

Q1 2015 Earnings Call

Company Participants

- Guilherme Marques, Chief Financial Officer and Director of Investor Relations

Other Participants

- Mariana Bertoni, Analyst
- Unidentified Participant

Presentation

Operator

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

This event is also being broadcasted simultaneously over the Internet via webcast and may be accessed through PetroRio Investor Relations website at www.petroriossa.com.br/ir. By clicking on the banner Q1 2015 earnings results. As a reminder, this conference is being recorded.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of PetroRio's management and on information currently available to the company. They involve risks, uncertainties and assumptions as they are related to future events and therefore, it 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 Mr. Guilherme Marques, CFO and Investor Relations Officer of PetroRio. I would now like to turn the conference over to Mr. Marques, please go ahead, sir.

Guilherme Marques {BIO 20281454 <GO>}

Good morning, everyone. And we are here to talk about the performance of the company. We would like to begin highlighting that this has been a beginning of an important year for the company. We started with the acquisition, Bijupira and Salema fields

FINAL

Bloomberg Transcript

reinforcing our strategy in a challenging scenario. But that could generate good opportunities for oil companies in Brazil.

Trying to be better positioned in the market the company consolidated a process of a new corporate culture. A culture focused on increasing productivity that will take place, that will happen through the acquisition of new assets, through exploration and increase in the operating efficiency of the fields that we currently have.

Still in this new culture, we highlight our policy to reduce production costs and corporate expenses, always reinforcing our values of transparency, stability, efficient production and safety, that we adopted in the company. Consolidating this change of culture, the company now is presenting to shareholders, the proposal to change the name of the company to PetroRio, after a few weeks after approval at the Trade Commission when we'll be able to inform the new tickers that are being traded, BM&FBOVESPA and TSX.

Talking about the production it is important to highlight that PetroRio produced 842,000 barrels in this quarter at the Polvo field, maintaining a high level of operating efficiency among the best in offshore oil companies, this efficiency stems from a better management of electric submersible pumps, ESP. The maintenance of our process plants and a better understanding and efficient drainage up the reservoir, always remembering that we're focusing on improving our operating efficiency and safety.

And talking about safety, I would like to highlight that in this quarter, the company reached the landmark of a thousand days with no non-fatal based loss accidents. This is a mark to be celebrated, it reinforces the fundamental values of PetroRio of respecting our employee's safety.

While we reached this important mark, the company continued its goal to reduce costs and expenses. We highlight that in this first quarter it compared to the first quarter of 2014, the company posted a reduction in manageable costs of 27.3% -- 33.7%, of this 50% have a cash effect and 35% have a non-cash effect. These are related to amortization, depreciation and provisions.

We also highlighted the reduction of G&A expenses and non-recurring expenses, which in the first quarter of 2015 were 22.5% less than in the first quarter of 2014. In this way, G&A and the corporate costs have been dropping. Moving towards the targeted goals for the company, I'd like to point out that new reduction improvements will be seen in the second quarter of this year.

Talking about the revenue, I'd like to remind you that the company chose to not sell oil in the first quarter of 2015. As the company had a shipment in the last week of December, we started the quarter with a relatively low inventory 57,000 barrels of oil in our tanks. With that, the company chose to sell in April, a decision which was based on selling a higher volume shipment, aiming to reduce freight costs and less exposure to Brent oil prices in our final price for the sale that took place in April.

In this way, the EBITDA of the company, in the first quarter, was BRL13 million negative. However, we highlight that had PetroRio sold its inventory in the end of March, we would have had to a pro forma adjusted EBITDA of BRL1.5 million. And we would have had a positive operating result, considering manageable costs and expenses of BRL20 million, which means the Company even in a complex and challenging scenario with the Brent price at the current level, we would still have had a positive cash position.

I would like to highlight that asset Polvo Field manageable cost in March were about \$33 per barrel associated also with a G&A reduction. This pro forma results particularly highlighting operating cost and the higher operating efficiency of the Company, reinforces the position and the decision of the Company to operate mature field. Again, we highlight the acquisition of 80% of Bijupira and Salema Fields, BJSA. This transaction in January of 2015 included the acquisition of other assets including FPSO Fluminense.

It is important to highlight that the fact that an oil field operator owns an FPSO. So this generates a significant reduction in the operation cost, which would be the cost for leasing an FPSO. This is relevant to OpEx reduction becomes even more important when we have a challenging scenario as is the case. We paid a \$150 million, 20% of that has been already paid with our own funds, and 80% paid with third-party resources.

Daily production of these fields is 24,000 barrels of oil equivalent, these fields allocated in the pre-salt polygon, and I'd like to remind you that this operation is still pending approval by ANP and TSX. So, this operation to acquire, Bijupira and Salema Fields, has been approved by CADE, the Brazilian anti-trust agency in this quarter, more specifically in February. I'd like to highlight that when we takeover Bijupira and Salema operations, PetroRio will triple its oil production.

Talking about divestment now, more related to Namibia and Solimoes. The company stresses its strategy regarding exploration assets. The company continues to plan to divest in these assets, reinforcing that our focus is now on production assets. I'd like to remind you that even with the divestment process not totally complete; the company has realized a cost reduction in Namibia and Solimoes project from 75% to 90% cost reduction in this project.

Talking about the company's financial results, it's important to highlight that the results obtained was impacted particularly by exchange variation in our balance sheet and partially by interest expenses, predominantly associated with costs of debentures and the credit facility for the acquisition of Bijupira and Salema Fields.

I'd like to remind you that the net income in the quarter was directly impacted by the company's decision not to sell oil. If we have sold oil as previously mentioned, the adjusted EBITDA would have been BRL1.5 million.

Talking about the company's cash position, it is important to show that even with a challenging brand scenario, and even with a payment of 20% referring to the acquisition of Bijupira and Salema fields, considering the inventory produced that is sitting in the

FPSO. We can say that the cash remained stable and that came mainly from a reduction in costs, both operating costs and corporate expenses.

To conclude, I'd like to highlight the company's cash position. Even with oil prices below expected in the first quarter, and the challenging scenario. And I'd like to highlight again the implementation of a new corporate culture with a strategic focus on transparency, stability, efficient production and safety. This culture linked to financial discipline, consolidates PetroRio's position, as an operator of mature fields and reinforces its position to acquire new production assets. Our ultimate goal is to become a great oil producing company in Brazil. In a nutshell, we believe, that we continue to be on the right track.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the Q&A session for analysts and investors. (Operator Instructions) Our first question is from Mariana Bertoni from GBM.

Q - Mariana Bertoni

Hi, Guilherme. And thank you very much for the call. I have a few questions. I would like to know whether you already have a deadline for the approval, for the acquisition of Bijupira and Salema and whether you have the operating figures for the transaction.

And also, I would like to know whether, what is the breakdown of that 18 million operating expenses for the quarter, and whether we should expect a similar amount in the future quarters? Thank you.

A - Guilherme Marques {BIO 20281454 <GO>}

Hi Mariana. Thank you for your question. About the approval date, this process has to follow a cycle. Well, we first got approval, we first have to get approval from CADE, and so I think the operation will be approved in the second half of the year, maybe third or fourth quarter. Because this is what makes sense when you look at the schedule.

Now we're referring to other operating expenses that you mentioned, this has to do with an accounting methodology. As I said, 65% of the costs that are associated to all those fields and this has a cash effect, manageable cost plus royalties, 35% are non manageable costs like depreciation and amortization. What happens there at the inventory of the company had by the end of March, once that was disclosed, the company had already sold the oil that was posted in an equivalent positive result of BRL20 million. But as there were still some non cash items that were part of our cost and inventory, the company decided to be more conservative, therefore, we posted that cost for 18 million, that would be the inventory value, which would be the equivalent to the sale amount.

Q - Mariana Bertoni

Thank you, I understand. Thank you for your answer. I have another question. Do you anticipate any other acquisition for this current half year or this year?

A - Guilherme Marques {BIO 20281454 <GO>}

Mariana, the company is open to new acquisitions. Today, we do not have anything in the pipeline, but we have a division in the company that is now in charge of seeking for new opportunities.

Q - Mariana Bertoni

Okay, thank you for your answer.

Operator

(Operator Instructions) Our next question is from Albert Batista [ph], Prism Advisors.

Q - Unidentified Participant

Hello. Yes, could you just indicate is there any value, that you have associated with the FPSO, that you're getting from the acquisition of the two shell fields? (Technical Difficulty).

Operator

(Operator Instructions). Our next question comes from (Technical Difficulty).

Q - Unidentified Participant

Good morning, Guilherme. This is (inaudible). I just want to follow-up on Mariana's question. How do you see the market for assets for sale now given the current improvement on the Brent prices of oil in the last few months, and also how do you see this divestment plan by Petrobras? Thank you.

A - Guilherme Marques {BIO 20281454 <GO>}

(Technical Difficulty) Could you please repeat the question?

Q - Unidentified Participant

Certainly. Given the landscape of the last few weeks, where we saw an improvement on Brent prices. How is the Company seeing as the market for available assets for sale at the moment. And also could you please comment on Petrobras divestment plan, is that something that could be attractive to you? (Technical Difficulty) I think there is a problem, because I am not getting any answer back.

Operator

Please bear with us for a moment please. Ladies and gentlemen, please wait. Please stand by. Ladies and gentlemen, please stand by. (Operator Instructions) Mr. Guilherme, you may proceed.

A - Guilherme Marques {BIO 20281454 <GO>}

Could you please repeat the question. Hello, can you hear me?

Q - Unidentified Participant

Good morning, Guilherme. My question is a follow-up on Mariana's question concerning possible acquisitions. In the last few weeks and months, we saw a slight recovery in the oil prices and my question is whether that would have any impact on the assets that you see in the market and how this could affect your acquisition plan?

Also the other issue is, how do you see Petrobras divestment process, and do you think that there will be some attractive assets that would interest the company?

A - Guilherme Marques {BIO 20281454 <GO>}

Thank you, Albert for your question. What I can say is that -- (inaudible) your name. Related to Brent prices, Brent prices will not affect the strategy of the company. The company believes that we are very well-positioned in terms of acquiring new production assets. Brent prices will certainly help us in terms of the assets that we already have and this will certainly impact prices of future acquisitions, but our strategy will not change.

Now concerning acquisition opportunities of acquiring Petrobras assets, we do believe that the divestment on the part of Petrobras can certainly put in the market some assets that will interest us. So, today we are not talking to Petrobras to that end. But we do believe that there will be good opportunities in the market.

And you also said something related to Brent prices. So in terms of Bijupira and Salema, our acquisition retracts back to January 2015. Therefore, price recovery will certainly improve the results of these fields and this brings about positive impact to us, because we will have a reduction in the prices paid to Shell one, the transaction comes to an end.

Operator

(Operator Instructions) The next question comes from Albert Batista [ph] from Prism Advisors.

Q - Unidentified Participant

Could you just give an indication of the cash cost per barrel of production at the -- to Shell fields that you're acquiring?

A - Guilherme Marques {BIO 20281454 <GO>}

In relation to the Shell fields, until the approval and the transfer of the fields to PetroRio, PetroRio has to respect all of the NDAs. And we are not disclosing any information about the fields because they still belong to Shell even though the transaction date is January and this impact the transfer price until the conclusion of the deal, PetroRio is not operating the field and we are not in a position to disclose information about the field. What we can say is that we are constantly seeking for reductions without losing efficiency or losing

operating efficiency in the Polvo field. We already brought down the cost of Polvo to \$33 per barrel, and we are continuing to look for further efficiency adjustments. Thank you.

Q - Unidentified Participant

And I just have a follow-up question on the Polvo field on the \$33. How much of that cost is associated with the FPSO?

A - Guilherme Marques {BIO 20281454 <GO>}

Albert, I don't have a breakdown of the calculation per barrel, in terms of how this will impact the cost of PetroRio, but I would have to also check our NDA with BW to see whether I can tell you more about the amount related to the contract. If I can disclose that information, I can get in touch with you, but what I can say right now that in terms of what is associated to the leasing cost of the platform and also the cost of the operating and maintenance contract of the platform, these are certainly the most important aspects of that operation and the most important costs involved.

Q - Unidentified Participant

Thank you very much.

Operator

We will now conclude our Q&A session. I would like to give the floor to Mr. Guilherme Marques for his final remarks.

A - Guilherme Marques {BIO 20281454 <GO>}

I would like to thank you all for your interest. And I would like to reinstate our positive view towards the Company and our position towards acquiring new assets. And all we're doing, all of our efforts to face this new Brent landscape, this new strategy and corporate culture is already bringing about positive results to the Company as well as the Company's shareholders. Thank you very much, and have a good day.

Operator

PetroRio's conference call is now concluded. I would like to thank you all very much for your participation. Have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of

securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript