

Q3 2015 Earnings Call

Company Participants

- Blener Mayhew, Chief Financial, New Business Development and Investor Relations Officer

Other Participants

- Pablo Castelo Branco, Analyst
- Unidentified Participant

Presentation

Operator

Good morning ladies and gentlemen, welcome to the Audio Conference Call for the Third Quarter 2015 Results of PetroRio Participacoes. Thank you for standing by. At this time, all participants are in listen-only mode. Later we will conduct a question-and-answer session for analysts and investors, and instructions to participate will be provided. (Operator Instructions).

This event is also being broadcasted simultaneously over the Internet and may be accessed through PetroRio's Investor Relations website at www.petroriosacom.br/ir by clicking on the banner 3Q '15 Earnings Release. As a reminder, this conference is being recorded and the presentation will be available to download shortly after it is ended, also through PetroRio's Investor Relations website.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call related to the company's business perspective, projections and operating and financial goals are based on the beliefs and assumptions of PetroRio's management and on information currently available to the company. Forward-looking statements are not a guarantee of success, they involve risks, uncertainties and assumptions as they are related to future events, and therefore depend on circumstances which may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of PetroRio, and could cause results to differ materially from those expressed in such forward-looking statements.

I would now like to turn the conference over to Mr. Blener Mayhew, Chief Financial, New Business Development and Investor Relations Officer of PetroRio. Please go ahead, sir.

Blener Mayhew {BIO 19502444 <GO>}

FINAL

Good afternoon. Once again we're here in this conference call to present you our quarterly results third quarter '15. I'd like to say that this quarter was quite challenging for the Company. The prior ones were also challenging given the low oil price, but in this one, in addition interest reaching the lowest Brent price since 2009, down to \$42 per barrel. We also have some operational problems, particularly a failure in the boiler that led to a shutdown of the field and we had a production loss.

So I will explain a little bit better the failure of this boiler. But this were the indeed a very challenging quarter and we believe that given the circumstances, we were actually able to deliver excellent results. The Company had two offtakes, we've sold 773,000 barrels. Our revenue was BRL127.9 million and we were able to have a first offtakes in July at \$57 and the second offtake at \$48.70, an average of \$51 considering the two offtakes. So in a quarter where the bottom reached 42 [ph] we were still able to sell at \$10 more than the bottom price. So we believe that we were fortunate in our choice.

We schedule to these offtake and we were able to kind of go around the bottom Brent price. Today the barrel is costing \$44, \$45. It's still is a very low price, it remains challenging. But the Company continues to follow a strategy to cut down costs and we believe that the market will be recovering eventually. The boiler shutdown, I'm not going to get into the technical details in depths but the boiler generates electricity to the field and the moment that it failed, we simply had no power at the field. We have to shut down for 14 days. That led to a loss of 120,000 barrels in production. But the strategy of the company when we have to face the shutdown it was to take advantage that the field was inactive to do all of the maintenance that we have to do every year. So we had a scheduled maintenance that was scheduled for November that about last 12 days and we don't need to stop now because we have brought forward the whole maintenance service during this unscheduled shutdown.

So now we'll be able to offset that, we won't be able to stop for another 12 days, there's no more maintenance to do. We believe that we will still have a deficit of 30,000 barrels. In a 12 days we're going to stop and we're not going to stop anymore, will produce 90,000 barrels. So we still have a deficit of 30,000 barrels. But regardless of that we are going to see in the light of the contract of how to be reimbursed at that.

BW Offshore is a Norwegian company that operates the boiler and we are trying to consider all of the alternatives in the light of the contract to be reimbursed by them. The company's EBITDA was BRL12 million. And talking about the EBITDA if you can do a quick math, if we have sold in addition to selling the barrel 51, but if we had sold our oil at \$70, which is not a \$100 or \$110 as we have last year, but only \$70, the EBITDA of the company would have been about 45% EBITDA margin.

So this is just to illustrate how the current cost structure of the company. If the Brent price goes up again, I'm not talking about reaching 100, but if it increases slightly the company will be a cash generator. Our operating efficiency was 82%, already including the boiler shutdown. I have here our costs comparing quarter-on-quarter, our lifting cost in other words the direct cost at Polvo had a 37% reduction, the lifting cost per barrel was \$36, if we had not lost that production, it would have cost about \$30.

Our G&A expenses dropped by 30% and the most impacting factor in terms of percentages, but not in absolute terms, our expenses with the Solimoes and Namibia, which dropped 91%, this comes to show our change in strategy in terms of production asset. We are no longer investing in these exploratory projects, there is still remaining part to be spent, but the trend is that these expenses will reach down to zero in the beginning of next year.

Moving to the cash flow of the Company. The Company ended the third quarter with BRL356 million.

We had the offtake in July and the one in September was not received in this quarter and that's why just showing BRL84 million as a dotted line because it was not included in the quarter, although the sale happened in the quarter. But payments takes place 30 days after the offtake. Sale of assets BRL79 million coming from Rosneft due to the sale -- the Solimoes form-out. So when we look at the cash of the Company in this third quarter press release, BRL519 million if we add all of these items. So we believe that even in this very, very challenging scenario we were able to preserve the Company's cash position.

I'd like to remind you that of discussion since the beginning of the year, we had more than BRL100 million that was spent to acquire Bijupira and Salema from Petrobras. So even with challenging Brent price we are able to buy assets, preserve the Company's cash position and to maintain the operation running and go through acquisitions. Talking about acquisitions, the acquisition of Polvo's stake that belong to Maersk remains at ANP evaluation hopefully the deal will be completed by year end. We progress the lot in our negotiations with ANP regarding our guarantees for abandonment.

So we progress a lot, we advanced a lot and we believe that Petro Rio and ANP, the Brazilian oil agencies are coming into a common ground and we will probably be able to get a faster approval. I still believe this will come true by year-end. Bijupira and Salema, we believe should be approved in the coming months, but this should happen after the approval of Polvo. Polvo should be approved before Bijupira and Salema. One piece of news about Bijupira and Salema is that, at the point that we are in the transition with shell (Technical Difficulty) once ANP approved the transfer, we already have some of the major contracts renegotiated. In other words it will not take months to negotiate until we have these reductions. Also because -- some of these suppliers are also suppliers of Polvo, so we able to negotiate with these contracts, not all of them but some of the very important ones.

In Namibia we continue to wait for the Namibian government. We applied to expand the -- actually to renew the licenses and we're still awaiting a response from the government. We believe that by year end we should get good news in that arena.

I think (inaudible) I just want to underscore that we're going through a very challenging scenario here in the country, we're trying to cut down costs and to sell our oil at the best price possible. We believe that since the oil price has been low all along 2015, we believe that perhaps we can drive down costs even further we are planning to start the second

round to renegotiate contracts with our suppliers to be able to cut down costs even more. In addition to what we have achieved from January to-date.

I would like to thank all of you for joining us and I would like to open the floor for questions.

Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen we will now begin the question-and-answer session for analysts and investors. (Operator Instructions) Our first question comes from Mr. Pablo Castelo Branco with Itau BBA.

Q - Pablo Castelo Branco

Good afternoon. Thank you for the opportunity. My first question, I would like to have an update regarding the acquisitions of Bijupira, Salema and Polvo. To continue what you said regarding the renegotiation of contracts, I mean you're starting to have a conversation with the suppliers. Could you elaborate more, in terms of what would be the possible OpEx reductions and what you can expect for 2016, considering that the scenario for the oil industry should continue to be difficult? Could you perhaps give us an update in terms of the cost of abandonment Polvo that could also help?

My second question would be regarding production at Polvo. What is production, it picked up well in September, right? And what about the depletion pace basically these are my questions. Thank you.

A - Blener Mayhew {BIO 19502444 <GO>}

Well beginning with your second question. Yes. Production is stable, it is already at a normal level. And the fuel just producing between 8,000 to 8,500 barrels, this is a variation and affiliation. Once ANP approves the Maersk deal, we'll able to invest in the field. We're looking forward to this, we'll able to do reentries, and we'll able to inject polymers in this other enhanced oil recovery techniques, EOR's. And we'll be able to push upward production that's not in absolute terms but at a significant level for the Company.

As for a cost reduction at Bijupira, it is quite hard to forecast how much will reduce the OpEx at this point. What I can tell you is, at Polvo when we acquired it from BP, now we have a 60 -- cost which is 60% lower. And then what they had, at Bijupira we don't know yet. I don't want to give you make promises or give you a guidance on that. But in addition to normal reductions all of the contract renegotiations change in scope ex cetera, there are some operating synergies with the Polvo Field, because they both located in the Campos Basin. So with synergies we should have a \$20 million to \$30 million of reduction and the rest I cannot forecast now. Thank you.

Operator

(Operator Instructions) Our next question is in English, from Mr. Albert Sebastian.

Q - Unidentified Participant

Yes, I have three questions. First, when do you expect to receive the second payment from Rosneft and what will the amount be? Hello.

A - Blener Mayhew {BIO 19502444 <GO>}

Albert can you hear me?

Q - Unidentified Participant

Yes.

A - Blener Mayhew {BIO 19502444 <GO>}

Well, I don't know if all that remains in the line Albert [ph] to answer this question. What we received from Rosneft was \$55 million, they had a debt amounting to \$15 million with Petro Rio owed \$15 million to Rosneft. So that debt also will included, was detected from the 55 million. So Rosneft is still owed \$40 [ph] million to Rosneft, so the \$15 million that we opened [ph] was deducted from the \$55 million, 20 million have been paid in this quarter and the remaining 20 million will be paid in May.

Do you have any other questions? You said you have three questions, Albert.

Q - Unidentified Participant

Yes, what was the lifting cost per barrel to be in the fourth quarter for Polvo and can you give some sort of estimate for 2016?

A - Blener Mayhew {BIO 19502444 <GO>}

Well. If I got your question right, the expectation is that it will remain similar to the third quarter pro-forma, if there is no shutdown of this field and of the boiler, so the lifting costs should be about \$30 per barrel. It could vary little bit in the fourth quarter. Was the Company has Bijupira and Salema BJSA in 2016 together with Polvo the Company will capture some economies of scale and we'll be able to dilute Polvo costs as well as Bijupira and Salema. So we believe that the Company that the combined lifting cost should be about \$25 perhaps even lower than that depending on cost reduction at BJSA. But our estimate for 2016 is about \$25 combined lifting cost for Palvo and BJSA.

Q - Unidentified Participant

Okay, thank you. My last question is what do you expect the remaining (inaudible) life of Polvo field to be?

A - Blener Mayhew {BIO 19502444 <GO>}

Well, we're working with the deadline between 2020, 2022. Now that depends a lot on the result of our reentries and the injection of polymers and also will depend on the oil price which will determine the economic cut off through the field. But in our estimates projecting successful re-entries and successful polymers, it should be extended until 2020, 2022.

Q - Unidentified Participant

Very well thank you very much.

Operator

We're now closing the question-and-answer session. I would like to invite Mr. Blener Mayhew to proceed with the closing statements. Please go ahead, sir.

A - Blener Mayhew {BIO 19502444 <GO>}

Well, I would like to thank everyone, all of the investors, analysts and journalists for attending this audio conference call. I'd like to underscore that we're going to a very challenging moment, but the trend is that things [ph] all improved and if we look at our recent quarters and if you compare with our performance last year, the trend is an upward one. We hope to be delivering even better results quarter-after-quarter.

Thank you very much. Have a good day.

Operator

This does concludes PetroRio's conference call. Thank you very much for your participation and have a good day.

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