

Y 2021 Earnings Call

Company Participants

- Francisco Francilmar Fernandes, Chief Operations Officer
- Jose Gustavo, IR and Treasury Manager
- Milton Salgado Rangel Neto, Chief Financial Officer
- Roberto Bernardes Monteiro, Chief Executive Officer

Other Participants

- Christian Audi, Analyst
- Gabriel Barra, Analyst
- Guilherme Levy, Analyst
- Gustavo Sadka, Analyst
- Pedro Soares, Analyst
- Regis Cardoso, Analyst
- Unidentified Participant

Presentation

Jose Gustavo {BIO 1862213 <GO>}

Good day, everyone. Welcome to Petro Rio's Conference Call to discuss Fourth Quarter and 2021 Results. I'm Jose Gustavo, IR and Treasury Manager of Petro Rio and I'll be hosting this event. It's available in the Petro Rio IR website. We also have an interpreter for simultaneous translation please choose a sound channel icon on the bottom of your Zoom screen. The presentation and comments on the results will be presented by Roberto Monteiro, CEO; Milton Rangel, CFO; and Francisco Francilmar, COO, they will present the company's results and will then be available during the Q&A.

At this time all participants are in listen-only mode. To ask questions live, you can use the Zoom Raise Hand feature and for written questions, the Q&A button both icons are found on the bottom bar of your Zoom screen. This event will be recorded and will be available on Petro Rio's Investor Relations website. Before proceeding, let me mention that forward-looking statements that management makes during this conference call relative to the company's business perspectives, projections and operating and financial goals are based on the beliefs and the assumptions of the management of the company and on information currently available. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions as they relate to future events and depend on circumstances that may go may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future results of Petro Rio and could cause results to differ materially from those expressed in such forward-looking statements.

Now, we'll start the presentation with Roberto Monteiro, our CEO.

Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Good day everyone. Thank you very much for joining us today and for taking time to participate in Petro Rio's conference call to discuss fourth quarter and full year 2021 results. Well before anything, I would like to start this meeting once again with a big thank you to Petro Rio's team for another good year. 2021 was a year of many achievements of record marks and none of that would have been possible without our people without the Petro Rio team.

Well, talking about record marks, I believe we have quite a few which I could list here. The first of all, is our revenue. Our net revenue totaled BRL4.4 billion. Second highlight, our net income up BRL1.3 billion. Our adjusted EBITDA was BRL2.9 billion. Production with 11 million barrels sold along the long the year and what makes us particularly proud is there lifting cost. In the fourth quarter of 2021 lifting cost was \$11.8, we still see room for improvement but you know what makes us really proud is that we've been able to improve this indicator quarter-after-quarter and what is behind those record marks are tangible and palpable things which we find important to remember always, i.e. the connection between Polvo and Tubarao Martelo TBMT the famous tie back.

Well number 10 at TBMT that started production in the second half of the year, all the workovers that were required in some of the wells, which one way or another caused some disturbance, but these issues were solved along the year. And lastly, our follow-on and the debt that we issued the bond, which were solutions we found to access the capital market, both fixed income and equity markets.

Now moving to the next slide, I'd like to consider -- I'd like you to consider the four graphs on the slide. I would like you to focus on the top two, they are tests to our reduction in lifting cost and our production, that is the foundation of everything. This is what makes us what we are as a company and this is driven by the people in our team. This low end controlled lifting cost and this controlled and growing production led us to a very sustainable cash position and to this level of leverage, which is very well under control. All of that sets the stage and prepares the company for our next cycle of growth, which in our opinion will come soon.

Thank you very much and I will now turn the floor to Francilmar, who will speak a little about our operational data in more detail. Then Milton, will speak about the financials and I'll be back in the end, to speak about the next steps.

Thank you.

Francisco Francilmar Fernandes {BIO 21185801 <GO>}

Hello everyone. Thank you Roberto. Let's start on Slide 5, for an update on the operation of our assets. This slide brings so big summary of the assets and will focus on the production piece. We've been working hard to try and improve efficiency at the fields and

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their production so that will get more appropriate results at the end of the day. So we will detail the lifting cost in Q4, we managed to cross the mark beyond the \$12 per barrel and this stems from increased production we improved basically all the numbers as well as lower costs.

Please go to Slide 6, where I can give you more detail mainly about the lifting cost. We can see on the top left hand corner, this graph that we usually show and have been following. In Q4, we achieved \$11.8 per barrel, the lowest ever until today and I hope we can improve even more. Obviously, the tie back between TBMT and Polvo A contributed the most for that. We were able to eliminate the cost of the vessel. We used to pay for it's lease and operation around \$50 million a year and there were a number of other smaller costs that supported that asset.

This is the biggest indicator of our operation. In other words, how we can produce at the lowest cost possible. That's how the company protects itself against the market volatility and external threats. So, linked to cost reduction along Q4, we had the start of production of Well number 10 at TBMT as well as resumed production at TBMT Wells Number 2 and 8 that helped to increase production a lot at this cluster, which in turn contributed quite a lot to reduce the lifting cost as a whole. Now let's go to Slide 7. Here we'll speak a little more about the operating performance of Frade field. In the fourth quarter, there was a slight reduction in performance, as we can see in this chart that shows operating efficiency which was 94.8% almost 95%. This was due to a problem that we had in the automation and control system of the FPSO at Frade.

So we had about three days of downtime to solve the issue that is linked to the fact that we have old and obsolete equipment that we repaired as an emergency basis to bring it back on line -- back to operation and a lot is being replaced so we can ensure greater reliability for the asset as regards this specific item. Other than that, the asset performed as usual for the vessel working really well no problem whatsoever and the vessel is now getting ready for the revitalization of Frade, which I will explain on the next slide.

But there is a part of the vessel that is preparing for both water injection and to receive production as well as for control systems. Moving to Slide 8, I'll give you an overview of the Frade Revitalization Plan. This is the big project of the company this year. We are focused on having that working as quickly as possible. As you have all seen, this schematic on the top left hand corner, with the lateral view of the field in this first phase, we will drill three wells, two production wells and one injection well, actually it's the other way around, two injection wells and one production well.

We will start with the production well now in the end of Q1, that's the plan. Then, there is a second phase, with three production wells and one injection well. We are working hard to optimize this ratio according to the budget approved for the year. So more to come on about that. The development plan has already been approved by ANP, we have everything in terms of the schedule. third-party contractors all equipment and materials needed in terms of environmental licensing we are at the final stage with just some final clarification requested by the environmental agency. I don't believe that there will be a problem, there's no indication of that, we should receive a green light in the coming weeks.

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One important point about the drilling rig NORBE VI that is still operating at Petrobras. It is operating at one last well over there, there were some operational delays, but as soon as she leaves there, she will be taken to the port for maintenance and then she will come through our well. This might impact a little our schedule, but according to plan. On Slide 9 we'll speak more about the Polvo and TBMT cluster. Now, this cluster went through a great transformation this year, we completed the tie back between Polvo A Platform and FPSO Bravo in July. After that, we could see a clear improvement in operating efficiency. The vessel as we can see on the bottom right, we see that with FPSO Bravo, there is very high operating efficiency, close to 100% indeed the vessel operates really well under the leadership of the Petro Rio team that is making a benchmark out of this vessel.

And Polvo A platform follows the same path, we have been improving month-after-month and both are extremely reliable. We had a bigger impact caused by wells at TBMT which failed particularly along the second half of the year, which impacted performance. I'd like to remind you that here at Petro Rio, we look at operating efficiencies as the ratio between production planned and expected and actual production and we include the part related to wells and subsea systems in that calculation.

So we see that in Q4, there was some improvement has these wells resumed production. On the left, in the highlights, we can see that well TBMT Number 8 resumed production and so did well TBMT 2 and completion of well number 10 and all of that translates into new oil in the system. Here, it is worth highlighting that the arrival of the king maker drilling rig, it's addition to our fleet helped improve performance a lot. If we did not have this rig operated by ourselves owned by us, we would need to commission a drilling rig abroad, it will take several months with different commercial conditions that would impact both the cost and production.

So, this drilling rig proved to be a great addition. So these negative points of these production shutdowns did impact our efficiency a little, but these issues have been solved. The last pending item was well Number 44 at TBMT, which failed in the beginning of December all were failed ESP pumps. I'd like to remind you that these wells have never failed since the beginning of production, all of them operating for around seven years. Well 44 is production in mid-January boasting already the very best performance in the year already with Petro Rio operating with the king maker rig.

So, this is a well that we worked on in less than two months following this process of continuous improvement, which we constantly seek in our operations. So that's it the field is doing well and we expect it to improve even further in the coming quarters. On Slide 10, I'll give you an update on Wahoo field. We have the declaration of commerciality in December of 2021 and with that the evaluation process of the development plan continues at E&P. As for the technical part, we started the front end engineering and design in the end of last year and we expect to finish it in the coming weeks by the end of this month or beginning of March. And with that we will move ahead with the process to send out requests for proposal for all services and materials. We have started negotiating with vendors for all items that we could commission, particularly the main bigger items that take longer to be delivered.

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The next steps are to have approval of the development plan, and when we get a green light, we should proceed with the acquisition of equipment and services, particularly for the tie back which requires longer delivery time. Then we will move ahead with the execution of the drilling process and installation of subsea systems and then, we expect first oil to flow in 2024 as initially predicted. And with that I end my part, and I would like to stress that 2021 was an extremely important and challenging year, but the Petro Rio team showed competence, great and responded quite well.

Even with COVID and all challenges in the supply chain, we were able to execute and deliver great projects and to keep focusing on efficiency of the field delivering great numbers with an excellent safety track record. No accidents, no environmental incidents, all of that prepares the company to embrace the new challenges that will come soon.

Thank you very much. I'll turn the floor to Milton.

Milton Salgado Rangel Neto {BIO 22228864 <GO>}

Thank you Francimar. Good afternoon, everyone to continue our presentation more specifically, on Slide 11 we'll speak a little about our financial performance highlighting that Q4 was indeed an incredible quarter for the company. We sold 3.8 million barrels, almost 4 million barrels, at an average price higher than \$83 per barrel that contributed to a very strong quarterly result with total revenue up almost BRL1.8 billion and adjusted EBITDA, which is the EBITDA that excludes non-recurring and non-operating results of around BRL1.2 billion with a margin of 69%, a very significant margin and naturally all of that contributed for us to boost the net income of almost BRL900 million.

So, in other words, a quarter that doesn't really require more explanation. This was a very positive and sound result. This naturally drove a very positive full year 2021 result, it was basically the very best year in the history of Petro Rio. We were able to achieve revenues of about BRL4.4 billion, adjusted EBITDA was around BRL2.8 almost BRL3 billion, with a 65% margin, with total net income of around BRL1.3 billion. So, I guess that these numbers well, I guess they kind of speak for themselves. Comparing with 2020, I'd like to remind you that 2020 was a year strongly affected by COVID. The average sales price in 2020 was \$41 per barrel, we sold 9 million barrels while in 2021, we sold 11 million barrels. So we were very much helped by both increased sales and higher rent prices as well as cost reductions as presented before. The lifting cost, they naturally contributed very positively to our results. Well, moving to the next slide, Slide 12. On the left graph, we show the average duration of the company's debt. After the issuance of our bond, the average duration of our debt reached a level above four years.

I'd like to remind you that ours is a 5-year bond maturing in 2026, and this increased marginally because of the amortization of some working capital debt with a shorter duration that we still had and we settled these loans in the end of the year. On the right hand corner of the slide, the chart shows our amortization schedule, which basically consists of the bond as the only remaining debt \$600 million with a cash position of about \$830 million, \$840 million and we have to remember that many of our offtakes that happened in Q4 -- happened in December and we are paid on average after 30 days.

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So, we still have significant accounts receivable, which reinforces even further our cash position. Now, moving to the next slide, Slide 13. We can understand the variation of the company's net cash today at around \$230 million. If we started analyzing since Q3 2021, we had adjusted EBITDA of about \$220 million then we have payment of Wahoo, which is budget that we had set aside for acquisitions of the stakes we have in Wahoo. Then working capital which is exactly the effect of those accounts receivable which are quite significant. CapEx, here this includes completion of TBMT well number 10 and the final decommissioning of FPSO Polvo then Tuscany and TAC which is basically payment of a court lawsuit involving Tuscany and the final portion of the Frade TAC and financial result mainly related to bond interest and taxes paid in the quarter.

And with that, we ended up with a net cash of \$231 million. Now moving on to Slide 14. This is the evolution of our net cash. Our net debt over EBITDA ratio. This is a very important metric that we follow, up close, also because of our bond covenants where we can see is that the company maintains a net cash position our debt over EBITDA ratio was negative with a very sound cash balance a net cash of BRL1.3 billion.

And basically in a nutshell, we are a very deleveraged company and one that is prepared to grow and prepared to make room for more debt in a healthy way in our balance sheet to help us eventually make future acquisitions. This slide summarizes the financial health of the current Petro Rio.

With that, I'll turn the floor back to Roberto for his final comments and I wish you a great rest of day.

Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you very much Milton. I will speak about the next steps for the company and then we will start the question-and-answer session. Well, we tried to list here the next steps for 2022 what the year should be like, as always we'll maintain a continuous focus on the safety and health of our staff and third-party contractors, the return to society all of that is the foundation -- the respect for the environment, all of that is the foundation for Petro Rio. In addition to that we have more tangible and operational things that we need to perform during the year. I'd say that the first one is operating stability in the Polvo TBMT cluster. I think that the tie back went very well, and so did all the workovers that we did last year.

But, we have many small issues that happened and resolved. I believe that the main challenge for us in 2022 is to maintain operating stability at the cluster. December was a lot more stable. January was a very stable month as well and February has been a very stable month so far. So I believe that we are getting to the point that we consider to be ideal. Another important point for this year is the start of drilling at Frade, the revitalization campaign for Frade, we expect to begin some time in the month of March. I believe that we have all of the elements in place to start drilling.

Another important point is to go forward with the Wahoo development plan, we declared commerciality in December, we submitted the development plan and now we are in the

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phase of approval of this development plan by the agency by ANP. Another very important point for 2022, which will require a lot of focus for the company, a lot of focus by many areas of the company is Albacora and Albacora Leste. As we have mentioned in the past, we were selected by Petrobras as preferred bidders and we are currently in a negotiation phase for the contracts and we expect to complete these two deals.

After the deals are complete, we have to move forward to work on the funding, so that we can develop these two fields -- so that we can get these two fields, which would be two transformational opportunities for the company. And lastly, as we always stress our focus on inorganic growth through M&A opportunities. Having said that, I believe that 2022 will have a great concentration of efforts on Albacora and Albacora Leste. These are the next steps for 2022. There aren't too many, but they are all very important.

With that, I would like to open the floor to questions. But before that, I would like to once again thank all of you for joining us today. All of you fixed income investors and equity investors, because you have believed in us and you have supported us all along. So, thank you and a big thank you goes to all Petro Rio employees, as I said in the beginning. Thank you very much.

Questions And Answers

A - Jose Gustavo {BIO 1862213 <GO>}

Well, ladies and gentlemen, we will now begin the question-and-answer session for analysts and investors. If you have a question, you can use the Raise Hand feature located in the bottom of your Zoom screen, so we can open your mic. If you prefer to ask the questions in writing, you can use the Q&A button also on the bottom of the screen. To be organized we'll follow the order in which the questions arrive. Let's start with the Raise Hand. Christian Audi with Santander. Christian, your mike is enabled.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. Can you all hear me.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Hi Christian. How are you?

Q - Christian Audi {BIO 1825501 <GO>}

Hello everyone, Francimar, Milton, Roberto, all of you. To start, congratulations. I know that you've been working hard and you work hard in 2021. So congratulations Roberto and all of your team. I have three blocks of questions -- operational questions, leverage and M&A. In the operational part, very quickly. Again, congratulations on the lifting cost, what else can you do to lower the lifting cost even further under \$11.8 per barrel. As for Frade, I don't know what you commented, the second phase of three production wells and one injection well, when would be the timing for that -- for those to be drilled.

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And finally, as regards Wahoo, what is your expectation regarding when A&P will approve the development plan. Now regarding leverage given such a positive financial situation that you have, I just want to get a sense of the firepower that you have. If the assumption is that you only take debt to enjoy new M&A opportunities, what do you intend to do? And finally, regarding M&A, I know, Roberto you are limited in terms of what you can say about Albacora, but I'm curious in case you're successful. When can you have access and when can you start operating these blocks and when would you start posting the company?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you Christian. I'm not sure, I'm going to remember all of the questions, okay. If I forget something please remind me. But, let's start with the lifting cost. You asked what else we can do to reduce the lifting costs, right? Well, first of all, I'm sorry, I'll start answering that, okay. The first thing we need to do for the lifting cost and something that is happening now as you will remember that in the past, we said that after the tie back between Polvo and TBMT there were still a pending item to be executed regarding a gas compressor in the TBMT FPSO. So, that we could start burning more gas and less diesel. FPSO all along last year at Tubarao Martelo TBMT were mainly powered by diesel and now in January, beginning of January we were able to end this project. We commissioned a gas compressor that is more adequate for the FPSO. And now in February, we are already burning gas so we were primarily working with diesel and now we are working primarily with gas.

I don't want to give you any guidance at this point, but I think that we are going to reduce a lot of cubic meters of diesel consumption at the FPSO. So, that is one thing. Another thing that is going to work in our favor is drilling at Frade, our expectation is to add 6,000 barrels a day when Frade is finally online and that's going to help. So for this year. I believe that these would be the two most important points to reduce the lifting cost even more. In the past, we said that we could get to a range of \$10 to \$12. We are at \$11.8 per barrel. So, I think that we should try to be conservative, but we should try to get a number closer to \$11. Have something even better than that when Frade is online.

So there is still things to do. Of course, the decline of the fields will always speak against this, but we have at least these two important points to be executed.

Now, what was the next question Christian?

Q - Christian Audi {BIO 1825501 <GO>}

Well, you said about the injection and production wells that potentially will start operating in March. So, my question would be regarding the other blocks of wells and when it would be drilled?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

This will depend on what we we'll do regarding Albacora. We have finite resources, particularly the drilling rig. If we didn't have Albacora, we would be drilling Frade then have the development of Wahoo and then go back to Frade and go back to Frade with a little more information, particularly regarding water injection. Mostly, a little time after you run

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the first campaigns to adjust geological models and so and so forth to revalidate everything that you -- for all of your assumptions so that would be our plan. And of course, when we have Albacora in the picture we will have the limitation of the rig -- we'll always try to allocate the rig where it will bring us the best return and we always move from the top return to the lowest return. So if you consider Frade and Albacora, if we complete the deal then we can put wells to production, and they will yield more than the wells at Frade. So, that would probably be a priority. So, then really depends -- the answer really depends on Albacora. If we didn't have Albacora, it would be soon after Wahoo.

Q - Christian Audi {BIO 1825501 <GO>}

And my question regarding Wahoo was when do you think ANP will be approving the development plan? Emiliano is a person who can speak about that, but thinking about eight months everything came six to eight months -- less than eight months is going to be difficult. This is -- the time it takes on average for them to approve a development plan, we submitted our development plan. So it will be approved sometime along this year -- more towards Q4 of this year.

And it's basically it, but everything moves forward in parallel, you don't have necessarily to have the plan approved to do things. We can start buying the long lead items and we started working on the environmental license. We have that term of reference, the TFR have the term of reference, and then you have to ask for environmental license and so on and so forth, you have the environmental impact study and all of that is moving ahead, so that we can start drilling in 2023. Excellent. And about leverage my question was, you've always maintained a very strict financial discipline. So what kind of loan, what kind of debt do you think you can take on maintaining this financial discipline?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Well today, if we consider Albacora, if we will bring Albacora to the company. You could think about a scenario, where we can only resort to debt. I think that we can raise something close to \$1 billion, it's basically the EBITDA generated by Albacora. So if we think going to buy new project, and I'm going to link it to one time the EBITDA, I mean, it doesn't seem like the end of the world. So, that's kind of a ballpark figure and sometimes people ask yeah buddy, you are in a corner now because you'll need to go to the equity market anyway, it's not really so though. Our initial plan is to access the equity market and the debt market for Albacora. We believe, we'll need a funding close to \$1.6 billion, \$1.7 billion divided between debt and equity. And what we can do is get Wahoo pushed forward a little bit if we don't think that the equity market is, is right that the share price is not right we can throw it and push it a little forward and we can do Albacora with debt and the company will remain very healthy with a net debt over EBITDA ratio of 1.5 times or close to 1.5 times. And that makes me really comfortable -- makes me really comfortable to manage the company with that level of leverage and it's also a leverage that falls quickly because Albacora and the whole company are cash cows.

So perhaps, we'll have two quarters at net debt over EBITDA ratio of 1.5 it doesn't seem like the end of the world.

Q - Christian Audi {BIO 1825501 <GO>}

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Excellent, and my last question was regarding Albacora. If you were successful in the deal. When do you think you'll start operating the asset and you'll start having EBITDA generated?

A - Milton Salgado Rangel Neto {BIO 22228864 <GO>}

EBIT starts being generated after approval by ANP. So, let's suppose then we can sign the deal in March or April of this year -- May of course, this is a growth estimate, because it really depends on Petrobras, we are still in the negotiation phase. So please do not use that indication as a guidance because you have adjustments to be made. But these processes tend to take above nine months to be approved. We've seen faster, in our case, the faster deal was TBMT, we had TBMT in six months. It was the fastest deal so we cannot really ensure all rest assured by year-end. We don't know. It is a long process. Frade took about a year right to get 30% stake of Frade. So on average 9 months, of course, we'll spare no effort to have this approved as quickly as possible. But there are -- there is the ANP timeframe.

Q - Christian Audi {BIO 1825501 <GO>}

Excellent. Super clear. Thank you very much for all of the answers. Thank you.

A - Jose Gustavo {BIO 1862213 <GO>}

Thank you Christian. Our next question comes from Celso Vasconcellos [ph] with UBS. Celso, go ahead.

Q - Unidentified Participant

Hello, Roberto, Jose, all of you. Thank you for taking my questions and congratulations on the excellent result. Roberto, going back to Albacora, the follow-up question you kind talked a little about that but we have heard that Petrobras could eventually reassess things and consider possibility to reprice the asset considering the higher Brent oil price. So, I'd like to understand, of course, considering, why that you can't disclose to us. What about the conversations with Petrobras? Are they unfolding as expected, are you running into difficulties. Can you give us an update on that? And my second question regarding arbitration of Wahoo never a problem with IBV. What is the estimated timing for the end of the process and what are the alternatives. Are you thinking of taking over the full project, if you could give us some color regarding the arbitration and possible alternatives in the process. These are my two questions. Thank you.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Celso, thank you. Regarding Albacora, I have been very open and upfront about that. Yes, there is Petrobras element. We are still negotiating with Petrobras. The Forno reservoir is better than what we thought when we were bidding, better than what we thought and better than what Petrobras thought at the bidding moment. So Petrobras has the company whether we would be constructive and whether we would consider re-evaluating the Forno reservoir and we said, yes.

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So, we moved to the second phase, and what happens now is exactly that, there will be some kind of reassessment of the asset because the reservoir is better than the reservoir that we all thought we were bidding for. You will remember then data was ended in May of 2021. So yes, that kind of conversation is going on, it's nothing frightening to us. There might be a change, but I think that the numbers you read and hear about in the media between signing and closing they should continue to be respected because that dictates the funding, but it might be something else in terms of deferred payments and so on and so forth.

But this is still being negotiated. Now, there is no such thing as the Brent price went up, now Petrobras wants to re-negotiate everything, it's are falling apart, no, no. There is no such a theory, it's a technical thing. The reservoir is better of course, with a higher Brent price and we have to look at long-term Brent it's not \$95 we have to consider \$70, \$74, \$75 because that's the long-term versus the long-term when we bid, which was \$62, it was in the \$60s.

So, the Brent did not increase from \$60 to \$90. In the long term, the increase was much less and this is what we have to take into account. So both companies Petrobras and Petro Rio are being constructive. We work in good faith and we are going to get there at least, this is what I expect, is what I believe. An arbitration process can take years, it can take one year and more than a year.

By definition, at any time you can come to an agreement to supplement, of course, Petro Rio prefers a settlement. Our intent was never to get the field from IBV in the past, we tried to have an acquisition now we invited IBV to participate, we showed them the information we thought was relevant, we gave them the joint operating agreement terms, we put it all on the table, but it is important that we have a partner that also wants to develop the field and not just sit there and wait.

One of the things Petro Rio does is make quick decisions -- act quickly. We make decisions according to the operating contract and if you didn't keep up, but of course, we'll always be constructive always try to get to an agreement. This thing could take a year or more than a year. But that's arbitration, but we can settle in the middle of the way we can have a purchase sale and purchase agreement, it can be an agreement for them to return to the field. So, the company as always will be constructive and the partner of our partners. What matters is that the arbitration process itself does not suspend the company's right to develop the field, we can continue to develop it and also because the result of the arbitration might be. IBV has the right to come back to the field and that would be positive because they would return to a more advanced project. So developing the field is beneficial for both sides for us and for IBV in case they win the arbitration. So, I have a lot of peace of mind to continue to develop the field.

Q - Unidentified Participant

Excellent. Super clear. And if I may ask a follow-up question regarding Albacora. If the value of the bid changes with this change, the capital allocation strategy or funding strategy of the company because you kind of talked a little about that.

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A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

I don't think it would. The value that you you read in the media should be maintained between signing and closing -- monetary value between signing and closing and that is what dictates the funding. If an adjustment is made, it should be made in a more deferred way, in a contingent way, considering oil price and we are talking about Albacora West, Albacora Leste, Albacora East is very, very close. There is no discussion there, we have advanced a lot. Of course we are still in the contract phase.

But what we're talking about here of a reassessment of values that applies to Albacora only. So I don't think it changes anything. This is our strategy, it has always been this. M&A is an opportunistic business and have to prioritize it, because the opportunity is there tomorrow it might not be there and the funding will be adequate for that. Our CapEx will be adjusted to our funding capability and our funding capability relies on the market, if the market will follow us, it really depends on the market, they might not follow us depending on the election. For example, we might have to adjust our investment schedule, as we did in the case of TBMT Tubarao Martelo, we bought it. Our intention was to have the tie back a year ago, I had to delay it for a year, because we have COVID the whole confusion, we have to hold back the project, we didn't know where the Brent price would be, as much accretive as we are, we wanted to hold back on our cash. These are decisions we have make.

Q - Unidentified Participant

Perfect, very clear. Thank you very much. Congratulations on the result.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you Celso.

A - Jose Gustavo {BIO 1862213 <GO>}

Now, we have a question of Regis Cardoso with Credit Suisse. Regis, go-ahead.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you guys. Jose, Roberto, and all the management team. Some follow-up questions on my side. Regarding Wahoo, I thought that the development plan included three injection wells -- actually two injection wells sorry, and would like to know if this is a firm decision and have you decided on this, is this a final decision that's one question, and regarding the lifting cost Petro Rio had a lifting cost \$14 a little more than that. If we get the savings of BRL50 million and divided by production of 30,000 barrels a day. I guess my question is, I have the expectation that it could get to \$10 or even a little under \$10 per barrel and I don't know whether your expectation of keeping the lifting cost at \$11 is because you're being conservative or if I did a wrong math. Regarding Albacora, it strikes me the need to have 1.6 funding -- I don't know whether this affirmative would be for the set of Albacora and Albacora Leste because you know, I must admit that I thought you would need the funding, considering equity in debt, it was greater than that. And the last question if I may, and I can repeat the questions if you don't remember them. I'd like to have an update on Manati if that deal is still good?

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A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Well Regis, let me speak about the wells in water injection because that's the plan to have those two wells. I can give you some color on that. Yeah, that is the plan. We wanted to be conservative and we wanted to have these two wells to guarantee and to be conservative. It is possible that in the future with a better evaluation we might change something but today, that's what we have. Yes. Today, our mindset is to drill those two wells -- nothing has changed really. We tend to be more conservative than anything else. We prefer to use to consider these two wells and if we have a pleasant surprise. If we have a surprise -- maybe pleasant. Regarding the lifting cost Regis, your math is good and that's why always provided a guidance between \$10 and \$12. \$10 is the lower range. If I look at the lifting cost of October, November and December, December was the lifting cost under \$11. But we cannot guarantee that, if everything unfolds perfectly.

We should be in the bottom end of the range but I don't want to guide you to do the math with that number because everything has to happen perfectly, smoothly all the time. So I think that we need to be a little more conservative and think that we're going to work with a slightly higher lifting cost at around \$11 because pumps fail. Sometimes there are unexpected costs, everyday something different happens. So, we need to have a little bit of fat \$50 million, available 30,000 barrels of course, it has to be around \$10 that's the mathematical calculation. But I would not work with the number Regis, not right now. It was -- I think there were more questions I can't remember the rest.

Q - Regis Cardoso {BIO 20098524 <GO>}

Well, thank you for the answers. They have been very complete and candid. Had two more questions. One, it was about Manati and the other one was about the funding, 1.6 whether it relates to Albacora only and Albacora and Albacora East, Albacora Leste.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

I thought that you would need more than that for both. As regards to Manati, our intent is to divest from the field. The company that presented a proposal for to Petro Rio Gas Bridge, they want to turn Manati into a gas storage station. This is not our play, this is not what we do -- might be good, might be bad I don't know, it's not our business, so we decided to sell, that's still in our mind. The problem is that they found some hurdles with Petrobras, because of course, to turn that into a gas storage location they have to have 100% of the operation in the field or they have to have partners that want to be part of that play.

So they did run into some negotiation problems with Petrobras and that's delayed the whole process, but it's still in our mind to divest. Manati is generating cash, it's still a very good business. That is great, still generating cash, but it's much more of a concept. We don't want to get into the gas storage business, into midstream. It's just a matter of focus, so we intend to divest. When we have more information, we will advise investors and the market. As it is today, we are kind of waiting to see what's going to happen regarding the deal between Gas Bridge and Petrobras. Your last question was regarding Albacora funding. When you think about what you saw in the media \$4 billion, our part of this \$4 billion would be about \$3.4 billion. We have \$900 million in the company, cash. We have cash generation from today until the closing -- get approval by ANP because that's

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when you have to do the full -- when we have to pay that amount and then we have cash generation by the asset that will somehow adjust the price. When you add all that, what you have is \$1.6 billion for both assets.

So, that's the calculation that we do. Milton looks at this every day and night and weekends and all of that is considering the oil price at around \$75 and declining. So, we tend to be conservative again, of course with an oil price of \$90 things will change and that's thinking, that we will continue with our base plan, which is develop Wahoo. According to what we have in the plan, first oil flowing in 2024 and so on and so forth. So this is what we're thinking. But this is a relatively simple calculation.

Q - Regis Cardoso {BIO 20098524 <GO>}

Understand. Very clear. Thank you very much.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you for the questions.

A - Jose Gustavo {BIO 1862213 <GO>}

Thank you Regis. Our next question from Pedro Soares with BTG. Pedro, go ahead.

Q - Pedro Soares {BIO 20879952 <GO>}

Hello. Can you all hear me?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Hello, Pedro. How are you doing?

Q - Pedro Soares {BIO 20879952 <GO>}

Good here. I hope you guys are well. I have two follow-up questions. Most of my questions have been answered. Regarding Albacora, and I think that you kind of touched on that in the previous answer, regarding the right to the cash generated by the asset. There might be some limitations there, but we have seen that some assets that are being divested by Petrobras the buyer is entitled to the cash generation even before the buyer starts operating the asset and what I understood that possibility also exists for Albacora or not. And my second question is strictly regarding the Frade CapEx that you will be starting to invest into one. In the release, you mentioned the Wahoo CapEx. What about Frade? Can we think about \$60 million, \$70 million per well, because that's a number we had for the past.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Yeah, \$70 million, yeah, that's a number I maintained for Frade. So we are thinking of drilling three wells, the CapEx is \$210 million. Something between \$205 million and \$215 million and I know Francilmar he'll probably need \$215 million around \$70 million nothing different than that. As for Albacora, yes this being entitled to the cash flow of the field from a certain date. I don't want to get into a lot of details here, but that's how all oil and

gas deals go, you start having access to the cash flow, starting at a certain point, a certain date -- we try to imagine that this is not going to be very different than approval date ANP. Sometimes there is a mismatch because of ANP work and, of course, that might happen in excess to cash flow translates into a price reduction. You pay a little less because the asset is generating cash, of course, if the asset is not generating a lot of cash you pay more and that's how it works all, all deals are like that.

Q - Pedro Soares {BIO 20879952 <GO>}

Thank you very much, very clear.

A - Jose Gustavo {BIO 1862213 <GO>}

Thank you Pedro. Next question from Gabriel Barra with Citibank. Gabriel, go ahead.

Q - Gabriel Barra {BIO 22244309 <GO>}

Hello, Francimar, Roberto, Milton, Jose everyone. Thank you for taking my questions. Again, congratulations on the results. But Pedro said, most of the questions have been asked, but I would like to go back to IBV and the arbitration case. I would like to understand the similar detail. First point, what about cash generation? If you continue developing the field without the arbitration ruling, will the cash be yours? Will it be put in a side account, this amount has to be posted separately? I am sorry, I don't want to be pessimistic, but what would be the worst-case scenario for you if IBV wins, what could happen, given that you're going to continue to invest in Wahoo and as for NORBE VI rig the contract you signed, would you reduce the lifespan of the contract. Is there any possibility for adjustments to the contract because from what I understood, there might be some changes in the timing of use of the rig. These are my two questions. Thank you.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

While the worst case scenario, regarding IBV is we develop the field and obviously, when we develop the field, we are the ones investing all the CapEx and we get all the money and that's revenue for the company and the worst case scenario is arbitration besides that IBV is entitled to be a part of it, then they will have to contribute with the CapEx referring to 36% of their working interest the moment the arbitration decides they'll have to invest that and they will receive the results referring to the 36% of CapEx.

So we make that kind of adjustment. It's unlikely that this would totally change the value of Petro Rio in anyway. When you compare with evaluating Petro Rio with 64% stake of the field this is what you should do. I would not consider Petro Rio as having 100% of the field for valuation purposes. This is not the case yet. So, when you consider Petro Rio having 64% working interest of Wahoo, that's what you price, there is no worst case scenario, you consider 64% stake in the hands of Petro Rio and IBV would have to invest their part of the CapEx.

In the arbitration, we will have to decide what penalty. Today, the contracts is that they will return with the penalty of 10 times. Now, we have to wait for the arbitration process but that would be the worst case scenario that could happen. The second point was regarding the rig contract, right. Normally, in these rig contracts and ours is not very

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different than that is that today we have 500 days of NORBE VI rig, in our mind it's enough to drill the three wells at Frade and the Wahoo wells. So then, we have an option to -- how many options do we have? We have 500 days plus 5 options of 70 days renewable every 70 days since most of the contracts are like this with these 500 days if we do not want to use the rig, we can sublease it to a third-party, we cannot make profit on the rig, but we can sub rent it. So, we can mobilize it to another company Petrobras, Chevron, Shell, I don't know whoever needs it. And that company that would be subleasing the rig would pay a day rate to Ocyan and the day rate is decided -- the amount referring to our rig will come to us.

And the delta, the gain goes to Ocyan. So that's an option. If we want to change the contract, we don't want the rig anymore, we want to return it, that could be done, but I don't see why we would do that. But it is in the contract that kind of flexibility is in the contract, we can remobilize the rig somewhere else which just won't make any profit.

A - Milton Salgado Rangel Neto {BIO 22228864 <GO>}

And if I can add to that, the contract is fixed, we have contracted 500 days. There is a delay, because the contract is over with Petrobras, but there is a provision that says, if they are finalizing a well, the rig will only leave when the well is finalized. And this is what's happening now. So there might be a delay of one week, two weeks a month but as soon as she leaves Petrobras, our contract starts kicking in.

Q - Gabriel Barra {BIO 22244309 <GO>}

Very clear. Thank you very much.

A - Jose Gustavo {BIO 1862213 <GO>}

Thank you Gabriel. Next question from Guilherme Levy with Morgan Stanley.

Q - Guilherme Levy {BIO 20821639 <GO>}

Hi everyone. Congratulations on the result. Thank you for taking my question. My first question, again is about Albacora. When we look at production in recent months, you said that for both assets, production is a little lower than in the beginning of 2021. So I'd like to understand from you, what is the expectation that you have? If everything goes well, what is your expected production from these assets, when you take over the operation? And if it is at the current level, how fast can you bring production back to 60,000 barrels a day, which is what they were producing in the beginning of last year. And a second question about Albacora \$1 billion of EBITDA, how much is that linked to -- that is linked to what price of Brent?

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Francilmar will start answering and then I'll speak little more, but we cannot give you a lot of information because the asset is being operated by Petrobras. We do have some information, but we are not -- we cannot disclose this.

A - Francisco Francilmar Fernandes {BIO 21185801 <GO>}

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The asset over there is suffering with some problems subsea issues and that's why we see this decline in recent months. The problem is not related to the reservoir, the production potential is there but the assets require some equipment repair. We have been following this and how Petrobras is working on the assets. But when the fields come to Petro Rio, then it's our plan. It's a whole new ballgame. In terms of production 55,000 barrels for both fields to consider them, you're not going to make a huge mistake. That should be the initial production and if you consider Brent at \$5 -- not even the current Brent, but the Brent price that we use for all our modeling, around \$75 we can get to \$1 billion. We are going to get to a revenue that is a lot higher than the operating costs so about \$1 billion.

Q - Guilherme Levy {BIO 20821639 <GO>}

All right. Perfect, thank you.

A - Jose Gustavo {BIO 1862213 <GO>}

Thank you Guilherme. Our next question is from Gustavo Sadka with Bradesco. Gustavo, go ahead.

Q - Gustavo Sadka {BIO 20132066 <GO>}

Thank you. Thank you for taking my questions. I'd like to confirm a few things that you mentioned in the prior answers. First, you give us more color regarding the penalty that IBV would need to pay if they decide to go back to Wahoo and something else is you mentioned 3400 in Albacora relatively to 4 billion. So your stake in Albacora is 85% for both fields or at around 70%, 75%. And my third question about Wahoo. First oil is expected to flow in 2024, but the ramp-up of production should happen quickly in the first year to get to the capacity of 40,000 barrels or 45,000 barrels a day, will that take long to happen? Thank you.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

With the penalty -- if you go back -- forget that. This is something written in the joint operating agreement, there is a clause that's called back in -- sometimes a non-operator had decided to exit may return and there is a clause of 10 times as a penalty. But, this is not what is being analyzed into arbitration that has nothing to do with the arbitration -- that's related to a class called the backing in provision. Please don't use this for anything because it's not applicable here. And like I said, I stress one more time, we mean to become constructive with IBV.

We mean to come to a commercial settlement as quickly as possible, and if possible have them back in the field. So, don't get stuck with that -- that's just a contract provision, don't assign any undue weight to that please. As regards Wahoo, yes start of production is 40,000 barrels. For, technical reasons we're going to drill the wells in 2023, while the wells have been drilled, we are going to install the lines when the lines get to the wells all four wells will be drilled.

So, when we start producing -- I mean, the production ramp-up will be very fast -- will be a very short period almost instantaneous. Of course, we never turn on all the wells at the

same time, you turn them on one-by-one. But you stabilize one, you turn on the other one and so on and so forth it's fast. Was there something else in the question?

Q - Gustavo Sadka {BIO 20132066 <GO>}

A question regarding your stake of Albacora.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Right. The stake of Albacora, we've spoken a lot about that. And this is also something in the media. We are bidding 100% of Albacora East, we bid -- Petrobras is selling 90% of Albacora, so we are bidding for 100% of the 90% of Albacora East Albacora Leste. For Albacora West, which is called Albacora, we have a partner, we have 70% and the partner has 30%. You were talking about that now, so you get to that order of magnitude that I mentioned approximate numbers, please.

Q - Gustavo Sadka {BIO 20132066 <GO>}

Okay. Understood. Thank you. It's clear now.

A - Jose Gustavo {BIO 1862213 <GO>}

We are going to close the Q&A session, I'd like to turn the floor to Roberto for his final remarks.

A - Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Well, thank you very much. I would love to spend more time answering your questions but our call was past the last 1 hour, it's taking already 1 hour and 15 minutes but I would love to stay more with you, but I want to thank you very much for joining us. Once again, I'd like to thank the whole Petro Rio team and thank you for your support -- for the support that we have found in Rio de Janeiro in Brazil and in the market. Thank you very much and hope to see you in the next quarter conference call.

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