Q1 2012 Earnings Call

Company Participants

- Lourenco Bastos-Tigre, CFO and IRO
- Marcio Rocha Mello, CEO
- Milton Franke, CEO, HRT Oil and Gas
- Wagner Peres, CEO, HRT America

Other Participants

- Louis Carvalho, Analyst
- Paula Kovarsky, Analyst
- Pedro Medeiros, Analyst

Presentation

Operator

Good morning, welcome to HRT's conference call on the results of the First Quarter 2012. We'd like to inform that this presentation is being recorded and all participants would be just listening to the call during the Company's presentation. Then we shall initiate the Q&A session only for analyst investors. (Operator Instructions)

This event is also being broadcasted simultaneously over the Internet and may be access through HRT's Investor Relations website at www.hrt.com.br/ir by clicking on the banner webcast First Quarter 2012. The replay would be available shortly after its closure.

Before proceeding, we'd like to inform that any statements that may be made during this conference call related to the Company's business perspective, projections and operating information target are based on the belief and assumptions of HRT's Board of Officers and on information currently available to the Company. Future considerations are not guarantee of performance and involve risks, uncertainties and assumptions because they relate to future events which depend on circumstances that may or may not occur. Investors are warned that general economic conditions, industry conditions and other operating factors may affect the Company's future results and make conjunctive results that differ materially from those expressed.

The following presentation would be available to download shortly after its closure at the address www.hrt.com.br/ir. The teleconference is attended by Mr. Marcio Rocha Mello CEO; Lourenco Bastos-Tigre, CFO and IRO; Milton Franke, CEO, HRT Oil and Gas; and Wagner Peres, CEO, HRT America.

So now I would like to pass the floor to Mr. Marcio Rocha Mello, CEO. Mr. Mello, you have the floor.

Marcio Rocha Mello {BIO 1923136 <GO>}

Ladies and gentlemen. good morning. I would like to thank all of you to be with us today for the presentation of our results for the First Quarter of 2012.

If you see our slide, the slide number 1, showing a beautiful picture of the well 1-HRT-8-AM drilling today. As you can see the organization and the beautiful (direction of the third week) in the Amazon Basin. We have our disclaimer in the slide number 2. We have the agenda of this talk on the slide number 3. We have the organization of HRT Group at slide number 4. We have HRT at a glance at slide number 5. And I would like to call your attention for the strong cash position of the HRT today of around BRL1.5 billion and we'll talk in later on.

But I am really excited to give the results of this quarter because in this quarter, HRT were able to conclude the farm-in/farm-out of the Solimoes Basin. And now TNK, it seems (inaudible) TNK-Brasil is our product. TNK-BP is one of the top oil and gas companies in the whole world and this partnership really represents a lot for HRT and will allow HRT to maximize the value from the Solimoes Basin.

Most companies share the same goals and the same passion for the Solimoes potential which will be very valuable to our exploration efforts. After ANP approved the transfer to TNK-Brasil, HRT received the first installment of the farm-out. Also, we concluded the final negotiations with Petra having therefore unlocked the (inaudible) guarantees and being able for the first time, ladies and gentlemen. allow us to one year to have a total control of our cash position of around BRL1.5 billion.

As a result of the conclusion of the farm-in and farm-out, HRT posted this quarter and it is so important and very significant for the first time a net drop of BRL53 million. Also the drilling results of the Solimoes Basin continue to show progress. We have learned a lot. We have almost concluded 3,500 kilometers of 2D seismic thus giving us a lot of new information to really understand the Solimoes Basin. We had the disposing of three wells in this quarter. Conclusion of two drilling tests for getting (inaudible) and one additional oil and gas shell. The HRT seeks that current (inaudible). Drilling performance have improved or the rational efficiency have improved and costs have been reduced. The recent expression brought by ANP for two years in 9 block is a recognition of our Company's efforts and will allow for a better pace of exploration campaign in the region from now on.

The flooding of the Solimoes river is occurring today which affects our working area is already the highest level ever recorded resulting in a fiscal difficulty of all kinds. Disturbance in the supporting drilling base with the consequenting inevitable (inaudible) cushion of the work. However what we have in construct, what we have built there, the commitment of our teams have been worked very hard and we had realized the effect and our operation goes really well today.

HRT is working hard with their municipal government and the state government and with the local communities to recognize the impact of the life of various families living in nearby village and living in the area in which we are working for.

In Namibia, HRT was able to be granted an extension of the first exploration period with the (inaudible) block we felt the (inaudible) area. We have this operation paced up to 2015, ladies and gentlemen. Our subsidiaries HRT Africa and HRT America have been doing a superb job in managing our exploration efforts in that country. The execution of a large and successful 3D seismic acquisition up to 2,000 square kilometers already acquired, processed, interpreted and moved up and mapped. They have allowed us to conduct an extensive interpretation study and consequently to confirm not only but the existence of several large and attractive prospects ready for drilling. Wagner will give you details about this later on.

In April 2, as we have reported, we have opened a greater room out of our Houston office and we started the process of farm-down of our Namibian block. We believe that having a strong product with a large experience in offshore production will further improve our success in the area. In addition, we are securing a rig and all the drilling activities is well under way. With that we expected the search (inaudible) of our first well in Namibia for late 2012.

HRT continues to mature up the Company, cost management, operational efficient and the culture of ownership are more and more part of our Company plan. The commitment to maximize the shareholders areas is in our D&A. And we already are and will continue working hard for that.

Now, let's take a look in more detail at last quarter performance our portfolio perfect the challenge and the opportunity that lay ahead of us. For this, I will invite Milton Franke CEO of HRT Oil and Gas to talk with you guys about the Solimoes Basin. Let's go through slide seven (inaudible). Please Milton.

Milton Franke {BIO 17311636 <GO>}

Ladies and gentlemen. good morning. The slide you see outlines our fuel base in the Solimoes Basin. And you can see that it's a very beautiful outset. This base took considerable investment in 2011. With 49,000 square kilometers, the Solimoes Basin is a unique asset that HRT holds. Just to comment a little bit about analogs, normally this is very important and studying any basins, I just remember that Solimoes is producing basin of light oil condensate in natural gas for over 20 years. Production today is around 110,000 BOEs per day, around 50% liquids and 50% natural gas. It's one of the three largest producing basins in Brazil. Nevertheless, this production Solimoes can still be labeled as a frontier basin, as less than one-third of its area has been explored so far.

Slide 8. Some highlights about the Solimoes project so far, taking years 2011 and 2012. As Marcio mentioned, the TNK-BP partnership achievement was a big achievement for HRT. We are now a partner one of the tenth largest oil producers in the world. And TNK has really large experience in similar basin as the Solimoes Basin.

In this basin, just going back from 2011/2012, Marcio already commented that we have drilled already six and 6 wells, and around 3,500 kilometers of 2D seismic. We have much over 50 drilling prospects but we have still lots of work to do in the future. The HRT worked very hard in 2011 to overcome our logistical challenges. He, Marcio also commented about the present rain season, very intense. And but we are still working and with four (heliportable) rig, the five base camps and some other infrastructure would have built in the basin.

Going to slide 9, talking a little bit about the First Quarter 2012 achievements, it is very important for analysts to understand that with important strategy extension of the exploration period ANP gave us for 9 blocks. That allows us to better organize our varying activities. Three wells were put in, in this First Quarter, HRT-6, 7 and 8. We did various two drills and test. In one well, HRT-4, just at the end of the year, beginning of 2012, the first date of 2012, we are testing this HRT-4 well. It was a gas and condensate discovery. And now in April-May, we are testing -- we tested HRT-5 with the results we already published. One additional well is being tested now in April-May and this is HRT-6 well.

If we go to slide number 10, I give you some additional information about our drilling activities in the Solemois. You have probably observed that we have halt our drilling activities or divided it in (vintages). Our first vintages is the four wells, HRT-1 to 4. They all revealed hydrocarbons. HRT-1 was the discovery for oil and gas. Unfortunately, it was not producing well due to tight reservoirs. I will come back into the volume. I will come back on this to tell you what we are doing in studying tight reservoirs and studying our reservoirs in the Solemois. There in the first vintage, we have HRT-4 as in gas and condensate producers and HRT-4 and 3 at gas discovery. So out of the first well, all four wells have very important hydrocarbon shows; and three of them revealed producers.

In our second vintage now wells number 5, 6, 7 and 8; well number 5 is already concluded. At the end it was a natural gas discovery, a very interesting discovery, I have to say. One well, HRT-6 is now being tested, and well 7 and 8 are under drilling. And they will be completed probably in something like four to six weeks. We will probably publish the results of these two wells.

In summary, 2012 was a very important year for HRT. The beginning of 2012 is proving to be again very interesting. So far, we have built eight exploration wells, six of which has been concluded, four of them with known results. The acquisition of 2D seismic allowed us to increase our information -- geological and physical information in the basin. We reprocessed over 20,000 kilometers of existing both seismic in the basin. We acquired other 80,000 kilometers of high resolutions air magnetic and air graph based on the basin. And we have a tremendous effort in processing and G&G mapping of the basin. All six wells we have concluded so far shows very interesting and important hydrocarbon shows, either for oil, gas or condensate.

If we go to slide 11 and a little about our strategy for Block 170. This is the block where we have drilled well number 1 and well number 6. This is the block where Petrobras recently published that they are really doing further development of the Araracanga oil field. There is a ring inside this block. It's in white and a brighter color on the slide. And this is, again,

something very important for us understanding that Petrobras goes ahead with the development of this field.

If I talk a little bit about what we are doing, HRT-1 well that confirmed oil and gas but with low porosity and permeability. We sampled the reservoir, we are studying these samples. We are interchanging information about low porosity and permeability reservoirs worldwide. And I just give you an example that they can, reservoir in USA, is today producing almost 500,000 gallons per day of light oil in similar reservoirs, and there are even suggestion published that proposing that such reservoirs should not be called as conventional anymore due to the results that have been obtained by several international company, and not to mention that TNK-BP is also very much interested in studying and developing such reservoirs.

If we go to slide number 12, again about HRT-1 and 6, just to comment that HRT-6 has shown during drilling very important oil shows in two intervals and Devonian reservoirs with some similarities with HRT-1. We are testing the first interval and we still expect to produce oil and have an extended (broadcast) in this well. You probably will hear more about this well in the next weeks to come.

I have commented about the results of HRT-1, the reservoir quality and in the same line reservoir quality has been the key element to watch whether HRT will be successful or not in this well number 6. We are presently testing as I said and we will come back with the results.

HRT believes that locations in this block HRT-1 and 6 is surrounded really by Chibata, Araracanga and Urucu fields, have a nice potential that we will not go away from this block. The reservoirs as I said have been sampled. We are conducting additional studies not only in the reservoir fields but in the structures. We are doing new tests to enhance our size and quality in the basin and we are sure that with the new information we are getting, we will be successful.

If we go to slide number 13 and talk a little bit about HRT-4 and HRT-7. If you remember, at the end of the year, beginning of 2012, we tested HRT-4 and we had a very interesting production of rich gas in this well. We found out that there was a structural position in this prospect where we could reach much thicker reservoir section. We are drilling for this -- with this objective well number 7 and this drilling is going pretty well. We are now close to 2,000 meters of depth and we will keep you informed of the results when we have new information about this well.

If we go to slide number 14, I talk a little bit about the HRT-5. HRT-5 in Block 192 was a well with excellent results that really should pass our expectations and it was a very nice gas producer. Drilling of this well had two -- really two targets. One was casting a new trend, a new gas trend. We knew that basically at least for the Carboniferous reservoir it is a gas trend with some potential for oil and having hydrocarbons in the Devonian and this well reveals production capacity with three quarters of an inch opening of 370,000 cubic meters per day. We think that when this well and this field -- this discovery is developed, it could be able to produce up to 2 million cubic meters of gas per day. During this year, we

are planning to submit an evaluation plan. We call this (spoken in Portuguese) in Portuguese to AMP to go ahead with the economic assessment of the discovery.

If we go to slide number 15, the word about HRT-8 in Block 169 that is still ongoing drilling. HRT-8 is again a well in the TEFE cluster. Its main objective in the Carboniferous is natural gas but we will go through the Devonian sediments and we expect that this Devonian can be interesting objective, secondary objective for the oil.

With this drilling, we really think that we can expand our gas potentially in the basin and in this way really put together our gas monetization plan. For this monetization plan, we already have full agreement with TNK and we are working together to make this really a success project with news we expect still for 2012.

With respect then to Solimoes, I have some concluding remarks. I have four issues that I want to bring to your attention. One is the Solimoes gas monetization plan. HRT and TNK are preparing and taking -- we have to have some meetings between ourselves and with potential partners or companies that are interested in natural gas in the Solimoes and production of chemicals and so on. And we understand that the first step in the gas monetization strategy needs to the evaluation of the minimum terms of commerciality and for this we really have to drill some wells and we are drilling these wells. Not just to remember that Brazil still imports around 50% of its natural gas uses and the government institution that is responsible for planning of energy in Brazil expects that the consumption should grow around 7% per year from 2010 to 2020 and the gas consumption is picking up in the country and we think that Solimoes can be one important gas supplier to Brazil in the future.

The second point I want to make is with respect to the HRT advances in the geological model for the Solimoes. The wells we have built have helped us to get a better definition of our prospects and better understanding of where we have gas, where we have oil in the basin, where we have gas and oil potential in the basin. And we expect that with this refined geological model we can have much better results in the future.

Just to remember that for this geological model enhancement, seismic quality is key and this leads me to the third comment I am making is to how to improve Solimoes seismic quality. We are conducting with hand-to-hand routine KBP seismic acquisition pact to gather better definition of our prospects and this tests we are conducting we think that we can reduce our exploration risks and improve our situation.

The final comment I want to make is with respect to our target to reduce the drilling costs. In the last quarter of 2011, we have commented and we have compared the results of some wells in the second vintage with the wells in the first vintage and shows that some important reductions we already have obtained. This work continues. We are strongly working on reducing our costs and we think that at least we believe that the third drilling vintage in the Jurua cluster that is primary a target for oil prospects can still show us cost reductions. We have value for this cluster that needed environmental licenses and we are working hard that our next wells will be drilled in this cluster with the priority for oil.

This is all I have to say about the Solimoes and now I pass to Marcio Mello.

Marcio Rocha Mello {BIO 1923136 <GO>}

Okay Milton, thank you very much. And now let us travel to the other side of the world. We are very excited about what is going on over in Namibia and I would like to ask Wagner Peres, the CEO of HRT America that's with us here in this call to give you details about what is going on in our Namibia assets. Wagner, could you give the details please?

Wagner Peres {BIO 18042971 <GO>}

Thanks Marcio. Ladies and gentlemen. good morning from Houston. I am very pleased to be here today to talk about where we are in our project in Namibia. We will be covering the slides in between 16 and 22 in the presentation. We will be going through a little quicker on the slide 17 just because it is well known to all of you that what we have in Namibia. Today HRT is operator in ten blocks there, four petroleum exploration license, and we are progressing with our exploration program in a very, very good pace. And as you all already know, we have been saying this for a while. We have been quite enthusiastic about Namibia's hydrocarbon potential for quite some time and it is almost for two years that we first acquired the first lease there. And our excitement is growing up proportionally as we progress with our studies and our interpretation of our brand new 3D seismic volume.

If we go the slide 18, where we are going to be covering some of the highlights, one of the most important things for us at this time is the comfort that we got for the timing of our exploration license. The MME, Namibian officials, granted the extension of our blocks out there and we do not have to relinquish anything prior to 2015. So we have a very good time here for us to execute our plans.

And we finalized how the acquisition of the 3Ds that we planned for last year there. Some of the profits are still ongoing but we have already in our shop now the basic data, the pre-set time-migrated data for most of the volumes. We still have one that we have to come, but the data qualities are outstanding and this allowed us to get ready for the drilling and we have identified several multi-billion barrels prospect in the 3D.

And just as bringing up some examples, we are going to address it later on slide 22 but we have identified, we have drilled already in seven of this prospect and if we just take the P(10) resource potential, we are near 30 billion barrels. They are extremely large features. And I will be also addressing a little bit later the petroleum system elements just because it is so important to have a very good understanding about the source rock there. Because when we talk about very large prospect like this, it is very important that we understand that they also can be charged by hydrocarbon.

We are progressing with our preparation for the drilling campaign. As Marcio mentioned we are planning to start drilling late 2012, early 2013. So we are very close to sign a rig for our project and we want also to give you some ideas about where we are in our farm-

down process. We will address it a little bit also later on, but we had already a large number of company that came to visit us already and we still have several others to go.

On the slide 19, I just want to go very quickly there to express that the Namibian offshore is quite unexplored. Only 9 exploration wells grew in these extensive offshore. 1,200 kilometers offshore in Namibia here. And we are working here very intensively and basically HRT will run the first major exploration campaign out there with four wells to be drilled back to back.

We go to slide 20, that is where I would like to spend a little more time here to address a little bit more about the source rock and the petroleum system. The petroleum system in Namibia, they have at least three well defined families of source rocks that we study them through the data available while information proved that we could have access for the wells have collected here.

And when we look at them going from the older to the younger, we identified a source rock in the same rift lacustrine sediment. They are equivalent to those of the Brazilian Pre-Salt. Also there is another family of source rock that we call it in the transitional zone. We aged it. There is a (inaudible). This is a very resource rock in the South Atlantic. They have producing hydrocarbon, several other sedimentary basins.

And also the last but not least important is the Cenomanan-Turonian source rock. This source rock is extremely rich and produce hydrocarbons and several other hydrocarbon provinces around the two sides of the Atlantic. And they are also present here in the offshore Namibia. So the presence of these three families of source rock, at least these three families of source rock enhances our possibility to have at least one of them working in the Pacific region. When I say working, it is to put them in the right condition for temperature, for generating hydrocarbon because they are oil prune source rock. They are not gas prone.

Locally, they have generated gas because they have been put in deeper structural conditions and the temperatures being too high. So we always mention that we can come to the gas window principally when they are exposed above 160 Celsius degree. So this source rock, they are very, very rich and our basin model suggest that they are in very good condition to generate large volumes of hydrocarbons in the IS where we have identified our prospect.

So if we go to slide 21, in the slide 21 we give just an idea how is the evolution of the three families of source rock in terms of the rig failure, reconstruction and how are the Southern American plate and Africa plates together when they start splitting apart by the plate tectonic. The development of their source rock are common for Brazil side and on the West Africa side. And it is important to mention that this deposition on environment was also common to the Namibian sedimentary basin. Namibia is not an exception. There oil being found in Angola, South Africa defragment plateau Brazil and are outsourced by the same kind of families of source rock. In Namibia, in our way of indefinite is not an exception and we are very, very positive that we will have this source rock working out here.

The wells that we are going to build is very important to mention that they are going to pass this prospect and the source rock uncertainties that we may have today is how efficient they can be. The presence of this source rocks we have no doubt about that. The efficiency we can test only with the well. Our studies indicate that the efficiency should be fine but these are models and the wells will come for us to confirm the way that we had worked the system on here.

If we go to slide 22, in this slide we put up there the outline of four of our key prospects. It is important for me to mention to you that they will be targets for our drilling campaign. They may be these four logically when we bring a partner in the process, we will listen to the partner for us to jointly to explore the acreage but if it stands as we think today, we will be testing here this prospects when we mention initially for the drilling campaign.

It is important that we explain why four wells. It is because we identify in the offshore Namibia, four petroleum plates and we want to test each one of these plates in optimum condition. So that is why we selected four different prospects for us to come up with the drilling campaign that gives us the best assessment of the exploration potential of our block at offshore Namibia.

In this plates, it is basically a shallow water Saint-Venant system, either (inaudible) beach line or shallow water (inaudible). Our carbonated platform Arabian is the second plate. The third plate would be (inaudible) and the fourth plate would be equivalent to the Brazilian (inaudible). So all these prospects, they have a tremendous potential as I mentioned before, the resource potential combining all of them together. The only fact that there is four plus three others that I am not outlining here. It should pass 28 billion barrels of P(10) and with resource. And our drilling campaign will be targeting those that we believe that has the highest probability of success for finding hydrocarbon. These are the ones that we are listing here. And we started this campaign late 2012, early 2013, will give us an exciting period for 2013 when we are going to be drilling and waiting for the outcome of this result.

Let me give you just an update. Before I get there, let me tell you that it is important to mention that this newly identified prospect has not been certified by an outside auditor yet or D&M that use to do it for us. Our plan is to come up with this certification in the beginning of the Third Quarter because we still have some work to complete but most important is because we want to have out the final product of the processing of our 3D volume because we still have one of the 3D volumes today that we have on the fast track volume. So as soon as we get that, working that data for one or two months and then we will bring in D&M to work on the certification of the resource of this prospect.

Let me give you a quick update on our farm down air force in Namibia. As we have committed to you in the beginning of the Third Quarter last year, HRT opened the data room on April 2nd and we had already more than 10 companies that came to visit us here. The companies are majors and largely independent. The best explorers for hydrocarbons in the world for sure and we still have a good number of them to come. By the end of this month of May we expect that there will be completing a number of 20 companies. Then we still have another 14 companies waiting to come in June and later and we will be addressing those companies as the time goes by. We are very happy with the feedback

that we have received from several of these organizations and the excitement that this Company got with our (inaudible) make us feel comfortable as we are and we hope that we will be completing this process with the success that would be great for HRT, for our future partners and most important for you all that believes and invest on our organization.

So with this I finish my presentation on Namibia and I will get it back to Marcio for him to address you the final remarks. Thank you very much.

Marcio Rocha Mello {BIO 1923136 <GO>}

Wagner, many thanks for your brilliant presentation and all of us are very excited not only in Solimoes but with Namibia.

Wagner Peres {BIO 18042971 <GO>}

Okay thanks.

Marcio Rocha Mello {BIO 1923136 <GO>}

I welcome Lourenco Bastos-Tigre, CFO and IRO to give details about our numbers for the First Quarter 2012. Please Lourenco.

Lourenco Bastos-Tigre

Thank you, Marcio. Good morning, to you all. HRT posted in the First Quarter a net profit of BRL53 million and an EBITDA of BRL58 million. As previously stated, this result is largely a result of the successful conclusion of the farm-in farm-out process of the 45% stake and the blocks in the Solimoes Basin.

The conclusion of the deal is an important milestone for HRT. As Marcio mention in the beginning of the call, our cash position has been restored to around BRL1.5 billion and our buying power, which is the matrix that we use within HRT and that includes cash, cash equivalence, non-operational revenues and inflows estimated, are now around BRL1.9 billion or around $1 billion. Going forward, the Company will use its strong cash position to support its exploration and production activities.

Our buying power allows for the execution of our work program for the next two years without raising additional capital. Currently we estimate that Solimoes will account for 60% of our CapEx and Namibia for the remaining 40%.

As mentioned in the last conference call and several times by the officers of HRT, the Company is committed to increase efficiency in its operation and has been undertaking a rigorous cost management process. As a result, expenses in the First Quarter of 2012 dropped 15% when compared to the Fourth Quarter of last year. Also personnel related expenses at the end of the First Quarter were around 20% more than those of the Fourth

Quarter of 2011. G&A as a whole accounted for around 3% of the total disbursements in the quarter also showing continuous improvement.

As a side note and given the recent performance of Brazilian currency, as you know HRT has a hedge policy where 100% of its dollar denominated CapEx is hedged. By currency, we have around $170 million long in our hedge account. Now let me take you back to Marcio for his final remarks.

Marcio Rocha Mello {BIO 1923136 <GO>}

Okay, Lourenco thank you very much. Very clear presentation. I think that when you give a look in slide 24 to 26 you could noted that the progress that has been done and how excited and relief the Company are today. We believe that you are growing to a new phase for HRT in which we have learned so much. We have improved so much and we are so confident about our future. Very significant this quarter with the conclusion of our pending issues of farm-out farm-in, having team KBP as very strong partner and working very hard with us participating every second from our efforts from Solimoes Basin bringing new technologies, bringing new ideas and I am very pleased to have all the guys from TNK Brazil work with us today.

Also HRT America and HRT Africa are doing a fantastic job. I invite all of you that if you guys have any time to visit our HRT America, Houston or HRT Africa (inaudible). We already hired four on operational basis. In Namibia, we moved (inaudible) well heads and order essentials have already been ordered. The planning is going fantastically well and is proved and allow me indeed to tell you that this was an extraordinary quarter for HRT.

Nevertheless, ladies and gentlemen. continued progress in Solimoes campaign already now has committed a lot of efforts with TNK-BP. We will allow with the conclusion of this sided campaign that we are doing now with new technologies applied with new acquisition (inaudible) that have gone there will allow us to further understanding what is going in with the Devonian reservoir.

I would like to mention that the discovery of large oil and gas shows the Devonian of HRT-6 and now together with what was general HRT-1 is leading us that to go deeper to it will be pursued by us not only in the blocks of 170-194 but also in the blocks north where you have certified our oil prospective resource in the Carboniferous. (inaudible) going through to the Devonian as well.

Very important to say that HRT is a people's Company. Our main asset is our unique knowledge about the petroleum system present in Brazil and West Africa sedimentary basin. We are very proud of having a large group of the best petroleum geologists, geoscientists, engineers, and professionals that the worldwide market can offer. We are positive that we will extract the maximum value of our asset through the combination of our team experience, technical expertise and the employment of the most advanced technology available.

We will continue to concentrate in the exploration activities in areas which HRTs knowledge and talent can provide a significant and competitive advantage. None of the initiatives and achievements could have been possible without an aligned, motivated, and committed group of professionals, contributory to their talents to our vision of making our dream to become a reality. I am very proud of their performance and of the continuous commitment of our Organization. I am proud of the achievements of the conclusion of TNK-BP farm-out/farm-in, the conclusion negotiate with their trust, the conclusion of the seismic and starting the farm-out of our Namibian block.

To conclude, I would like to extend my gratitude to our shareholders for their support and trust in the Company and our goals not only to create value for them, but also to create value for society at large. As our extensive social responsibility is physically demonstrate. HRT is doing a serious services now in the Amazonian state where the population, the state and municipality have suffered a lot, which is why this project. HRT have put its airplanes and helicopters for Air Amazonia towards the municipality and the several institutes that is helping the people in the juror of the state.

We remain committed to the depth in every aspect of our business and to set a standard for others for following the Amazon. Our responsibility to get us HSE had been zero tolerance for the accidents, has been maximum care for the environment protection of the air where we performed our operation.

I would like to extend gratitude also for the Board Members, for the officials of the Company then all the employees to allow us to be in a very strong position today to fulfill our dream. With this, let us now open for the Q&A session. Thank you very much, ladies and gentlemen.

Questions And Answers

Operator

(Operator Instructions)

Paula Kovarsky, Itau BBA.

Q - Paula Kovarsky {BIO 15363001 <GO>}

I would like to start with two questions if I may. The first one on the Solimoes for Milton, if you could perhaps give us a little bit more color on the similarities/differences between the results that you guys obtain in HRT-1 and HRT-6 and perhaps what is your expectations towards the production battle. Just help us understand a little bit more why is it that you provided loss information at this time and what exactly are the expectations and comparing the two so that we can get a better understanding on what you guys are doing there. So that is question number one.

And question number two is for Wagner. With regarding this 28 billion P(10) on risk estimate. If you could, I mean first clarify why are you talking about risk at this time and not

risk (inaudible) and then perhaps give us a little or help us understand how do you compare this new estimate with the original D&M estimates that you have for Namibia if there is. It looks like there is a bit of a change in the geological models that you guys are looking at. Perhaps with less emphasis on the similarities to the Brazilian Pre-Salt and more focus on post-op stuff so if you could just help us understand what changes in the interpretation of the assets that you have in Namibia if any and how do we compare this, this 28 billion with the original numbers that were analyzed by D&M before.

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

Good morning, Paula. Just coming back down to HRT-1 and HRT-6, just to remember the HRT-1 and 6, they drilled through the same Devonian reservoirs with very good oil shores during drilling. They had natural gas anomalies in the mud gas, gas in the mud from Q1 to 65 plus. They have very important recoveries in the rock samples in the coverings during drilling with oil staining and samples.

And we could extract from the samples some small amounts of hydrocarbons and oils that were analyzed in both wells was very similar to the oils we have, we know that are being produced in the Solimoes Basin. These are light oils for the 1 plus API oils. Then when the two wells were lodged, the HRT-1 showed fairly low porosities in the Devonian intervals around 5% to 8%, 9% and HRT-6 had not only better oil shores, it was really nice oil that we saw on the samples. But the prerogatives on the last were a little bit higher.

The conclusion we reached from the analysis of the information we have during drilling and the last allowed us to separate two intervals in this new well HRT-6 and prepare the well for testing. This testing is now under way and as I said during my previous comments, reservoir quality is still the key issue we are searching for in the Devonian, in the Solimoes, in this Block 170.

We have had some examples of intervals with low porosities that have show permeabilities -- fairly nice permeabilities in the basin and we then concluded that only (inaudible) can really tell if the intervals are able to produce or not and this is what we are following. We are testing the wells and as the results come out we will be informing the market what can you ask from this well.

Q - Paula Kovarsky {BIO 15363001 <GO>}

And do you have a timetable for the results to be made available?

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

We already mentioned in a series of something like two weeks, we probably will have the results of well number 6.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you.

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

Wagner, can you answer Paula's second part question, please?

A - Wagner Peres {BIO 18042971 <GO>}

Yes for sure. Paula, very good question. The (inaudible), I think that I capture all the questions that you have there. If I leave something out, please come back and push me a little bit further.

In terms of the P(10), Paula, as I mentioned this resources that we have in prospect that we called have been ready, they are inside of the 3Ds and they have not been certified by D&M yet. As they are not being certified, they we are refraining as of addressing the teaming and risking because we prepare and we would like that you hear the risking and the mean numbers coming from the D&M report.

Because each organization, Paula, has a similar approach but because it is not exact science when you do the interpretation, you may come up with a little bit different numbers and just for us to keep our consistency with what we have been informing the investor community we prefer addressing up this time the P(10) risk numbers because this is the way that we also address the reserve resource potential to the potential partners that are coming into our farm-down later on.

In terms of comparing it with what we had certified by D&M before, for me it seems difficult for me to trace a parallel with what has been done there basically because the 3D dataset was acquired in some of higher split of the Petroleum Exploration License No 23. It was acquired 5,300 square kilometer (inaudible) where we had very strong leads but we do not have prospects to be certified by D&M in the test. The 3Ds came out with outstanding results the uniform prospect in areas where we had not certified yet. So these are going to be an addition to what D&M has done for us there in the test.

Also, the reason that we are not comparing the resources from the D&M report and what we have right now because D&M works exclusively with the 2D dataset. We do not have the 3DS out there, the new 3Ds, the three new 3Ds that we shot we had one of 3D there only. And what we did now is these numbers that we tested you they are just over 28 billion BOE and these are only inside of the 3Ds that had shot and grooving as well the old 3D that we had it. So there is no departure from what has been borne before. There is no change of tactics, there is no change of style. It's just because we are in the stage that the best way for us to address not only to the potential partners but investor community is what we called the P line, P(10) number because the risk numbers we would like to provide you all from the external certification company.

In terms of the last question that I captured from you is why we are addressing more the falls equivalent to the fourth south not the three south. Before, our strength with the 2D data, with the seismic volume that we used to have there with the 2D data was very good for us to address these structural traps that is why you heard in the test so much from us about the Moosehead. The Moosehead prospect has not changed. The way that the 3D that was shot there confirms that Moosehead as we had seen it before on the 2D data. That is very physical of the structural traps when you have a four-way closure on the trapping mechanism.

We start talking more about the equivalent to the full south in the (inaudible) sedimentary range in the basis there now because the 3D allowed us fantastic details for us to interpret the static graphic traps exactly the same kind that are present in the compose basin and also in the lower Congo basin Angola. Very similar styles of trapping. We can compare them almost 1 to 1. Beautiful trap in mechanism potential for harbor carbon migrations and very large potential resource and so in summary we are not departing from everything that we have borne before. It is just because they say that we are in the process, it is better that we address to you the way that we are doing right now.

Did I cover everything that you had asked?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Two quick follow-ups if I may. So the first one is does that mean whatever the outcome is of D&M's work in the Third Quarter is something to add to the previous numbers or this will be the new formal number -- or you are going to have to come up with a new formal number for the Namibia so that's one.

And second, just if you could go back quickly to the point you mentioned in the presentation that the main question was then in Namibia would be -- I mean you confirm that you have three different source rocks and this gives you more certainty that or gives you high chances of oil being generated and migrated into the traps that you identify. But in terms of the gas, how do you rate the gas risk, I mean, you mentioned one of the risks would be that you have the source rocks but they've been potential buried too deep and this was the reason we see gas and a quick refill for instance. So what's in your view the gas risk of your Namibian portfolio?

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

Paula, on the addition of resources based on D&M, let me tell you this. When you read the 3D data, largely we are expecting that the resources may grow a little bit but the reality is when you add more data, you get by far more precise on your resource estimation. So for me to tell you that we are going to add or subtract numbers from D&M I prefer refrain me of doing them because it all depends how D&M is going to reach the project, how they are going to set their range for the P(10) -- P(90) numbers where they do the probabilistic work and for where they come up with the P mean numbers.

So the best way for me to do is to wait until we see them doing the work because what the risk (inaudible) HRT does interpretation D&M is completely free to do their work. We present them the work that we have done and they use it if they think so. Most of the time they redo their work themselves so and when they do the rework -- the work again pile up and numbers that can come may vary from what is my expectation. That's why I am afraid -- I want to avoid coming up with a prediction that our numbers are going to increase or they are going to come down.

I don't say they will not come down. They want to stay up where these go up because the main point is out of these four, the seven prospect that we mentioned to you, we hear that three of them that has been already certified and the four of them has not been

certified yet. But in the three that we have been certified, we are going to have a fine tune new numbers but the other four that has not been certified, yes, they will represent some of recognition. I do not know what those numbers we will represent Paula, because D&M will be completely independent to do their work.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay, that's very clear.

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

In terms of the risk for gas, this is where the beauty of HRT. As you know, HRT is a very strong as a petroleum system and now the Company. We used to have before becoming oil and gas company we used to have one of the best labs in the world to do this kind of basin analysis for any other operator out there, we were a service company. Nowadays we do it for us. We have an outstanding ability to model where the source -- once we interpret where the source rock is to model when the source rock can be exposed for the gas or oil (inaudible).

In our prospectivity, we are being after the ideas where we are in search of the highest probabilities or the highest cheese we are asked to be exposed to the liquid, to the oil rich producing source rock. When I say oil rich producing source rock I'm including we are not only the richness of the carbon organic in these rocks but also been exposed to the right temperature, to the right wind up.

So we do not, Paula, the risk of finding gas in order not another prospect because as you know even in the composing samples basin in Brazil and Angola eventually yield depth in highest where the gas that comes together with the oil in the acting relation, the associated gas increases the ratio so the gas ratio increase. In this scenario maybe it is not different but we are targeting our drilling campaign (inaudible) projects.

In fact, out of this seven prospects there is only one that there is likely chance to be exposed for gas but it's not because the source rock isn't a gas we know there. It is because it is in proximity to some data center where source rock out there has been put in the gas. If some of those are that has been migrated to this prospect, we may find some gas here. But we use accordingly the prospect for this. When we arrange our prospect it is outdating the chance to find oil.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you very much.

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

Welcome, Paula.

Operator

Pedro Medeiros, Citi.

Q - Pedro Medeiros {BIO 16187063 <GO>}

I actually have three quick questions all related to (inaudible) and the operating performance itself. The first one is you commented on the number of initiatives that you were targeting to reduce of real costs for the year. Are you able to provide an estimate of how much was spent on each logistics while trolling itself and how does that compare to the tyres, wells, roads?

And number two, in the past you have mentioned that they are looking for partnerships or monetizing your air traffic company Amazonia and the rigs that were built in China, how is this process going and do you have any guidance as how much value can you expect (inaudible) and what's the timeline of it.

And lastly, I understand that the formation passed the first target of HRT-6 is very close to be completed or was completed already. Is this possible to comment a little bit on the results of the first target result? Thanks, guys.

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

Good morning, Pedro. Going to question 1, the cost of the second vintage of well is around $20 million per well and the cost of each individual well is related down the exact cost to the number of tests we conduct to the time we spent for mainly with testing and it maybe a little bit above this number I'm giving you use of the time we are spending now with testing the well.

With regard to partnerships for Air Amazonia and eventually for the (inaudible), yes, we are interviewing with international companies. We have several companies that are interested in partnering with us in Air Amazonia and we are discussing this even with understanding and knowledge of our partner. We still don't have anything to confirm but we are talking to several companies.

With respect to the third question, the results of the first Devonian we cannot release any information so far. You will have to wait a little bit for the final results because it has the two months conclusion.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay and Marcio, just a follow-up on the second part related to the rigs that were built in China, are you still projecting that you're going to sell those rigs or you're still trying to use those rigs?

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

We are planning to sell two of these rigs and bring in the two other ones and we are discussing with our partners these rigs belonging to both companies.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay, okay, thank you.

Operator

(Louis Carvalho), CTG Platform.

Q - Louis Carvalho

Actually I have two questions here. The first one should be an update if you could give a bit more color on the seismic results that you have been performing Solimoes and from that point and from which well that we could see a better interpretation I mean, from the ninth well or would be in the fourth round for the thirteenth well onwards. And the second question is to give us a bit more color regarding the HRT you mentioned that you have some updates on the monetization of the gas, if you give us a bit more color on that point it would be fine. Thank you.

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

Well thank you for your questions. Regarding the seismic, since we start to work really close with TNK-BP, we have been performing a number of technical meetings with the crew in Amazon and we performed at the beginning of the year. Several steps in the area using a technology in which we are dwelling deeper wells, about 14 meters and decrease the size of the exposits and we already concluded this experience.

And it was amazing, we could include the (inaudible) and imaging of the Devonian sequence up to 400%. Is that completely nil data and we are going to pursue now all the assignments that you are going to do there from now to the future, we are going to apply this new technology, this new method. And we will see some results on that in the next vintage of all wells that we'll do from June onwards in their oil (inaudible) blocks 148, 149 and 172. And also when we moved to the blocks 194, we are approving new environmental license (inaudible) in this Block 194 in which we are going to apply this method and also in the blocks 151 and 174.

And I think that this is going to change even to use the seismic in a way to predict better prerogatives okay because the imaging of this reservoir has been increasing a lot with this new technology. And I pass to Milton for the second question.

A - Milton Franke {BIO 17311636 <GO>}

Okay, Louis, then coming back to the gas monetization. Number one is with the wells we built, mainly HRT-2 and 5, and the existing wells like the one called (inaudible) in Block 170, we already have I think five wells with gas dissolved. And so we are, number one, able to measure our initial at least with rough measure of our future supply capacity of natural gas if this evaluation plan we have continuous warranty works out.

The second initiative we are taking is we are talking to companies that have the knowledge of different technologies. For example the version of chemicals like methanols and natural gas production of (inaudible) crude from oil gas to liquids, talking to companies that are producing electricity either in an hour so or in (inaudible) and again making up a little project from each of the methods we can use to monetize our gas and third, we have been working together with PMK the key to get our understanding straight

analysis between the two partners of the project and these are the basically the three initiatives we are working on presently in gas monetization.

Q - Louis Carvalho

Okay, that's fine, thank you.

Operator

Anish Kapadia, CPA Investment Bank. Hello, sir you can go ahead.

The Q&A session is now finished. I would like to pass the call to Mr. Marcio Rocha Mello for his final remarks. Mr. Mello, you have the floor.

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

Ladies and gentlemen. first I would like to thank you very much for participation of all of you. And thank you Paula and other friends that are asking questions and I can tell you that I'm very excited about this new period in the HRT life. We are starting this 2012 with no risk whatsoever regarding the cash flow very important term to mention our financial results. The conclusion of all the farm-in/farm-out with TNK-BP and with Petra (inaudible) are completely excited, very excited to have a company like TNK-BP and all is very strong technology and technical people back to back we consider today.

I can guarantee for you that this work together will bring some task -- new approach in the Solimoes Basin. They are sure of the power -- divine power of HRT allowing us to keep our CapEx and OpEx completely under control for the next two years. It's a very strong situation that gave us to our people (inaudible) quality to perform what we know, to perform our duties to get the two brilliant assets that we have taking to the future.

And we will persevere, we have learned a lot in oil flow. And I would like to thank all of you for the time and keep coming with us and trust us and we'll do our best to maximize our share-hold value and towards properly work our commitment with the faith of the Amazon, the government of Namibia and Brazil with the best practice regarding the environment and the security of our employees and the community that work for. Thank you very much and have a very good and nice meeting.

Operator

The HRT's conference call is now over. Thank you. And have a good day.