

## Y 2014 Earnings Call

### Company Participants

- Guilherme Marques, Chief Financial Officer

### Other Participants

- Andre Sobreira, Analyst
- Mariana Bertone, Analyst
- Pablo Castelo, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning, ladies and gentlemen, welcome to the Conference Call for the Fourth Quarter 2014 Results of PetroRio. 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 when further instructions to participate will be given. (Operator Instructions) This event is also being broadcast simultaneously over the Internet and may be accessed at PetroRio's Investor Relations website at [www.petroriosa.com.br/ir](http://www.petroriosa.com.br/ir) by clicking on the banner Q4 '14 earnings release.

As a reminder, this conference is being recorded and the presentation will be available to download shortly after PetroRio conference call at the PetroRio Investor Relations website. Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of PetroRio's management and information currently available to the company. They involve risks, uncertainties and assumptions as they are related 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 PetroRio and could cause results to differ materially from those expressed in such forward-looking statements.

The conference call is attended by Guilherme Marques and Ricardo Wagner.

I'd now like to turn the conference over to Mr. Guilherme Marques, CFO and Investor Relations Officer of PetroRio. Mr. Marques, you may proceed.

**Guilherme Marques** {BIO 20281454 <GO>}

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Thank you. Good morning everyone. We are here to present the results of PetroRio in 2014. Undoubtedly 2014 was a year of important achievements and progress of PetroRio. The company completed the acquisition and started producing oil in the Polvo Field, where we got a total production of 3.5 million barrels in 2014. The company got those results with efficiency and this is among the best oil companies in the Brazilian offshore area. After US [ph]consuming cash the company generated a net of revenue BRL477 million with that we reached an adjusted EBITDA of BRL126 million with a positive cash generation in our operation.

As a consequence, the available cash increased from BRL155 million in December 2013 to BRL459 million in December of 2014. This result was achieved even with an unfavorable scenario in the end of 2014 with a drop in the Brent price. This stems from a deep corporate transformation here which PetroRio have. The company also changed its name. It is now using that brand called PetroRio, it symbolizes a new strategic focus on transparency, stability efficient production and safety within security in addition to growing financial discipline. We have obtained results with a reduction of operating and corporate costs.

Among the achievements in this new phase, which makes us really proud, we have the decisions to acquire production assets, which led us to the acquisition of this Bijupira and Salema fields. The events result have seemed at the Polvo Field may PetroRio become an operator of mature field. Along 2014, PetroRio reduced significantly its production costs, improved its production curve and achieved efficiency indices or ratios among the very best in Brazilian offshore.

Other important achievements were the end of the ownership disputes and move to the new headquarters. With this, we created an environment to introduce a new merit-based culture, focused on results. Thus, we believe that PetroRio shows today, the right characteristics to develop as a major oil producing company in Brazil.

Going back to the Polvo Field, we highlight that since we took over the operation of the Polvo Field along the last 12 months, PetroRio worked on optimization of the field, seeking efficient drainage of the reservoir with a more stable output profile, managing operating costs always, focusing on improving our safety and operating efficiency level.

In that same period, PetroRio produced a 3.5 million barrels along 2014 at the Polvo Field with an operating cost of \$158 million. It is important to highlight corporate costs along the year was reduced by 22% if we compare the cost in the fourth quarter 2014 with the cost that we had in the first quarter of 2014. But in the first quarter of 2015, we still see potentials to further reducing production costs.

It is always important to mention the operating efficiency and PetroRio take enough time and average up time or availability of the equipment and brought funds of 93.3%, achieving a maximum efficiency ratio obtained in October of 2014 of 99.9%. This represents a significant efficiency gain over 2013 where the average was 79.8%, efficiency ratio with a maximum of 86%, which means the state at the average obtained PetroRio in 2014 was higher than the peak of efficiency in 2013.

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As for the life span of the field, we stressed that with some adjustments, the economic life span of the Polvo Field can be extended until the end of 2017, considering just the current producing well. We're very proud to celebrate on March 3 the mark of a 1,000 days with no non-fatal data of accident at Polvo Field. This is the landmark indicating that the activities of PetroRio are based on fundamental values of respect for safety of our employees, the environment, and nature. The result obtained in 2014 also shares PetroRio's position as an operator of mature field and the strategy to operate through production assets. In this way, we believe that PetroRio will be able to expand the benefits already reached in FPSO fields. This is the recently acquired fields. Operating integration of these deals are tripling the current outfit of PetroRio and will position the company as one of the most important emerging oil companies in the oil industry in Brazil.

Now, speaking about our divestment strategy, we highlight regarding exploration assets such as concessions in Namibia and Solimoes. So we are planning to develop these assets, reinforcing our commitment to our investors, the focus on production assets. We highlight that as of now, we're implementing a reduction of disbursements referring to these projects, reducing them by 75% to 90%. I'd like to stress that we are divesting some of these assets.

Now talking about the funding the debenture issue, at the end of 2014, we highlighted the debenture issue that took place in December of 2014 even with a first market condition PetroRio was able to raise almost BRL90 million, getting close to the funding intervals, these results shows that investors first have considered in our new business model. It represents an alignment between company and investors with earnings and return associated with long-term results of PetroRio.

Talking about the near future and highlighting a proven operating result and PetroRio's cash position. We are now in a unique position to acquiring new production assets. Today, the company is not negotiating anything, but we do intend to engage new negotiations to acquire new assets.

I would like to mention now some important highlights regarding our economic performance. We highlight the adjusted EBITDA in 2014, which was BRL126 million, 429 million higher than what we had in the prior year and the operating result was BRL1.5 billion higher as compared to the prior year with a significant positive variation and this positive variation is the result of the excellent performance at Polvo Field. And despite the fact that the company still underway significance disbursement for the Solimoes and Namibia project, we still achieved a relevant cash generation.

Looking at that exploration assets in this case, Namibia and Solimoes, the company would like to stress to our investors, our commitment to focus on production assets. Thus, we carried out the impairment of assets linked to these projects and the write-off of dry hole dry well. In this way, we have cleaned our balance sheet and we eliminated a bad memory of (inaudible) adjusted EBITDA. We had a positive BRL126 million adjusted EBITDA and net income despite the negative that was a result of accounting adjustments, non-cash, no cash effect.

I would like to highlight some specific points about our income statement. I think it is important to talk about the reduction in our personnel expenses, down by 77% from 168 million in 2013 to 39 million in 2014. This stems from efficient management of costs and expenses that is always pursuing to maintain operating efficiency and safe operation.

Now talking about general and administrative expenses, we showed a 34% reduction amounting to 16 million from if we say 2014 results over 2013 as for administrative and general expenses it is important to highlight that in 2014, disbursements referring to Namibia and Solimoes project directly impacted these results in 2013.

The first months of these projects was still allocated as intangible assets, we recorded as intangible assets and this shows how relevance to the administrative expenses reduction was in the company 2014. As for depreciation and amortization, we highlighted that given the beginning of exploration at Polvo Field, total expenses was BRL176 million, but it is important to highlight and remember that this acquisition generated a positive result of discounts in the acquisition of assets of BRL97 million.

And then we would like to highlight the available cash position of the company that ended 2014 with available cash of BRL449 million compared with a BRL155 million in 2013. These results are derived predominantly from a cash generation stemming from the Polvo operation with excessive [ph] operated there with higher efficiency, lower cost, achieving best performance of the reservoir and above all maintaining our safety standards. Today the company has less accident levels and was able to reduce operating costs, linked to a strategy to divest from exploration assets and so PetroRio is consolidated as an operator of mature producing assets preventing an unique position for the acquisition of new production assets. It is ready to become a major oil producing company in Brazil. That is why we believe we are on the right track.

## 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 is from Pablo Castelo from Itau BBA.

### Q - Pablo Castelo

Good morning, Guilherme. I have two questions. My first question is about the Polvo Field. I would like to know how you see cash generation for Polvo this year and whether you can also tell me at what level of oil you can estimate till the end of the year?

And the second question is about the acquisitions in Bijupira and Salema and whether you can give me an update on that acquisition process. And what about the geologic out reports and the (inaudible) and you had said you would be on March 20 and that date was moved forward.

Also I would like to know about any risk of not getting the bill approved and then what happens with that will happen with (inaudible)?

**A - Guilherme Marques {BIO 20281454 <GO>}**

Good morning Andre, and thank you very much for your questions, Pablo I'm sorry. Okay, let's start with Polvo. What we see today is that the company has been deploying a very serious cost production program. Certainly, we are maintaining efficiency and operating safety, but as a result of this program, the company will continue to have positive cash generation at Polvo. We also had received a recent report that mentioned the extension of the field for another year until the end of 2017.

And then you asked me about the price of oil, I think that at this moment, we are going to like winter is the path [ph] is the worst scenario in many years that has with other players in the market, we envision a more positive landscape in the second half of this year.

Now referring to be BJSA, I would like to say that in terms of the (inaudible) geological report it is about to be approved and this should happen any moment and certainly when that happens, we will disclose the information to the market.

Concerning now the acquisition, I can say that the bill is moving along normally we do not have any expectation of a non-approval, so it should be approved.

And about (inaudible), which is your other question we can say that (inaudible) has already approved the acquisitions. Meaning that this initial with (inaudible) approval has already been concluded. Now talking about cash generation even without a significant recovery in the oil prices, the company is working to reduce cost and then to have positive cash generation.

**Q - Pablo Castelo**

Thank you.

**Operator**

Our next question from the rest of the Andre Sobreira from Credit Suisse.

**Q - Andre Sobreira {BIO 16337358 <GO>}**

Good morning Guilherme. I have a few questions please. First, you talked a lot about your cost cuts and specifically elaborate some more and tell us where you are promoting in the bulk of your cuts and also whether you could quantify that giving numbers that will be helpful.

And question number two, what about your investment plan for 2015 and whether you want to continue doing your CapEx in Polvo or whether you have CapEx also lined out for other assets rather than Polvo?

And the third question is in terms of your cash position by year-end you have 449 million, but the acquisition of the Bijupira, Salema is \$150 million. So that means that the company's cash position is close to zero or maybe to ask some more direct question, what was the standby from going for the acquisition?

**A - Guilherme Marques** {BIO 20281454 <GO>}

Number one, you talked about cost cuts. I think that in the net balance sheet, 2014 shows a significant reduction in the corporate costs for the company. What we can say is that policy has evolved and in 2015 we will see further positive impact coming from this policy. Even our change in headquarters, this had a significant impact in our cost cutting policy amongst others. So when we talked about cost reductions, the main cost for the company are the operating costs.

With Brent prices at this level, the company has to call all of the vendors and promote a negotiation with the partners and at this moment many negotiations can take place like we can review contracts, look for another synergy, look for revisit all the folks and with all of that we still see more room to reduce costs further throughout 2015, vis-a-vis what we had in 2014. And so we should see additional cost reductions of about 15% and this will certainly have a positive impact on the results at the end of the year.

And you referred to CapEx and I would say that at current oil prices, the company see with a positive buyers, I mean some of our re-entries in existing wells and this brings low expenses and by the same time, we will have good returns in terms of the production. For 2015, with the current Brent level, I believe that this can be the best strategy when it comes to investments. But now, when we talk about divestments, it's also important to stress that the company is firmly determined and is already deploying a cost reduction policy of up to 90% of what occur in terms of disbursement, referring to Namibia and Solimoes.

And the company is pursuing this divestments and not only that, but we are also relinquishing some assets and abandoning some things that we are not going to be involved any more. Now referring to company's cash, the cash of the company is not close to zero. The company has been operating at a very comfortable cash level, the company have that cash and it is well positioned to take new acquisitions and as we said before after the acquisition the company is working with the acquisition of BJSA with the leverage of up to 18%.

**Q - Andre Sobreira** {BIO 16337358 <GO>}

Okay, thank you.

**A - Guilherme Marques** {BIO 20281454 <GO>}

Thank you.

**Operator**

(Operator Instructions) Our next question comes from Mariana Bertone, GBM.

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**Q - Mariana Bertone** {BIO 18830531 <GO>}

Good morning, thank you for the opportunity. You mentioned in the last meeting with investors that you were having an inventory, you were keeping holding back the Polvo output and production given the lower price of oil. I would like to know if in this first quarter of 2015, if you had a new shipment, any uptake and do you expect any developments in the Solimoes project represent?

**A - Guilherme Marques** {BIO 20281454 <GO>}

Mariana, what I can tell you is that the company is pursuing a strategy not only to stock oil at the FPSO waiting for a better moment to sell, but also we are trying to achieve a higher production volume, a higher volume so that we can reduce freight cost and get lower discounts in selling oils. So it does make sense for the company to sell every three to four months, according to the last uptake, depending on the volumes of oil produced and on market pricing.

**Operator**

(Operator Instructions) Our next question comes from (inaudible).

**Q - Unidentified Participant**

Good morning, everyone. I would like to know if the company is interested in the Petrobras divestment plan, because it seems that they will be selling some more mature assets. How does the company see this opportunity. How does the company see that Petrobras divestment plan and the sales opportunities?

**A - Guilherme Marques** {BIO 20281454 <GO>}

Thank you for your questions. Well for sure we believe that if Petrobras offers good assets for sale mature producing assets, the company will be interested in considering these opportunities. This might be interesting opportunities, but for now it's important to highlight that the company is not at the moment negotiating anything. We are just waiting with a good expectations regarding these possible sales by Petrobras.

**Operator**

Our next question is coming from Andre Sobreira, Credit Suisse.

**Q - Andre Sobreira** {BIO 16337358 <GO>}

I just want to ask two follow-up questions. Guilherme, do you have a CapEx budget approved for 2015? Then how do you see the interest in Solimoes and Namibia by possible buyers?

**A - Guilherme Marques** {BIO 20281454 <GO>}

Yes, Andre, we do have a CapEx plan for 2015, particularly for Polvo, like I said, it's not a significant CapEx for this year. We are considering a low CapEx to generate a quick increment in output and we want to have a quick return on the investments. As for

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Namibia and Solimoes, the company banks heavily participating in trying to sell these assets, now to all kind of assets [ph] obviously, but these brands variation and the Brent prices it is these conversations continuing at a unique pace, but the company does intend to end the year without these assets in our balance sheet.

**Q - Andre Sobreira** {BIO 16337358 <GO>}

Thank you very much.

**Operator**

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Guilherme Marques to proceed with the closing remarks. Please go ahead, Mr. Marques.

**A - Guilherme Marques** {BIO 20281454 <GO>}

Well, I would like say (inaudible) for joining us in this conference call and for your interest in the company. I would like to stress a positive message from the company's management. We see that 2014 was a year of great progress, we envision 2015 to be an even year with great opportunities for PetroRio, even with this Brent price and even with the market going through some difficulties. Thank you very much and I hope to see you in the next conference call.

**Operator**

That does conclude PetroRio conference call for today. Thank you very much for your participation and have a good day.

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