can't comment really. But in terms of the outlook for OGX Maranhao, what I can tell you is, in gas, it's like a steeplechase, in terms of exploration, generation, commercialization. And we're quite convinced that whatever additional reserve volumes that we add, we'll have a very high competitive level in the sectoral expansion in Brazil.

So exploration has this kind of responsibility i.e., of continuing to be successful, incorporating reserves with assessment plans, production development plans and we work together with ANP. So that's the kind of work that is part of that cycle that is not going to stop in Parnaiba, which is new discoveries being added, being transformed into reserves and production fields.

So my outlook for Parnaiba in the future is a vision of many wells producing interconnected with gas treatment plants, with compression stations, and possibly even more than one site license in addition to the one that we're working with. Since the distances are huge and after certain distance it will make a sense to have a second or even third site licensed in that specific basin. So I think that the future for OGX Maranhao is very exciting, the reality is already very robust from the financial standpoint. And as a shareholder of the company, I am very happy with the kind of performance in that asset.

## Q - Tatiana Feldman {BIO 16528278 <GO>}

Thank you very much. And very quickly about licensing. Are you trying to get the licensing, the additional licensing, or are you still thinking about it?

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

The answer is, well, we have these three discoveries that I mentioned, Santa Isabel, Sao Raimundo, and Fazenda Chicote, and we believe that in this level of discovery that we have today, we have an ability to interconnect with the Gaviao Real and Gaviao Branco field, it would be perhaps more economical. We have some production clusters interconnected to a gas pipeline than licensing a second site.

Since we're exploring, following a trend that we identified there, after a certain distance, then it would make sense in case of gas exploration success to submit a request for a second license. Always working with this fortunate coincidence of having the 500 KV to 130 KV lines in that region. So we'll always look for an intersection of points between the presence of gas and the favorable point to use the existing transmission line.

## Q - Tatiana Feldman {BIO 16528278 <GO>}

Perfect. Thank you, Karrer.

## Operator

Our next question is from Sergio Tamashiro, Safra.

## Q - Sergio Tamashiro {BIO 2274485 <GO>}

Good morning, everyone. I have a couple of questions regarding the improved efficiency in EBITDA. (inaudible) had mentioned -- by the way Rudolph mentioned the adjusted

EBITDA in minus 95 million that could move to 37 in Itaqui and Pecem I minus 72 million to 32 million. I would like to have a better understanding, in what quarter should we expect to see this improvements? Is that a ramp up, or in the second quarter, we'll be able to see the full EBITDA?

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

Tamashiro, Eduardo speaking. I'll give the floor to Marcus Temke, but before he speaks, let me just say something, or my view as the company manager. I believe that what we can and should expect as a company, and I believe shareholders and investors as well is a level, well, as projects become more mature, in general, we expect that every quarter should be better than the previous one, once we have our assets stable.

As a central line, that's what we expect and also what we expect to deliver to the market with the recognition that in the first quarter, we are owing. So my position as a Manager, it's my obligation to deliver a better quarter compared to the previous one. And now Marcus Temke is going to make more specific comments on assets.

## A - Marcus Bernd Temke {BIO 15883157 <GO>}

Sergio, the first big improvement we'll see in terms of variable costs will happen naturally once we have, and by the way we already doing that, we'll be over supplying our coal inventory. The coal we have today in the pier has higher accounting value because it was purchased 18 years ago at a time in which prices of coal in the foreign market was also higher. So from the moment we are now burning this coal and monetizing this coal, all replenishment is being made by our trading units and the advantage is that right now we are working with volumes added by E.ON and our coal supply is far more favorable today, adding more flexibility as well. And on top of that, there was an event logistics wise of one ship that went to the coal pier or coal inventory with demurrage and also some costs that are no longer being incurred due to bottlenecks we had in the beginning.

So just to give you an order of magnitude, the first supply that we're doing now with the agreement with E.ON will give us a variable cost of approximately 40% lower compared to the cost incurred with the accounting cost in our average accounting cost. So we have a reduction of the average cost and replenishing the inventory.

And another very strong impact event, like Rudolph mentioned, we already dramatically reducing our diesel consumption as support fuel. You might wonder, why are we doing that? Why did you use before? Diesel was used in all coal-fired burnings, and it's used for ignition and it also provides stability to the plant, particularly at lower capacities or loads. And once we started to have our capacity, our main goal was to provide reliability to increase our capacity and be less concerned with cost, so we could really have a stable plant.

From the moment we started to cure the childhood diseases, we decided to go down on diesel, and now we are above 316 [ph] megawatt without one drop of diesel. Diesel will still appears lightly in our reports though, but that's when we have lack of ability for any particular quarter at a restart of a plant we need diesel. But when we're over 200 megawatt, we can cut down diesel and that we can start using coal, which was far cheaper. So there would be a significant impact on our results and our variable costs. Thanks to this diesel-free operation. As to other items, we also have some point for improvement, but they are not still relevant. Our variable cost, for instance, this part for fuel considers over 90% of cost. So we'll be able to show that in the next quarter already or maybe coming back to the first part of your question.

## Q - Sergio Tamashiro {BIO 2274485 <GO>}

Okay. So maybe later on you could talk about the mid-long -- mid-term basis, we have negative EBITDA and consequently net income, net loss. So what about the time frame? When should we expect to see a positive contribution to the holding company? In other words, when would you start paying dividends and what about these funds? Are they important for you to work on financing for future projects? What about the whole financing aspect, the 1.2 billion that will be coming in. Is it for new projects or just to equate the financial status of companies today?

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

Good point, Sergio. The money that is coming in, the 1.2 billion, I can tell you that we have an estimate of having at least 1 billion reserved for 2014 onwards, so we can invest in new projects. We're speaking of any opportunities that might come up, particularly loan auctions or increased capacity in Parnaiba etcetera.

As to bringing the money back to the holding company, we did some planning. And actually rather than capital to pay debt for Itaqui and Pecem I that already expired as of July last year and buy Energy at the project level, we decided to perform two actions. One of them is to postpone some payments to match the project's cash needs and we also injected money from the holding company, 350 in Itaqui, 300 in Pecem I, and now we have an authorized being granted by BNDES for another 300 in Pecem I.

So we're speaking almost 1 billion as funds from MPX in projects with flexibility to pay this inter-company loan back be it through leveraging for Itaqui and Pecem II and maybe cash generation, which might be the case of Pecem I. So we're not considering dividend, but we're counting on cash return, significant cash return in Pecem I and Itaqui R$650 million, this cash comes back to the holding company and that greatly improves the holding company's liquidity. Temporarily, we had to put cash in the project and it's coming back quickly.

## Q - Sergio Tamashiro {BIO 2274485 <GO>}

Thank you. Last question, it's about CapEx. You had already mentioned that Pecem I, Itaqui and Parnaiba I will virtually have no longer capital injection. So, what about future quarters, what about the next CapEx curve? Will there be a significant reduction, and maybe if you could give me the curve for next year as well, it would be good?

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

Okay. Now, we have approved CapEx for this year, well, including OGX Maranhao about R$1 billion. And basically, if you see what we already invested in the first quarter then you'll have 314 million, including Pecem I. So the CapEx balance will be invested as of the second quarter by year-end, 650. But of this amount in Parnaiba II, like I said before, that our addition loan, Parnaiba II, for instance, 550 and it would be taken 880. So we still have more long-term financing to make up this CapEx. And if I give you an estimate for next year, we're speaking of 150 or 200 million of CapEx to conclude Parnaiba II, because Parnaiba I and coal projects will all have CapEx concluded by year-end. So that's our forecast today for the project.

The advantage is that Parnaiba II, well, the two open cycle units of Parnaiba II according to the EPC contract can generate revenues in the fourth quarter. So we're accelerating our CapEx in the project so we can have revenue in the spot market before PPA in the fourth quarter. So that's what we are working on right now.

## Q - Sergio Tamashiro {BIO 2274485 <GO>}

Thank you.

## Operator

This concludes our Q&A session. I'd like to give the floor to Mr. Eduardo Karrer for the closing remarks. You may proceed, sir.

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

First of all, I'd like to thank you all for being with us and just a closing remark. This quarter was extremely challenging quarter to us; results were not good at all. The company is in debt for the shareholders and the market, we are aware of that. So yesterday, for instance, we had 1,500 megawatt and our generation record yesterday, which is cool, but it doesn't eliminate the fact that we had debt. And we had to purchase Energy, particularly, to serve the coal-fired thermal power plants.

And for gas, I'm proud to say that a project that we acquired 2.5 years after the auction, we were in time and week after the original date in January. So in gas, I think we were within the company's and the market's expectations. I believe that now with the new moment of E.ON's stake at the company, we'll be intensifying the integration of competences at the company level in terms of construction, assembly, operating fleet management and this will add a lot of benefits to the company. We are working on it. So I don't want to make any promises, but I'd like to say, that at every quarter, we expect to have an increasingly more predictable company with asset by asset results, so you can really chart from us, chart efficiency from us in our operation, generation. So our trading units, if it is along the lines, it'll be one of the greatest generator of wealth in the company in years to come.

Thank you very much for your partnership for being with us. And if you have any further questions, count on myself, Flavia, and the whole Investor Relations area. Please contact us, so we can share any other information required. Thank you.

## Operator

This concludes MPX conference call. Thank you all for joining us. Have a great afternoon. Thank you.