

## Q4 2012 Earnings Call

### Company Participants

- Carlos Tersandro, CFO, IRO
- Marcio Rocha Mello, CEO
- Milton Franke, CEO
- Unidentified Speaker, Unknown
- Wagner Peres, CEO

### Other Participants

- Bruno Montanari, Analyst
- Bruno Varella, Analyst
- Caio Carvalhal, Analyst
- Fernando Valle, Analyst
- Frank Maturo, Analyst
- Gustavo Gattass, Analyst
- Luana Helsinger, Analyst
- Oswald Batellia Scillia, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to the audio conference call for the Fourth Quarter 2012 results of HRT Participacoes. Thank you for standing by. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session for analysts and investors and instructions to participate will be given at that time.

(Operator Instructions) This event is also being broadcast simultaneously over the Internet and may be accessed through HRT's investor relations website at [www.hrt.com.br/ir](http://www.hrt.com.br/ir) by clicking on the banner Webcast 4Q 2012. As a reminder, this conference is being recorded in the presentation will be available to download shortly also through HRT investor relations website.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of HRT management and on information currently available to the Company. They involve risks, uncertainties. And assumptions because they relates to future events and therefore depend on circumstances that 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 HRT and could cause results to differ materially from those expressed in such forward-looking statements.

The teleconference is attended by Mr. Marcio Rocha Mello, CEO, Carlos Tersandro, the CFO and IR Officer, Milton Franke, CEO, HRT Oil and Gas. And Wagner Peres, CEO HRT Americas. I would now like to turn the conference over to Mr. Marcio Rocha Mello, CEO of HRT. Please go ahead, sir.

## **Marcio Rocha Mello** {BIO 1923136 <GO>}

Ladies and gentlemen. good morning everyone and thank you for joining HRT Fourth Quarter 2012 Earnings Conference Call. It is with great pleasure that on behalf of HRT's board of officers, I am here to present to you with the Fourth Quarter results and highlight the main achievements of the Company for 2012.

I would like all of you to look for slide number three where we have the 2012 highlights, Corporate, Solimoes Basin. And Namibian Basins. In 2012, we had experienced two very important months. The year started with the need to promote a few adjustments in our company through the review of our organizational structure, the presentation of our cash flow and the planning of our exploratory campaign in the media and in Solimoes Basin looking for oil.

2012 ended with outstanding natural gas discovery in our Solimoes Wells. Conclusion of the partnership with Galp Energia in the Namibia concession. And with the beginning of studies of gas monetization in the Jurua cluster jointly with Petrobras and TNK-Brasil.

So as you can see, it was a year of hard work and achievements. A year that will prepare ourselves for 2013 and this was only possible through all of our team dedication and commitment in supportive team working environment that presents a friendly workplace. (inaudible) it was a year to overcome the limits.

We have increased the operational efficiency of our drilling rigs reducing considerably through a lowering cost, the drilling side and cost in the Solimoes Basin. We experienced 40% improvement in the average drill time, meters by day.

In HRT-9 and HRT-10, in relation to the four previous Wells, HRT-5, HRT-6, HRT-7. And HRT-8, the average time now for the wells are over 3,000 meters is below 60 per day. We started HRT 11 with 60 today. The discoveries speak for themselves. From the five natural gas discoveries making 2012, HRT-9, HRT-10. And HRT-5 present a high gas flow rate (inaudible). And are consider as the first, the third and the 10 largest gas flow rates among all of the wells ever drilled in the onshore Solioes basin in Brazil.

The well HRT-9 present in an AUF of up 7 million (inaudible) per day. From the 20 main natural gas discovered in land in Brazil through all times in terms of flow rate, four belongs to Petrobras and were drilled in the year. Oh, sorry, for HRT. As a result from this discovery, HRT, Petrobras and TNK-Brasil signed a letter of intent with a zeal to develop

feasibility studies to monetize the natural gas discovery and those to be in the Jurua (inaudible) and its surroundings.

This project is progressing with (inaudible) campaigns studying the depth of the meters to manufacture the soil and the results will come before July. As a recognition of HRT's exploration efforts and commitment to the Solimoes Basin, ANP granted in 2012 an additional two-year period extension for the second exploration period for nine blocks in the Solimoes Basin located in the central and north portion.

These results enhance a significant value to HRT portfolio, increasing the short term pressure obtain resort allowing sufficient time to carry out a new high-resolution seismic campaign with some initial results as being outstanding. And of course sequentially allow us the identification of mature profit for the drilling campaign to occur in 2013 and 2014.

Talking about achieving results, let's highlight the Farm-Down agreements with Galp Energia, together we will start the Namibian exploratory campaign in the (inaudible), both situation (inaudible) followed by (inaudible) prospect at PELs 24. It is very important to remind all of you that HRT was granted with an extension of our concession by the Government of Namibia in respect of the forest exploration rights over the 10 blocks that we operate.

And through the end of 2016 we have also concluded the largest 3D Seismic campaign and it's interpretation ever conducted in that region and that we are able to record what additional 0.5 billion BOEs to HRT's portfolio in Namibia report in 2011 as well as an increase of 6.6% in previously estimated volumes for the HRT exploration license. Our deals was done using the best 3D results possible. And the data is really outstanding.

HRT now has a volume of net risks being in prospect resort, in Namibian and in Solimoes of approximately 7.8 billion BOEs. In addition to the 3C contingent resource of 0.5 billion BOEs in Solimoes.

We are adjusting fine, we are finalizing now and receive a report about we and him regarding the Solimoes Basin and the results will be too announced further on.

On the financial side, we decreased in our 35% our cash burn rate with the second half of 2012 compared to the first half of 2012. The cash burn rate in the Solimoes basin was dramatically decreased although our cash burn rate regarding Namibia had increased because we plan to restart and we started the well in the (inaudible) 22 in the middle of this month.

With respect to corporate governance, we have consolidated our cash flow position, integrating the decision and the holdings, we restructure the board of directors increasing members and now we have 11 members of which make our independence. In addition to the strengthening of its committed structure, we settle to approach (inaudible) of operational execution and support of the board of directors in the Company material matters.

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With respect to our subsidiaries, we have signed a term sheet, not binding document with American company Erickson Air-Crane Inc. for the transfer of air logistic business there in advance. This transaction involve the transfer of full rotary wing fleet and it's anticipate that the buyer will provide HRT group with air service a three-year period. We are closing the of getting gap in all the due diligence (inaudible) and very short to conclude with these transactions.

Before we move to the detailed presentation of the offer, we cannot ending this conference call with us, I'd like to emphasize we find it confident that you are on the right track to succeed.

Farm out in Namibia is still ongoing. Farm out takes time FOA and QA and matters of the document and Wagner will talk a little bit about that in this call.

We are sure that you are going to overcome (inaudible) some more out the difficult in Solimoes Basin. We are directing now our rigs for the oil process and in Namibia we will start what we consider one of the largest exploration activities ever done at the same time in the (inaudible).

Now I will turn the call over to Mr. Milton Franke, CEO, HRT Oil and Gas to talk about the Solimoes Basin. Please, Milton.

### **Milton Franke** {BIO 17311636 <GO>}

Good morning, ladies and gentlemen. Marcio already gave you the main headlines about Solimoes and Namibia. I will start saying slide number for that 2012 was really the best year in the Solimoes so far for three good reasons.

First it due to the important gas discoveries Marcio described as mainly Well HRT-5, HRT-8. And HRT-9 on the second and Third Quarter of 2012 and then HRT-10 in the Fourth Quarter.

These four important gas producers allow HRT to sign and even more important LOI with Petrobras and TNK to start the feasibility studies of the Jurua Gas monetization.

Second, again very important is that we were able to have success in one of the critical issues of the Solimoes we redesigned our drilling plans and we were able to conclude in 2012 three wells drilled in less than 60 days in sequence in the basin.

And third, we finally were able to start the mobilization of the QG-VIII rig to the Arua Oil cluster to drill the Cajazeiras Prospect. This mobilization is going on very well and in this (inaudible) of this well is expected for mid-March 2013.

Going to slide number six, this is a very important slide for you to see and internalize. On the left you see outlined in orange the gas area where we drilled our first 10 wells and had

this results. Everybody knows and on the right, the area in red or purple where we plan to drill our next well -- exploration wells in the Solimoes.

In the North, you see the Cajazeiras prospect is our well, HRT-11 that I just mentioned. We are mobilizing the rig to start this well now in March. More to the south you see three locations, one is Pequi, Guarana. And Bacuri. We are working on the seismic details to mature these three prospects. The next prospect to be built and on the far east in the north, Macadamia, is again, one of the locations we are discussing to be built in 2013.

This a new seismic, we are working on a very important effort of HRT. This area is very remote. We are now working with a completely different process to acquire seismic in the Solimoes. We build the road down to 15 meters of depth with percolators and to whom we are getting a much better signal (inaudible) ratio with these new seismic at a level of our potential producing on the horizon. So we are really studying a new phase in our exploration in the Solimoes.

If we go to slide number seven, I just spot the well, HRT-10 to give you a few results we obtained on this well. Number one, the results integral we separated and we tested around 2,250 meters of depth where we were able to produce almost 1,200 thousand cubic meters per basin in this (inaudible) DST with a half inch choke and an AOF, absolute open flow, was calculated at something like 1.6 million cubic meters per day.

This again was the one of and excellent wealth we drilled in the Solimoes. This well on the other hand you see that it is the southernmost well we have drilled so far. It extended our hydrocarbons frontier to the South and we plan to go even more south in the next wells we drill when we come back to this area in the future.

If we go to slide number eight, I'll talk a little bit about our gas monetization plan and this is scheduled what we are doing and how we organize the projects. We have project management team with a steering committee with the three companies sitting in.

We have a subsurface group that is responsible to evaluate the resources and that the production profile. The subsurface report will come out at the beginning of March. We have an engineering group. This engineering group is doing all of the engineering work from E&P to each of the technologies we are working on is this HAZID and ENVID.

These are the environmental and safety studies of the technologies we plan to apply in the Solimoes. We are working on the cost estimate for each of the technologies we are analyzing and the final report will come out in April, May this year.

We are doing a market study. We have a group working on this and a group that is doing the economic modeling of each alternative to come up with is feasibility studies. The final report is forecasted for July in mid-2013.

If we go to slide nine, it's the last slide, I conclude my presentation about the Solimoes and so driving at that HRT had an excellent year that ended with the Fourth Quarter in a

very positive way with this HRT-10 well and we have an excellent in our view outlook for 2013.

The Cajazeiras well has a lot of potential. We believe that we can have an oil discovery in this well. The new prospects we are mapping with the new seismics we will have a much better definition and again, the new prospects that are coming out have an oil potential. The gas monetization project is working for that very well and we are starting to work on our Farm Down projects in the Solimoes. With this, I pass the word back to our CEO, Marcio Rocha Mello.

### **Marcio Rocha Mello** {BIO 1923136 <GO>}

Thank you, Milton. Now I would like to invite Wagner Peres, the CEO of HRT America to go over HRT Africa's highlights. Please, Wagner.

### **Wagner Peres** {BIO 18042971 <GO>}

Thank you, Marcio. Ladies and gentlemen. good morning. I would like to before we start talking about our specific Fourth Quarter 2012 results, I would like to take this opportunity to thank everyone of you that has been supporting us during our long journey in our preparation to develop our exploration prospects and to get ready to start our drilling program in the Namibia.

This will be the largest drilling campaign ever implemented within the same year and by the same operator in this friendly African nation. Our excellent team of professionals has done everything that was needed to put our organization in this privileged situation and I want to assure you that we are ready. The Transocean Marianas, the semi submersible rig, the long lead items and our personnel are already in the country and we should express in our first 12 within the next two weeks.

We are all very happy and excited about our future. Our prospects look great and even though we recognize that the inherent rates associated for this frontier exploration we really like our chance and I hope that you all share the same excitement with us. Once more, thank you so much for your support and also to our team members for the outstanding job that they have done through the year.

Now getting back to our Fourth Quarter results, I would like to ask you to turn your attention to the -- our slide deck, let's go to the slide number 10. On this slide, we are addressing the D&M certification of HRT perspective resources in our Namibian assets. The report was completed in the middle of the Fourth Quarter and the results were excellent. Our company and our -- excellence to our company and our shareholders.

This study confirmed the outstanding exploration potential of our exploration license that had been identified by HRT technical team earlier in the year and provided an increase of about 500 billion barrels over the 2011 certified volumes. This addition represents about 7.2% increase over our Namibian asset previous certification and overall HRT resources about 6.6% increase.

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The next slide, the number 11, we would like to give you an update of our stage of preparation for our drilling campaign. Our base onshore in the Luderitz Port, you can see on the pictures on the slide on the top one it is an aerial photo which was taken about one year ago and in this picture you see outlined there in tons of green that represents the area that HRT is using for storing all the material and the facilities that will be needed for us to run our drilling campaign.

The compass displayed in the lower portion of the slide show the current stage of the base that was taken about a month or so ago. I can tell you, it is beautiful and it is ready. The basin is clean, very well organized and it is (inaudible) policy follow strictly HRT's guidelines which match or surpass the best practice of the world renowned (inaudible) company.

It took a lot of friend, a lot of teamwork, a lot of determination and a timely execution for us to reach this stage. HRT signed a lot of contracts and we have committed to a lot of financial resources for us to execute our drilling campaign.

If we move to slide number 12, we would like to give you a quick update of where we are on our Farm down effort. HRT completed the farm out of 14% participate interest in three petroleum license to Galp in last December. The Namibian government official already approved our paperwork and HRT in Galp completed and signed our labor documentation inherent to the partnership such as the joint operating agreement and also the farm out agreement.

Galp is going to participate in the drilling of three wells with us, the Wingat and Murombe in license number 23. And the Moosehead in license number 24.

If we go to slide number 13, we are making here a quick summary of the wells that we are going to be drilling that we are committed to drill in Namibia as of today. And we are providing in this slide a little more detail that we have discussed in the past.

Our partnership is really, really happy with the potential that we have identified in these leads and also with the quality of the prospects, however we want once more to highlight how important it is to say that we cannot share our optimism with you without alerting you that we are exploring for hydrocarbons in a country that is not an oil producer yet. In this way, our prospects still face risks that is associated with this kind of frontier exploration for hydrocarbons.

The resource potential for our three prospects is really excellent and they're on with P60 certified by D&M near 5.2 billion barrels of oil equivalent. Their estimated total dry hole cost is going to surpass \$260 million in a gross way and the total time that we will take for us to drill this prospects is going to be around 185 days. Logically we are excluding from these 185 days the 22 days it took for us to mobilize the Marianas to Namibian waters.

I would ask you to go to slide number 14 in which we are providing you some new pictures and additional detail on the Wingat prospect which one is going to be our first well to be drilled in our campaign. Wingat well is expected to be threading about 10 days

or so, by the end of this week. And beginning of the next if the maintenance of the Marianas is completed as forecasted as of today. It will be built to a total depth of about 4,100 meters.

And I would ask you to take a look at the image on the slide, is a beautiful picture. It means a three-dimensional display of the structure of the Vinyac Albion carbonates.

The color that you see in red and in tons of green are the (inaudible) anomalies that we upgraded over the structural map and it represents the -- our interpretation of the distribution of the total zones that we expect to find on this prospect.

The D&M on risk (inaudible) peak and resource potential that is currently estimated for the Wingat prospect surpassed 1 billion and 2.1 billion barrels of oil equivalent respectively.

The ion depth holds this is the largest estimate of the (inaudible) number. It has about 380 in square kilometers and the tracking mechanism that we are expecting to work here for the hydrocarbons is denominated as a combination trap. Just for clarification, a combination trap as the name says is the combination of a part of the structure in a part of stratigraphic trap. This is a very current style of the trappings of hydrocarbons in the South Atlantic, specifically in several of Petrobras fields in Brazil.

In Wingat if we take in consideration only the structural component of the trap, which is about 40 square kilometers, we can find in the structure it still -- if it gets still down to the queue point of over 350 million barrels, just for you to have an idea of the significance of this prospect. And if we find 350 million plus it means significantly the size of the volumes that was obtained in the commercial part of the slide deck.

Going to slide 15, I want to give you an update where is and what we are doing with our semi submersible Marianas that is already in the Namibian waters. When we took possession of this rig on January 15 in the first hours of January 15 and we mobilized her through the Namibian waters within the 22 days that we had planned and as we had informed you in the past.

If you look on the map, the red circles that you see there, display the route that the raid followed on her way to Namibia. She arrived there on February 7 and she was completely prepared to come into the shallow water of the Walvis Bay and right now she is undergoing a final stage of her mandatory inspection and maintenance of the key items before she gets delivered back to HRT for us to take her to our Wingat-1 well location.

And just for the assurance of the performance, HRT hired a highly qualified team of professionals (inaudible) consultant to perform a very detailed inspection in all of the functions in all of the equipment inside of the Marianas.

This inspection was initiated back in November when the rig was still in operation in offshore Ghana and because we wanted to see her in full function for us to see if

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everything would comply with HRT's requirements and that inspection will continue until the day before HRT takes possession of the rate after the completion of her maintenance and mandatory inspection and Ghana.

So once we are sure that the rig is in perfect condition to operate for us, then we will start paying the daily rate and we start the mobilization of the rig from the Walvis Bay to the license number 23 where the Wingat well will be drilled.

The picture that you see, the small picture on the lower portion of the slide there, the picture of the rig, that is a picture that we took about two weeks ago that the Marianas inside of the Walvis Bay so you can see there and it is in a very good situation for us to start our program out there.

So with this all said, we complete here the information that we would like to provide you on the Namibia information and I would like to pass the microphone back to our CEO, Marcio Rocha Mello. Thank you.

**Marcio Rocha Mello** {BIO 1923136 <GO>}

Thank you, Wagner. (inaudible) the job that HRT America and HRT Africa has done. You guys could note everything is ready and in the next two or three start what we have been prepared for the last three years.

Now I would like to ask Carlos Tersandro, CFO and IRO of HRT to update you on HRT finance. Please, Carlos.

**Carlos Tersandro** {BIO 17615272 <GO>}

Thank you, Marcio. Good morning, everybody. From the financial point of view, the most important issue in 2012 was the farm-in/farm-out transaction in growing HRT better energy (inaudible).

The impact of such transaction can be seen in the results in our cash position in a decrease of our total assets and mobility and then and this can explain a lot of items in our financials.

Conversely, it loses frequency when we compare this later with growth of prior quarters or even prior-year figures. As we stated in the last quarters, this transaction along with the discount of receivables from with Citibank, allowed HRT to write off all the liabilities towards better and improve our cash position in about BRL493 million in comparison with the cash position from previous years and the BRL236 million if we deducted the first installment at the present to better pay in December of 2011.

If we move to slide 17, as we can see, financial revenues went down to a combination of lower of our ability of (inaudible) in the domestic market along with a consistent reduction in domestic interest rates during the year and particularly in the second semester. And

that results for the entire year shows a loss of BRL270 million compared to the loss of BRL304 million in 2011. The positive effect of the transaction among HRT (inaudible) in 2012 was BRL186 million.

If we go to slide 18, to analyze the valuations and expense between 2011 and 2012, it is important to note that we are comparing full-year expenses and current 2012 with those in 2011 when the Solimoes campaign just fully started in the second semester.

In addition, the previously recapitalized costs of well HRT-7 around BRL44 million was allocated under operating expenses 4Q 12 if this well was declared with no production capacity. At 36% headcount reduction that impacted around BRL14 million in (inaudible) and nonrecurring personnel expenses as a result of our retention plan and performance bonus in the amount of \$60 million that its cash and stock option involved in 2012 as already stated.

In slide 19, you can see that the Company ended the year with a consolidated cash position of BRL1.05 billion of which around 80% available and the remaining placed and are granted as collateral to guarantee operations. These plans were placed mostly in the domestic market linked to Selic rates and LIBOR when placed abroad. On the right, it's possible to check the graph with the diversification by (inaudible) all of them consider investment with Brazil.

Slide 20 presents the evolution in cash flow with changes in the cash balance with emphasis on recurring and nonrecurring disbursement, inflows for revenue most of them financial revenue being so from receivables, from the built in (inaudible) better and from capital by the exercise of warrants and loans.

Going to slide 21, weekend see the disbursements by quarters for the whole year by capital expenditures as well as by projects. I would like to draw your attention to the consistent decrease in exploratory campaigns of Solimoes due to the release of two weeks to the improvement in the three average time of around 40% and the reduction of headcount of around 36%.

Nonrecurring disbursement for fixed assets in the amount of BRL75 million refers to payments to the purchase of two helicopters in the First Quarter and final payment for the acquisition of the four Chinese rigs.

Moving to slide 22, it shows the cash burn rate (inaudible) and net concepts by project in which we can see that Solimoes consistently confirming less cash quarter by quarter. It ended the year with a rate of 1.5 million a day. Conversely, as Namibia campaigns approach we increase the cash going rate for is this specific project.

On slide 23, with respect to the 2013 CapEx, OpEx the forecast is driven of three onshore wells in Solimoes, the acquisition of around 1,700 kilometer of seismic and the drilling of three offshore wells in Namibia. It's worth mentioning that this product is a net of inflows from TNK Brazil, our part in Solimoes and also our part in Namibia and those natural obtaining (inaudible) from creditors.

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On the right side of this slide, our forecast of the consolidated worst cash burn rate for 2013 are correct. In the case of Solimoes there is a strong reduction from 1.5 million to 0.7 million a day in the second field or team when the HRT in gas will start the cash called in Brazil for various participation at 45% in the consortium.

On slide 24, this last slide presents major upside that HRT can fulfill in a two-year period and should be seen as a complementary of the OpEx, CapEx forecast shown in the previous slide.

As you know, the majority of the upside is confidential and thus cannot be disclosed on this call but the management is still confident that some of them will come true in 2013. With this, I pass back the work to Marcio to his final remarks.

### **Marcio Rocha Mello** {BIO 1923136 <GO>}

Carlos, many thanks. Ladies and gentlemen. as you could see 2013 who will be a very special year for HRT and for our shareholders. We had worked very hard prepare ourselves in all fields regarding 2013. After the wonderful results in the gas clusters, in which we comply for all of the requirements for ANP regarding to the -- that block we've focused 2013 for oil. With the results of a new seismic, we are able to divert our rigs and to attack the Solimoes basin oil cluster starting with HRT-11 Cajazieres well that we plan doing study around the middle of this month.

Very important to say that the new seismic, the technology that you apply in this 31 phasing is increasing the North to signal ratio for almost four times and we are confident that the success of our campaign there could expect the discovery of new oil that we are looking for.

We decided this year to focus in seismic in order to prepare the 2014 contains where not only the prospects relate to the blocks of the 170 to 194 will be achieved. But the reality of HRT is focusing now in our Namibian exploration campaign. As you could see and noted by violent speech, everything is in place, everything has been planned and works really well. We aim to studying the Wingat prospects by March 10th, March 15th and we are looking at the potential (inaudible).

We have done everything possible to reduce the expiration risks. The 3D seismic data all the geological, geochemical data have putting together a campaign in which we feel very confident this will be a critical year. Our financials are under control. We've lowered now our cash burn rate in Solimoes tremendously. We expect that we will end the period here with very reasonable cash money in our account. We are looking 2014 where we have several upsides that allowed us to be confident that we have enough cash for the next two years.

Then I would like to finish this call assurance our field at HRT, our employees and cooperators are very confident that everything that we planned when we did our IPO focusing in the very high potential of oil in Namibia and the potential of oil cluster of the Solimoes will be fulfilled.

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Then I would like to thank all of you for your presence and we are going to open for questions

## 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. Felipe Santos with JPMorgan. Mr. Felipe, you may proceed.

#### Q - Caio Carvalho {BIO 16605563 <GO>}

Hi. This is actually Caio Carvalho. I have two questions here. One is related to the oil prospects, talking about the prospects presented in slide number six. I have a couple of questions here. I will try to summarize. First of them, I want to understand if you expect to have the two rigs passing these prospects or if you want to have one rig passing the oil prospect and the other rig delineating the natural gas discoveries?

And also, I would like to know from the seven prospects we have in the Shark, how many of them are standalone prospects and how many of them are contingent to drilling of other prospects pretty much.

And the last one on the same topic is in terms of geological horizon. What are the main targets here? What are the main prospects, will be the Arua clusters? And as wells, these wells also -- you also target the Gronian layer as well or given the fact that they're located in the eastern portion of the Solimoes Basin you don't need time to go as deep as in the development? These are my questions on the Solimoes Basin.

On the Namibia, it's a more direct and simple question. It's pretty much, are any of those three wells contingent to the successful farm out of the remaining 26% or not? These are my questions. Thank you, very much.

#### A - Marcio Rocha Mello {BIO 1923136 <GO>}

Okay, Felipe thank you very much. I pass to Milton Franke to answer your question. Please, Milton.

#### A - Milton Franke {BIO 17311636 <GO>}

Thank you, Felipe for the question. Number one, these prospects are all in principle by prospects. The seven ones we have actually listed. With effect to contingent wells, yes, if the Cajazeira well is not a complete success, the next wells in this are the ones closer are contingent of new seismic acquisitions and the other wells are all independent. They're no contingent wells.

The main targets always our main reservoirs in the Solimoes. And (inaudible) formation that produce and almost all of the wells except to the Shebatta well where the Devonian is

a growth producer. But in most of them, the Devonian is the second target mainly in the key you have already fixed sections of Devonian rocks and part of them could be good reservoirs. In wells like Macadamia, we still don't have so many wells drilled in this area but again, you may have pre-carbonated refraction that could be of interest. I pass to Wagner to give you information about the Namibian wells.

**A - Wagner Peres** {BIO 18042971 <GO>}

Philippe, the question that you have is the wells that we are going to drill in Namibia, the three wells that we listed here today, if they are dependent on us getting additional partners for the project, the answer is no. Everything is set for us to start the drilling campaign as I mentioned to you the rig is already in Namibia and we will drill of those three wells with the partnership with Galp.

We are still in the search for the partners, we still have a field business ongoing on that and as long as we have not reached the objective in Mexican well, logically we are still open to discuss the potential partnership with somebody there. But at this time, we are drill ready and we are proceeding ahead with the partnership that we have in place with Galp.

**Q - Caio Carvalho** {BIO 16605563 <GO>}

Thank you, very much. If you allow me, just a clarification on your answer on Solimoes. Do you expect to have -- what is your strategy for rig management? Are you going to have one rake to test the audio prospects and the other rigs delineate the and natural gas discoveries or you going to have both rigs testing oil?

**A - Unidentified Speaker**

We are starting now mobilizing one rig and during the year, we are planning to mobilize the second rig to some new prospects.

**Q - Caio Carvalho** {BIO 16605563 <GO>}

Thank you, very much.

**Operator**

Our next question comes from Ms. Luana Helsinger from GBM. You may proceed.

**Q - Luana Helsinger** {BIO 16132814 <GO>}

Hello. Thank you for the call. Just to follow on the farm down in the Namibia, even after the completion of drilling the lien gas (inaudible), another farm down should take place? Thank you.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Luana, it's Marcio. Thank you, very much for your question. The farm out in our Namibian asset is still going on. As most of you guys know, our discussions about GOA, discussions

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about FOA and it's time, we have a number of corporate investments still talking and we hope very soon to conclude some of these talks and then we can inform if the results will be positive or not. But I still on several companies and we are expecting that we will bring another partner to this.

Very important to say that of course the results of Wingat will change a lot the perceptions that we have there but it's important to say and when we talk about this several times that all of the three prospects, Wingat, Murombe. And Moosehead are (inaudible) prospects. They are targeting (inaudible) trial systems independent to (inaudible) and one is not dependent the success of Wingat is not related to success of Murombe.

Of course it would be wonderful for everything but we are independent prospects and this is why we choose this independent a large project to be drilled.

**Q - Luana Helsinger** {BIO 16132814 <GO>}

Thank you, very much, Marcio.

## Operator

Our next question comes from Mr. Bruno Varella from Bradesco BBI. You may proceed.

**Q - Bruno Varella**

Good morning. I have two questions leaning on the financial side. First could you guys break down the BRL350 million of OpEx on CapEx for CapEx for Solimoes this year? Second, what is the cash position Marcio mentioned you expect for year-end '13 roughly BRL600 million? Just to confirm the infor.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

I didn't understand your last question. Can you repeat please?

**Q - Bruno Varella**

Yes, sure. I'd like to confirm the cash position you guys expect for year-end, 2013.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Okay, starting for that, we can, if you look, all of the investments that you are doing for one, we can give an estimate of worst-case and targets on best case. But we can say that the worst-case is we have not done anything as yet that (inaudible) so I don't one. We will be around BRL450 million. And the other point that you asked is about the CapEx of the Solimoes for 2012? Correct?

**Q - Bruno Varella**

Yes, that's it. The breakdown between CapEx and OpEx for Solimoes.

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## A - Unidentified Speaker

That full investment, two costs of Solimoes in 2013 is established, BRL265 million this is 100% base to HRT it's something like BRL150 million and we don't this time separate between CapEx and OpEx because everything is exploration. When normally we really make clear the OpEx when we come to production costs.

Bruno, just to conclude your questions, I just want to say that for the end of the year, HRT are very confident we take the sum these investment that we are doing now and we hope that we can show to our shareholders a much better cash results for the end of 2013. This investment is going very well and we hope that you see better numbers starting in 2013.

## Q - Bruno Varella

Okay, thanks. And if you will allow me a third question, after the sale of the potential sale of (inaudible), what is the incremental the just expenses? It is relevant?

## A - Unidentified Speaker

No, Bruno.

Bruno, we didn't expect any increase in the expenses. On the other hand, we expect a reduction because of the more efficient control of operations for (inaudible).

## A - Marcio Rocha Mello {BIO 1923136 <GO>}

It's very important to say, Bruno, that the creation of (inaudible) was a big success. As you recall, we managed to put this company, we manage to operate for almost two years. We had zero accident. We managed to optimize unbelievable (inaudible) and drop the cost of logistic there.

This partnership with Erickson in which we are finalizing all of the due diligence transference will allow us to reduce very much the operation costs. HRT will be very, very concentrating our focus and now and the excellence of Erickson and maintenance also one will allow us to increase and optimize and secure our operations in a much higher model and contract. Okay?

## Q - Bruno Varella

Okay, thank you guys.

## Operator

Our next question comes from Andreas (inaudible) from Credit Suisse. You may proceed.

## Q - Unidentified Participant

Hello. Good morning, everyone. I have two questions. One on Namibia. Is there a cut off after which you would decide to stop the farm out process and not proceed any more or would you like to leave it open until we keep drilling the wells?

And on the second question, potential farm out in Solimoes what's the philosophy there, would you like to keep operatorship or not? Do you think that the ANP license year-round will decrease interest for that? I would just like to understand how you're thinking about it? Thank you, very much.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Wagner, can you answer please?

**A - Wagner Peres** {BIO 18042971 <GO>}

Yes. Andrea. Good morning. Your question, if we have a date cut off for the search for a partner in Namibia, the answer is no. The limit for us is until we hit the main objectives of the well. In our industry, is a common practice, when you are searching for a partner, as long as the well does not have a concluded result in terms of testing the main objectives the possibility for partnering with somebody is always open.

In my previous career, we had seen things that deals have been close within the last week of the drilling of the well lit before the well hits the main objective. So we had HRT, as you know, we are in the search for another partner. We keep this possibility open and two we will like to close another deal soon but it will be open until the moment that we test and we have the out, the results of the well in the reservoir.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Milton, can you answer the Solimoes, please?

**A - Milton Franke** {BIO 17311636 <GO>}

The climate in the Solimoes is starting in (inaudible) 1638, 172 in the Arua cluster and we are already analyzing but we are still not confirm to fund down some of our shares and some other areas of debating. And you know, we will have already intense seismic acquisition plans and this is something that we may look for partnership. We are starting the with our Brazil plan in the gas monetization area and again, on the southern blocks of where we drilled HRT-10 and we will be looking in the future. But there is still not decided for new partners to help us in the investments we have to make in the Solimoes.

## Operator

Our next question comes from Fernando Valle with Citi. Please go ahead sir.

**Q - Fernando Valle** {BIO 17218988 <GO>}

Hello, guys. Thanks for the call. Just two quick questions. The first one is just a clean-up question on Solimoes. Can you give us a brief update on how the licenses are on the expirations? I know a couple of them are due to expire in March and you are trying to extend to those licenses.

The second question was just on your budget for 2013. We saw that the G&A was around BRL260 million for 2012 or so just to see what your estimates were for 2013 given that



there were a few nonrecurring in 2012. Thanks.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Regarding your question, Fernando, the license. Unless September, whom we started to talk with ANP and we put our missions for expansion of the blocks in the South and the eastern part. We have been talking a lot of operating ANP. About two weeks ago, they granted an extension to us for 30 days or more and while the board is analyzing our pledge for our next station about this blog. See hope to have a positive development still in March. HRT does not see a problem regarding to that. This will give us a lot of time, will help plan our 5,000 kilometer of seismic to be in that block and we are very confident that this will come positive to us. Regarding the CapEx and OpEx for G&A --

**A - Unidentified Speaker**

Fernando, I'm not sure if I understood your question. You're asking for the 2013 CapEx/OpEx, we divide by projects and we have BRL44 million for the corporate but we don't have the disclosure of the G&A by projects.

**Q - Fernando Valle** {BIO 17218988 <GO>}

No, not by projects, just the G&A in general because is that comprised within the BRL44 million? And if so it ran significantly higher this year so I just want to understand how you guys want to curve that to keep it within the BRL44 million. So the question now was, was the G&A within that BRL44 million you are putting on your budget? And if so, how will you get there?

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

And, if you know, it's the real, not the dollar.

**Q - Fernando Valle** {BIO 17218988 <GO>}

Sorry, my mistake.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

-- okay. Very important to say also, Fernando, that where today the indebtedness of (inaudible) almost 100 people will leave with the company and this is very important that you reduce the numbers of HRT and our target is to keep it below 250 people. This has been a fantastic achievement by HRT in that we are a lot of good results at (inaudible).

**Q - Fernando Valle** {BIO 17218988 <GO>}

Okay, Marcio, thank you.

**Operator**

Our next question comes from Mr. Frank Maturo with Merrill Lynch. Please go ahead, sir.

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**Q - Frank Maturo** {BIO 2473737 <GO>}

Okay. Good afternoon. Just one question. In terms of timing of well results in the drilling of the wells, if the wells take 60 days, that would suggest if you start within the next several weeks that sometimes perhaps in May or in June you would have the results. I was just wondering if you were thinking that was probably when results would be available.

And then how quickly can you move the rig and I'm just wondering if there's a risk that 280 days is going to be a little bit tight if there are some delays. So I was wondering what the expected return date would be for the rig.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

That's a very important question. Everything has been under control. Everything has been on time. We have all of our targets. We expect both wells who will start and Solimoes and Namibia at the same time. You know that when you do offshore drilling even if you run with all of the controls possible, you always have a contingent plan. But we expect to conclude the Wingat where we fixed today.

And the full engineering, (inaudible), everything is ready. We are sure that we are not expecting any kind of delays and we don't see any problems to fulfill our program and Namibia file with the time that we have.

**Q - Frank Maturo** {BIO 2473737 <GO>}

And in terms of results, when do you think you might have results from the well? Would it likely be the end of May or early June?

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

For now, Frank, this is difficult to have an idea about. But the results will be announced after we complete the well and run the depth. Then if you including let's say the next week, March 10, then you can count an average of 60 days. That's it.

**Q - Frank Maturo** {BIO 2473737 <GO>}

Okay, thank you very much.

**Operator**

Our next question comes from Mr. Oswald Batellia Scillia with Bam Securities. Please go ahead, sir.

**Q - Oswald Batellia Scillia**

Hello. Good afternoon. I have two questions. The first with regards to the drilling in Solimoes. I would like to know if you feel that this time you have good quality seismic tests that allow you to be sure about what you're going to expect in the drilling.

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And the other one is with regards to the CapEx plan. You said that in the intermediate, you're going to invest BRL320 million and 2013. But the three first wells will cost \$300 million. So my question is do you expect to drill only half of the three wells in the mid of this year? That is it for the moment.

### **A - Unidentified Speaker**

Coming then to your question about Solimoes drilling, really we have now better control of our seismic quality and the results of the well. We have a nice base in the modeling and to understand what kind of fluids we expect in each area but there is always an exploration risk in these wells and it's a chance to be calculated around 25% in the Scatia Villa well. So we expect an oil well. But there is an exploration risk unfortunately to the drilling.

### **A - Marcio Rocha Mello** {BIO 1923136 <GO>}

(multiple speakers)

### **A - Unidentified Speaker**

Your question is quite interesting. First, we are not going to stop the well halfway because we have really to test our objective there. In terms of the CapEx for the wells, what we have in our budget today it's very important that you focus in what we are saying in reals or dollars. We are -- what we now are our budget for us we spend there net trade -- its \$160 million for us to drill the three wells. That's net to HRT. Okay? Remember, we have partners out there.

### **Q - Oswald Batellia Scillia**

Yes. But only with 14% stake.

### **A - Unidentified Speaker**

Yes. But what you realize is that they have 14%. But they are not paying 14%.

### **Q - Oswald Batellia Scillia**

Okay.

### **A - Unidentified Speaker**

Okay?

### **Q - Oswald Batellia Scillia**

Do you have the breakdown between now yourselves and Galp?

### **A - Unidentified Speaker**

What we are saying here and you do your own math. We have an agreement out there that we cannot talk about numbers what will be out of responsibility of Galp.

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If you crunch the numbers out there, you can come up with the conclusion what is our contribution on this drawing process.

### **Q - Oswald Batellia Scillia**

All right, thank you.

### **A - Unidentified Speaker**

Thank you, Oswald.

### **Operator**

Our next question comes from Mr. Bruno Montanari with Morgan Stanley. Please go --

### **Q - Bruno Montanari {BIO 15389931 <GO>}**

Good afternoon. So just a quick follow up on the Namibia timing question. If I'm not mistaken, Galp had mentioned that it would take 90 days to do the wells. So I'm wondering if there was any discrepancy in the discussions between the partners because HRT says 60 and GALP says 90 days. That's the first question.

The second question is just to double check the amount of forecast for dry holes in Namibia, if I got that right and how the company comes up with that number. Thank you, very much.

### **A - Marcio Rocha Mello {BIO 1923136 <GO>}**

Bruno, it is important that when we refer to somebody else making statements about how long will it take a drill, how much it will cost. It's very important to make it clear that GALP has not seen the press release from them that they had mentioned about the 90 day drill.

HRT is the operator. We have to care the drilling program and we have engaged in a very detailed design for the well. We also include in this well a contingent for non-inaudible times that means when the rig stops for any reason.

So that is a standard in the industry and we showed today in our in-slide deck there is an information that the Wingat well will it take 56 days in between -- is starting -- is when we start turning the rig, the drill bit to the right and when we recover anchors in the well. That is a 56 day time for us to drill the well in case of no success. If we find hydrocarbon as we expect there, we may stay on location one week more or 10 days more, sometime in that range for us to collect the proper information about the fluids that we have encountered.

So if you add the 56 days and that is a dry hole case, if we find hydrocarbons, if you have 10 more days there, if you get around to 66 days. That is our forecast at this moment.

These numbers are associated to a normal and smooth operation just taking into consideration 15% of a nonproductive (inaudible) that HRT influenced in its wells.

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**Q - Bruno Montanari** {BIO 15389931 <GO>}

Perfect. That's very clear. Thank you. And then on the dry hole cost? Just to double check the figure if I got it right.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Yes. On the drive whole cost, on the same slide that we provided you there, we are estimating the drive whole cost based on this time of operation that you have therefore 56 days or around 60 days of drilling time you are going to get -- spend about \$78 million to accomplish that drilling.

**Q - Bruno Montanari** {BIO 15389931 <GO>}

So essentially, it's just that day rate of the rig? Is that correct?

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

What you say again?

**Q - Bruno Montanari** {BIO 15389931 <GO>}

That's just the day rate of operating the rig?

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

No, it's not only the rig. If you get the number of days or let's just take the price, the amount of money for us to drill and the number of days, you were going to find it there what we call a spread rate. That means all the costs associated with the rig, support vessel, mud, all supplies, all of the goodies that go into the bringing of the camp., Pipes, everything else. So that is the total cost that we call a spread rate for the drilling. So that includes everything there.

**Q - Bruno Montanari** {BIO 15389931 <GO>}

Okay, perfect. Thanks very much.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Thank you.

**Operator**

Our next question comes from Mr. Gustavo Gattass with BTG Pactual. You may proceed, sir.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Hi, guys. I have two quick questions for you. The first one, I just wanted to try to understand what was on slide -- just one second, I'm coming back to it -- it was on slide 23 and that really has to do with the cash burn rate from Namibia.

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Looking at slide 22 and slide 23, we actually see the cash burn rate that you guys are looking at is the same in the Fourth Quarter and then the First Quarter. I just wanted to understand whether or not that is consistent given that you effectively have the possibility of spreading the wells over the coming course of the next weeks. So that's question number one.

The second question that I just had, I just wanted to understand how you guys are thinking about the bid rounds for Brazil now in May. Is some cash already set aside for that operation? Is it something that you guys are going to do only on a conditional manner? How are you thinking about it? I know you probably don't want to give out a budget for it. But just a mindset really today.

### **A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Gustavo, thank you very much. As you can see, we always consider you a special guest here and we keep you for the last. We are very glad that you put it out there (inaudible). So the answer to you is that regarding the bid around, as you know, HRT has guaranteed knowledge about the hydrocarbon potential for the Brazilian marginal basin. Our group is studying for more than eight months, (inaudible).

We have been looking several areas or blocks that we think is potential. And we are comparing them to our portfolio in Namibia in line with our portfolio in Solimoes. We do not want to compromise today any of our projects that we have kept for Namibia and for Solimoes for the 11 bid round. We have talked with a lot of other companies in trying to use and leverage our knowledge in a way that partners who will carry HRT in such a campaign and also other operations that were doing in other areas if we are successful could participate actively in the revenue dropped.

Regarding the cash bond rate, HRT is doing a tremendous effort and I will it know that you have been playing active in that regarding to us. If you have seen, I have put to my operation now managers kind of a zero tolerance in cash preservation. We dropped the cash burn rate of Solimoes even further from target at that time I put for them. You could see that we have an increase in the Namibian operation because Namibia is our great survey, great campaign for 2015. I pass to Tersando to give some details for you.

### **A - Carlos Tersandro** {BIO 17615272 <GO>}

I think that it's quite normal that since we control completely the cash burn rate for Solimoes and Namibia contains it's about to commence that we have a little bit of pressure in the cash burn rate for that project. It's important to mention that this forecast does not complete gross cash burn rates that we do not consider any financial revenue, a year and it's not considered any upside that we are presenting in slide 24.

So this is going to happen because see the Second Quarter we will be the most expensive to us and the reason is that we are projecting to drill two wells in the same quarter.

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So you're right. You can see only Solimoes. We can see in slide 22 a very declining curve coming from 2.8 in the First Quarter to 1.5 in the last quarter and there is a passion to have some expense in Namibia but that's quite normal.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay. Tersandro, just so that I understand, the Solimoes drop, the way I read it is you guys are cutting costs and you're going to start sharing costs with TNK so that to me looks great, actually.

What I was just wondering about is in the First Quarter of '13, you guys probably didn't budget then, any of the well drilling costs. Is that a fair assessment or is this just a component of let's say Galp's payment and that actually reduces the impact on the First Quarter.

**A - Unidentified Speaker**

Yes, in the First Quarter, we still have support in 100% of Solimoes. As you know, you have a share of 107-slight million to TNK-Brasil and we expect that this will end at (inaudible) so first or the Second Quarter, we are going to cash (inaudible) at TNK for their participation. That's why we have this huge decline 1.5 million to 0.7 million. This corresponds of the cash flow of the ANP Brasil.

If you have a look in the total we are decline for 3.6 then we went up to 3.6 and even in the last, in the Second Quarter 2013, that there was the worst case scenario, we are decline from 3.6 to 2.9. That means that even with the full campaign in Namibia we still have (inaudible) million reals of cash run rate decline. So this is a very, very tough figure in a (inaudible) of expenses.

(inaudible) as you know, we put this strategy and everything (inaudible) very well because we reduce Solimoes we put our influxes in the new side that is exchanging completely the game there and we are promo date for you have an idea, the cost of Solimoes, reduction in Solimoes and increase the cost of Namibia in which the differential of the upside is unbelievable.

If you see what you are looking from one well in Solimoes as a result and one well in Namibia then this is the year I say of HRT not only Solimoes but also Namibia. But the difference between the Namibian upside and the Solimoes upside are incredible and this is why we have prepared ourselves so hard for 2013.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay. Perfect. We're all rooting for you. Let's get a good well.

**A - Marcio Rocha Mello** {BIO 1923136 <GO>}

Thank you, my friend.

## Operator

This concludes today's question and answer session. I would like Mr. Marcio Rocha Mello to proceed with the closing remarks. Please go ahead, sir.

### A - Marcio Rocha Mello {BIO 1923136 <GO>}

Okay, ladies and gentlemen. I would like to thank all of you that participated in this call. We would like to thank all of you for the support that you guys gave us in 2012. We have been working very hard. The most important point that I'd like to leave with you that HRT has prepared itself for 2013 in such a way that we are very confident that our campaign in Namibia and Solimoes and for oil will fulfill the expectations of our shareholder and we can really fulfill the performance our expectations.

And have a very good day and thank you very much for all of you.

## Operator

That does conclude the HRT audio conference for today. Thank you, very much for you participation and have a good day.

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