

## Q2 2013 Earnings Call

### Company Participants

- John Willott, Chairman of HRT's Board of Directors
- Milton Romeu Franke, Chief Executive Officer, Member of the Executive Board, Director
- Nilo Chagas Azambuja Filho, Chief Executive Officer and Exploration Officer
- Ricardo Bottas Dourado, Chief Financial Officer, Investor Relations Officer

### Other Participants

- Bruno Montanari, Analyst
- Caio Carvalhal, Analyst
- Diego Mendes, Analyst
- Gustavo Gattass, Analyst
- Luana Helsinger, Analyst
- Luiz Carvalho, Equity Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to the Audio Conference Call for the Second Quarter 2013 Results of HRT. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session for analysts and investors and instructions to participate will be given at that time. (Operator Instructions) This event is also being broadcasted simultaneously over the Internet and may be accessed through HRT's Investor Relations website at [www.hrt.com.br/ir](http://www.hrt.com.br/ir) by clicking on the banner, webcast second quarter '13.

As a reminder, this conference call is being recorded and the presentation will be available to download shortly also through HRT's Investor Relations website.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of HRT's management and on information currently available to the company.

They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

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Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of HRT and could cause results to differ materially from those expressed in such forward-looking statements. The teleconference is attended by Mr. Milton Franke; Ricardo Bottas; Nilo Azambuja and John Willott.

I would now like to turn the conference over to Mr. Milton Franke, CEO of HRT. Please sir, you may go ahead.

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

Good morning. Thank you all for joining HRT's Second Quarter 2013 Conference Call. I'm very glad to be here today to lead our management in this presentation. In this first slide, you see the second quarter highlights for the Corporate, for Solimoes Basin, for Namibia Basins, for Polvo and then the last is our financials.

For the Corporate issues, you see four elements, the election of a new management for the Company. Our Special Committee for the so-called strategic alternatives or inorganic alternatives, strong cash protection and diversified shareholder's base in the Company. I will not enter at this time the details of their items on this slide, I will pass straight to slide four, that is a very being on the wall.

In this slide four, we highlight that during the first quarter 2013, we had a Fiscal Council starting its activities. We had already two meetings. These meetings occurred one at each month and we recently announced that one of the members of our Fiscal Council we announced over the last days.

Then we have an item on the appointment of a new CEO that's myself for HRT. And a new CEO for Oil and Gas that's Nilo Azambuja; CFO and Investor Relations that is Ricardo Bottas Dourado, and Chief Administrative Officer, that is Luiz Conde.

In the last line you see the establishment of a special committee to evaluate strategic alternatives and the name given to this community that was created at the level of our Board of Administration was to study what they call inorganic options for the future of HRT.

And if I pass to slide number five, you will see that the structure of this committee includes Peter O'Brien, it is Chairman of the Committee. He is a Board member of -- Francois Moreau and Joseph Ash, other two members and then, Ricardo Bottas as Representative of HRT administration. So we have four members in the structure of this Committee.

On the right side, you see that they listed three objectives for this Committee. The first one is in light green, Potential farm-downs and asset sales. And this will include from the farm-out in Namibia, the farm-out in the Solimoes and asset sales like our Air Amazonia, our labs and our rigs and everything will be commended by the same group in this -- in this Committee.

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Then when the second group of alternatives of options, they will be looking for they call it Strategic combinations and (inaudible) may be talking on measures, potential measures where there is synergy found between HRT and some other companies.

And the third one is the sales of Sources of further capital to be introduced in HRT. I will come back on some information about this Committee in the next slide.

Let me go to slide number 6 and 7, I will go over some corporate objectives of -- an important change that's going on in HRT organization and ways of proceeding in common business. It says that the main objective is a strong cash protection that we will basically have all officers and managers with very clear instructions to act in such direction and it includes not only cash protection, but also the non-core divestment opportunities we have and we normally talk only on Air Amazonia, on the helicopters, on the planes, on our lab here in Rio, but we have a list of over 20 tractors, we have machines that we are evaluating if we really need them at this time or if we should divest them in the next months to come.

And for the last one is just cost reduction measures and this includes some staff layoffs that we have already proceeded and some that will come for example when we transfer Air Amazonia to Erickson Crane, this will be a reduction of over 75 or 75, 76 employees. If we are able to divest our labs, it will be something like 40, 44 employees reduction and this is -- we are really trying to build the company with around 150 employees for the future of HRT.

The same slide shows a list of eight initiatives that are listed from Solimoes slow down and reduction of investments for some time, Namibia drilling for only three wells. We will outsource our fourth slot, drilling slot, the transition of the Polvo Field and so I will not enter too many details on these, you can you may ask questions with respect to specific items of this list.

If we go to slide number seven, we continue with these key objectives and I mentioned already that I would come back with this inorganic development options for HRT. And here I just want to comment that the main goals of this group are already defined. We already have Goldman Sachs incorporated in our project as a Global Financial Adviser for HRT and respect to all these opportunities, evaluation and conduction, we have already -- we are working on a timeline and the first result of this group are expected for the fourth quarter 2013.

I pass now the word to Ricardo Bottas, our CFO and he will describe a little bit about our shareholders base that I found that is very important at this time.

### **Ricardo Bottas Dourado**

Thank you, Milton. Good morning, everyone. As you can see slide 8, the vast majority of our shareholders base is free-float, almost 97% of our shares are owned by a diverse base of investors.

In the next slide, slide number 9, in terms of demographic breakdown, we have the majority of stakeholders base in the U.S., followed by Brazil, Europe and Canada. The percentage of GDS Holdings have increased from 13% in December of 2012 through 22% at the end of the second quarter.

I will pass now the word to Nilo to -- for the Solimoes presentation.

## **Nilo Chagas Azambuja Filho** {BIO 17702625 <GO>}

Thank you, Ricardo. And good morning, everybody. Regarding the well in Solimoes, we HRT-Drill, HRT-11 took test as a reservoir in this Jurua Formation indeed Arua cluster.

The wells found good reservoir with hydrocarbon indications, but the cable set performance have recorded only formation of water. The well has been abandoned as dry and the results will be integrated with all reservoirs to date to evaluate the potential of their (inaudible).

Slide twelve please. The other important item is Solimoes, is a gas monetization project. The project has achieved its subject, the conclusion and the report of each of the groups has been done. And the next step would be a steering committee will be held on the late August for approval of the final report and deliberation of the next steps.

The initial studies have considered two production profile, one a base case of five million cubic meters a day and a high case of seven million cubic meters a day and plus oil production of 20 years. The initial results, we can say that the feasibility of one acquisition option that have been highlighted at LNG conventional as the most attractive for economics.

The LNG scenarios indicate better economics for bigger gas production volumes. The quarry base trends show better economics than the (inaudible) total value for LNG.

The option for power generation is a variable option, but will need additional discussion regarding regulatory and environmental and a possible option.

And it's important to mention that all these studies have being considered just a standalone project and was not took in account at this stage any sharing potential of Petrobras affinities in the Solimoes.

Next slide please. Regarding the next step in exploration in the Solimoes. We are analyzing 400 square kilometers in the eastern blocks 150, 151, 174, with new parameters, 15-meter deep drills trying to prove the quality of the prospect. This study will enhance the mapping of the prospect for possible future drill.

The plan for 2014, a new seismic acquisition campaign will be carried out on the southwestern portion of our session, in order to further expand -- expert our frontiers sell through.

Now I would like to pass the word to John Willott, VP of Exploration HRT America.

## **John Willott** {BIO 16988551 <GO>}

Thank you, Nilo and good morning everyone. On slide 15, we are starting with our Wingat prospect the location map shows HRT's acreage and well location. The Wingat -1 was our first exploration well offshore Namibia and was drilled in PEL 23, which is located in the Walvis Basin about 200 kilometers northwest of Walvis Bay. It was spudded on March 25th in about a water depth of 1,000 meters, reaching a final depth of 5000 meters at the end of May.

On May 20, HRT announced that the Wingat-1 had found oil, although, not in commercial quantity. The seismic line and map on the slide shows the initial plan of the well, this was to drill to a depth of around 4100 meters, with the main objective being Albian age carbonate platform. The target was penetrated on depth, but its reservoir quality was much less developed and originally expected, mainly consisting of fine-grain carbonate mud with low porosity.

However, due to increasing concentration of hydrocarbon shows in the lower section of the well, it was decided to drill deeper to a TD of 5,000 meters to test the deeper map ridge of the work and battle the main source rocks in the base.

Information obtained from this well allowed HRT to identify two well-developed source rock, rich in organic carbon, both within the oil generating window. Also the well added several thin-bedded reservoirs that were oil saturated.

HRT selected four samples of this oil with the analysis showing a light oil about 41 degree API and GOR 1,200.

Unfortunately, these reservoirs were non-commercial, so the well was by then abandoned. The well at south was drilled safely and with no environmental issues.

The next slide on page slide 16, the Murombe-1 location is shown on the map and it's about 15 kilometers east of the Wingat-1.

Fifth, our second exploratory well offshore Namibia was also located on PEL 23 and it was spudded on June 1st in a water depth around 1,400 meters. In late July, it reached a final TD 5,729 meters and was deemed a dry hole.

The seismic line and map on the slide shows the well at multiple objectives with the primary being the deeper Murombe and a secondary being the shallower Baobab. The well penetrated the Santonian Age Baobab objective at around 3,700 meters and in campaign 36 meters of net sand within a 242 meter interval about 15% extra growth with an average porosity of 19%. Unfortunately, the sands were water well.

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The main target of the well was to test the resource potential of the Murombe objective, which was anticipated to be Barremian Age, basin floor fan turbidites. This target was penetrated, but wireline logs show the interval consisted of non-reservoir facies of low porosity. A well-developed marine source that was seen in the Wingat-1 well to the east was also present and secured in this well. However, it was down not to be optimally located to source these objective. This well was also drilled safely with no environmental issues and with just 62 days, ten days ahead of schedule.

Our next slide, slide 17 shows the Moosehead Prospect and its location. In late July, in early August our Transocean Marianas drilling rig was mobilized over 635 kilometers to the south in to the Orange basin on to PEL 24 for the Moosehead-1. The third well in our drilling campaign was spudded on August 6th, in a water depth around 1,700 meters. Current drilling operations are that the 20-inch (inaudible) at 2,700m and we are currently running horizon.

Our anticipated date to penetrate the target of the well early September. The Moosehead-1 will target Barremian carbonate and will be drilled to a total depth of 4,100 meters. The target line and map on the slide shows location and size of the prospect.

The anticipated source rock for this well is the same age interval that was proven in our Wingat and Murombe wells located to the north. There is also another potential source rock from deeper risk section underlying Moosehead.

The Moosehead reservoir section is projected to be a 459 meter fixed limestone and a similar setting as the Brazil/Angola pre-salt reservoirs. The (inaudible) also known as D&M an independent petroleum consulting firm, has set us the prospect Pg at 25% with the Pmean unrisked resource potential of over 2 billion barrels. We anticipate the well will take 53 days to drill.

The next slide shows the status of the Namibia farm-out process. The main objectives of the farm-out are the (inaudible) operators with existing Namibia acreage after considered exploration company and Angola South African National Oil company or NOC. HRT is looking to reduce risk, leverage learning's from the Wingat Murombe well and generate additional funding for the remaining exploration program.

The status of this process is that a selection of (inaudible) company who previously visited HRT's data room, had been invited to review the Wingat-1 result. (inaudible) however, most companies have indicated that they are unable to meet HRT's deadline constraint or do not have 2013 budget available for an entry.

While the (inaudible) has successfully generated active discussions with some prospective company, nothing was finalized. Efforts continue to pursue a new partner, however, there is a diminished likelihood of adding a partner during this drilling campaign. With that being said, important groundwork has been laid to develop future partnership for selling HRT's plans for 2014 and beyond.

This concludes the summary of HRT Africa's well results and ongoing farm-out activity with our Namibian assets.

(inaudible) next over to you Ricardo.

## Ricardo Bottas Dourado

Thank you, John. Just to give you an update on the Polvo Field and the transition status. In the slide 19, BP had already submitted (inaudible) updation for the transfer of concessions rights to HRT and regulatory approvals expected to happen in the fourth quarter of 2013, HRT and BP work stream teams have been intensively working together to manage the transition activities to assure safe and reliable operation continued.

Primary focus are on the field operations, supply chain management and safety and operations risks. All results generated by Polvo to BP starting from January 1st, 2013 accrued to HRT through a reduction on the purchase price.

Moving on to the financials, in the slide 21 and it can be seen financial revenues went up to 54 million reais from that amount 44 million reais related to the exchange rates of variation over the existing cash placed in abroad.

In same way there is also a significant increase in financial expense, representing a total amount of 28 million reais, most part from the effects of exchange rate variation over debt denominated in U.S. dollars.

In relation to operating expense, the most relevant expense in this quarter were related to write-off of drill and non-commercial wells in Namibian and Solimoes. As well as write off costs of subscription bonds for two 2 blocks in Solimoes, that HRT decided not to enter into the second exploration period.

Additionally, we have recognized in this quarter no recurring expenses with the termination contracts of officers that left the company and the gross amount of 26 million reais, including with hold and taxes and social costs.

As a consequence, considering especially the expense from tangible assets written off, HRT reported a loss for the period of 546 million reais. In slide 22, for the first half results, financial revenues in 2013 went down due to a combination of lower availability of fund displaced in the domestic market, along with a consistent reduction in domestic interest rates during the second semester of 2012.

Even considering the relevant impact, softer exchange rate over cash of growth which was present in the previous slide.

On the other hand, there's also a significant increase in financial expenses, totalling 41 million reais, half part resulting from the effects of the exchange rate valuation over debt.

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Net results for the first half of 2013 was negative 645 million reais, basically due to the write-off of dry drilled well cost already mentioned.

2012 results had a positive impact which arose from the sale of 45% working interest in Solimoes project through Rosneft. Additionally, the results of the first half in 2013 was affected by some non-recurring expenses with personnel as a result of recognition of losses on stock options distributed to employees in the amount of 25 million reais in the first quarter and 26 million reais as a result of termination expense with officers in the second quarter.

In slide 23, I'd like to present you more details about our personnel costs by project, where you can note a reduction in all companies and projects, especially in Solimoes costs 36% lower. It's very important to highlight that the personnel cost with the subsidiary of IPEX and Air Amazonia should be deducted as soon as the sale process of these two companies are concluded.

Additionally, these results do not consider the effect from reduction of headcount around 30% which accrued between July and August.

In the slide 24, you can see the breakdown of the write-off cost recorded in this quarter up dry in non-commercial wells in Solimoes and Namibia is about 430 million reais. As well as the cost well subscription bonus associated with two relinquished blocks in Solimoes, around 20 million reais.

In the slide 25, the company in the second quarter with a consolidated cash position of 814 million reais, representing the almost the same balance of the first quarter, due to inflows from Cash Calls partnered in Namibia, (inaudible) position.

The chart also presents the evolution of the component liquidity considering cash collaterals given as guarantee to transfer the rig and drilling related service hired for the Namibia exploration, exploratory campaign.

And the funds in escrow account to support the deal with BP for the acquisition of the Polvo Field. We expect to release most part of restricted cash after the closing of Polvo deal and the conclusion off drilling campaign Namibia, both forecasted to occur during the fourth quarter. Such events combined with the receipt of pending cash flow, Cash Calls from Rosneft, new inflows from asset divestment and savings from the cost reduction initiatives will improve the liquidity rates of the company. In addition, on the right you can see the chart with the cash allocation by banks all first line in Brazil.

Next is slide 26, presents the evolution in cash flow with change in the cash balance with emphasis on recurring, recurring disbursements. Inflow from revenues, most of them financial revenues, inflows from receivables, Cash Calls from Galp Energia for Namibia campaign and from the (inaudible) to the Polvo acquisition.



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The next slide you can see breakdown of disbursement by project, the exploratory campaign costs around 402 million reais referred to gross disbursements for exploration activity, drilling resist allocated to intangible assets, plus the cost of personal expenses, third party service and other expenses allocated to the income statement.

Disbursements for seismic of 7 million reais were related to exploration activities in Solimoes and Namibia basin and involved survey in seismic process contract allocated to the income statement.

The 29 million reais paid in the second quarter relate to the Polvo field refer to the initial payment of 10% to BP for the purchase price in accordance with the Purchase and Sale Agreement filed last May.

Note that the cash burn rate was reduced from 3.4 million in 2012 to 2.9 million in 2013, even considering the offshore campaign costs non-recurring in 2012.

The last slide for my part in terms of financials, I'd like to draw your attention to the consistent decrease of cost in Solimoes. However, we notice that it was do not reach at the forecasted write-off 0.7 million reais per day for the second quarter, due to the Rosneft the fall off 62 million reais as of June, equivalent 0.7 million reais per day. In respect of Namibia as we had planned, we increased the cash burn rate in relation to the previous quarter, due to the acceleration of back offshore campaign. However it's still will be in our projections due to the two Cash Call receiving from Galp in this quarter, corresponding to their participation in the first two wells.

Now I hand you back to Milton for his final remarks.

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

Thank you very much, Ricardo. I call your attention that I think for the first time we were able to have our presentation concluded in something like 30 minutes and to call your attention that new avenues are being opened for HRT's future for the last months. And I want to you to think about this if you really see that we have made progress in reducing our costs and in reshaping our company for new future.

We have worked a lot on our cash protection measures and with this I think we are introducing a new scenario for HRT. I think we can now look to the future with new eyes with respect to our cash position.

Number two, it is clear to me that in the Solimoes we have a project with our gas monetization partnership with Petrobras and Rosneft and we believe in HRT that this project will lead to positive development.

At this time, we can still not comment or tell you very much about the results of the project, but we see it as very positive. The next steps that still being discussed between

both the three parties involved and we will come up very soon with concrete information about this project.

In Namibia, we have drilled two wells, one was a non-commercial oil discovery, I think John, Nilo described it very well the results of the wells and we are now drilling our third well and the progress of this well is still in the beginning. We're still working on the 20 inches casing I think. And we expect the first or the final results to come during September if everything runs according to the plan, the drilling plan we have.

And we believe that Moosehead is a very interesting Prospect and that is drilling will add information that will be very important for the future of Namibian Basins. Finally, not so much about Polvo. Polvo, when things are running smoothly, I think there are not many news and Polvo transition is progressing smoothly. The project documents are already in ANP for analysis and we are working on meeting, and a set of meetings with ANP to discuss how to proceed in the project operation.

I thank you all for coming and listening to us in this call and we will be available and open for questions. Thank you very much.

## Questions And Answers

### Operator

Thank you (Operator Instructions) Our first question comes from Mr. Bruno Varella [ph] from UBS.

### Q - Unidentified Participant

Hi, good morning. (Foreign Language). I have a couple of questions here starting with Namibia. I want to understand if there is pre plan for Namibian casing will start well come upright. The second one related to Solimoes, the reason is why the company decided to not to drill any wells for the next six months. And if there are any other blocks to be return through ANP?

And third one if you guys can share with us regarding Polvo acquisition, how much the acquisition price would be reduced by the results from the 2Q January?

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

Hey, Varella. I start and then pass to Ricardo for the last question. With respect to Namibia, I have said this many times already, In Brazil if you take lessons there in our exploration in Brazil and that we have made a question, who has really this call it while in Brazil and how is the discovery process in Brazil, Campos Basin that is today our most prolific basin. The first oil discovery was on the well number nine. And in Santos it was something like well number 50 and I'm talking about specific basin.

In the case of Namibia, if I take both basins as one single unit Walvis and Orange, and Walvis is -- the wells we drilled in Walvis are something like 700 kilometers from Orange Basin, okay.

We are I think now on in well number 12. So as an Explorationist, I'm convicted that oil will be found in Namibia if it's not with our Moosehead, it will be with the next wells that maybe by drilled by Chevron or Petrobras or BP or any other independent company that is active in Namibia, but it will come and if it comes with well number 20, it still will be very nice.

What I think any industry can be sure or the Namibians and Brazilians that with our brand we are really helping the process of finding oil in Namibia. It was a very technical decision to drill four wells, then we reduced this to three wells.

They are independent prospects to test different opportunities that we identified in the basin. And we believe that this was the right way to approach in the area that is so under explored like Namibian coast line.

So with respect to the first question, if Moosehead is not a discovery, we will be working on wells we drilled and the information we have -- we have in nature till today, all this seismic data acquired in the basins. And to understand what really is meant, what kind of lessons learned we have from Wingat for example was a non-commercial discovery.

We are already looking that the whole area to see if there is a well that that does not develop so well, if they could be developing in neighbor areas close to Wingat. And there will be much work to be done in 2017 in HRT America, working on the data we have acquired. There will be new drillings coming from well companies that have already announced that they will drill. And we will be probably coming up with a more detailed plan of what kind of plans we have for Namibia in the years to come. But we still are confident that the Namibian Basins hold oil and gas resources that somebody has to find them and I expect that it would be HRT.

With respect to Solimoes, if you look a little bit on what we have produced over the last months, you see that we have really identified two projects in the basin. On one hand we have the gas monetization project that has its own life. And the gas monetization project is ongoing and we are fully involved in every discussion and analysis modeling that's being done. And we cannot at this time submit to ANP what we call Pgs, the plans for Economic Assessment of Discoveries we have made before we know what, how this project will develop. And this is one reason why we are not drilling at this time in the area that is the gas monetization project in the Solimoes.

When we look then to the other big project that is a really exploration project, we are acquiring seismic and what we did with Rosneft, TNK-BP and now with Rosneft, we came up with completely new parameters for our new seismic and we are acquiring new seismic to map, new projects that can be drilled in the near future, maybe in the beginning of 2014. And it was kind of a coincidence for us that the gas monetization project is being developed. And the seismic acquisition is being conducted not to drill and

to reduce our economic, financial exposure in the Solimoes. At the same time, preparing for farm-out in the basin in both projects, the Gas Monetization and the exploration.

I pass now to Ricardo to tell you little about the last question.

### **A - Ricardo Bottas Dourado**

Bruno, unfortunately, we cannot disclose any, disclose any technical and financial information from 43:27 after closing for a confidential agreement with BP.

The only information I can provide to you now is that already mentioned in the presentation related to the payment of the first 10% of the purchase price, okay.

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

Then, Varella, I think you had a fourth question, it was why did we return two blocks to 19 and 220 to ANP. And the answer is very simple, even though --

### **Q - Unidentified Participant**

No, sorry, I just wanted to understand if there are additional blocks to be returned in the near term to ANP?

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

No, not at this time.

### **Q - Unidentified Participant**

Okay. Great. Thank you guys.

### **Operator**

Excuse me. Our next question comes from Mr. Bruno Montanari with Morgan Stanley.

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

Good morning. Thank you very much for taking the question. I have a few questions. First, could you talk a little bit about your relationship with Rosneft, how it is going. And what is the reason for the cash flows not being met.

The second question is about compensation, you do mention you expect to recoup part of some of the severance costs. So just wondering if there are any claw back clauses, how easy it would be to recoup that.

And finally, just a reminder, how many employees the company has today after the discounted reduction have to go. Thank you.

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

Bruno, our relationship with Rosneft on the technical side has been very good, very intense, lots of discussions we have been holding meetings with respect to the gas monetization project, with respect to our exploration project.

And I think we understand each other really well. But with acquisitions of TNK-BP by Rosneft, this asset changed its hands from one large company to one very large company that has still some needs to digest all these acquisitions they have made. And the understanding we had in the beginning that the difficulties they had were mainly bureaucratic because information we had were that Rosneft is really bureaucratic company. And -- but we don't have any reason to suspect that these payments will not occur in the future. So being very short, we expect that these Cash Calls to be paid in the next weeks with no discussions.

With respect to recovering certain amounts that were paid with the severance, I will pass it to Ricardo that can eventually comment it to you.

### **A - Ricardo Bottas Dourado**

Above that issue, we just received the information from the compensation committee also informed that committee about their revision about the amounts paid to the officers. So that's the only information I have and that this issue should be discussed in the Board of Directors, so that's the only information I have today, okay.

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

All right

### **A - Ricardo Bottas Dourado**

Sorry, in terms of headcount as of June, total company has 368 people, but including 130 people from Air Amazonia, IPEX and that had composition it's before our last adjustment, okay.

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

All right. Thank you very much.

### **Operator**

Excuse me. Our next question comes from Mr. Diego Mendes from Itau BBA.

### **Q - Diego Mendes** {BIO 16313486 <GO>}

Yes. Hi, guys two questions. The first one it's on your LNG project, you said that it has the best economics. So the question is, if you could share with us how much you were alluding to get that the oil had and also what would be the price of this LNG for consumer.

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And the second question is related to the Murombe in Namibia. I know your comments earlier, but I didn't get it correctly. So if you could share how the result of the second well changed farm-out process and how the companies that were in the room reacted to the news?

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

Diego, with respect to the economics that is inside LNG alternative or other alternative, I cannot advance any information to you at this time. We have 100s of pages of analysis, technical engineering, HSE and modeling and everything was submitted to our Steering Committee and this Steering Committee will still meet at the end of August and then these three companies, the members of the Steering Committee will really come up with conclusions with respect to the project, how to proceed, what the next steps are and so on.

With respect to the results of the second well in Namibia and sign down process. Sure, any dry well has normally negative influence, but when you ask a question to a geologist, they see so many important information that came up, for example in the Wingat well and in the Murombe well with respect to the sourcing capacity, with respect to the thickness of these rocks, with respect to they being inside oil window, our feeling is that we still don't have what we need to have and what the market is expecting, that is in commercial oil discovery, but we are coming closer and closer with the wells we are drilling.

With respect to this third well, it is very important to stress that if you take for example the Brazilian basins, Campos basins, we are now drilling in Santos, because it's something like 700 kilometers from the first two wells. We are moving to a different basin called Orange. So, it's a completely new set of petroleum systems. For sure, the main (inaudible) blocks are the same as they are in same in Campos and Santos, but the reservoirs are completely different.

Now, we have main reservoirs, the equivalents to the Santos Basin . So, we are very positive. We are waiting with optimism, the results of this well. As John has stressed, our drilling operations, they are being performed in very good times. We have been able to drill faster than we have in our plants, therefore we are saving some money for the company and we still believe that we may have nine discovery in this Moosehead. Thank you.

**Q - Diego Mendes** {BIO 16313486 <GO>}

Okay. Thank you.

**Operator**

Excuse me. Our next question comes from Ms. Luana Helsinger from GBM.

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

Hi, guys. Thank you for the call. I have two quick questions. First, I would like to know if there is any timeline for the guarantee over acquisition to return to the current assets.

And I was wondering if you could have more tale on an EBS exploratory well, like timeline for new wells (inaudible) partners. Thank you very much.

### **A - Ricardo Bottas Dourado**

Luana, thank you for your question. First one in terms of timeline, the most part of guarantee will be relieved at closing and another small part, it's related to CS facility. So the most part of the guarantee will be released at closing, okay.

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

Okay. Perfect, Ricardo.

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

With respect to new wells in Namibia, Luana, no, we don't have after the third well to be drilled, any cleared plans to drill additional wells. However, we -- at the same time we are following up the plans of other oil companies that are active in Namibia and that will drill wells in 2014 and 2015.

We're -- we will be working heavily on the results we have acquired in our first three wells. So I think if you look what is going on in most basins around the world, including Brazil, you will see that drive doesn't have only blacks and whites, they are several terms of grey. And we expect that the life in Namibia will continue our exploration work may include new seismic before we drill new wells, may include interchange of information with other companies. We are working on this and when we have something concluded we will inform the market. Thank you.

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

Okay. Thank you, Milton.

### **Operator**

Excuse me, our next question comes from Mr. Caio Carvalho from JP Morgan.

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

Hi, good morning, everybody. I have two questions here. The first one is related to this farm-out in (55:28) in Solimoes Basin that's your information in page six of the report. I understand this farm, I understand the strategy behind it. I want to understand, I want to remember a little bit of one specific point that is the put and call option that both HRT and TNK, now Rosneft has against each other that if I'm not wrong is due by year the next year. I understand, I would like to know basically about it is the transition from TNK to Rosneft change anything on this point or if it's still valid, what type of pricing, what type of valuation would be used to value this 10%.

And if it's correct to understand that when it was written that (56:12) has this put option it means that even if TNK is not interested in acquiring extra 10% of the asset is () can actually force the company to acquire that.

And my second question and I apologize if you already said that, I just want to understand a little bit, just one specific information on Polvo. Is that the only reason why the company is not sharing its view of the proportional development of Polvo in terms of well cost in terms of prediction, it's because the deal is not approved to ANP yet. And if we could expect, I mean not right after that, but a couple of time after the approval to see some development plan for approval. These are my two questions. Thank you.

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

Caio, thank you for two questions. You are right, Polvo presently it's still is BP's asset. We can only come up with information with respect to the potential the field or even that 1P none developed reserves and so on after ANP's decision, we expect this decision to come around 90 days from the first day they received their documentation from BP.

With respect to farm-down in Solimoes, yes, this current part it is still valid, there is no change with respect to this. You are right when you say that the value, valuation of HRT to be considered, the Solimoes to be considered is a key step, we agree with that. I will not answer in the sales above this, but I will tell when we think on farm-down and we have today 55% of the Solimoes in 21 blocks. We are thinking eventually in not being in the 21 blocks and we think eventually not having 45% in all blocks. So, we want really decrease our exposure to the Solimoes over the next years, because mainly if you look the number of wells that eventually have to be built in the gas monetization and the costs of any development in the gas monetization will be heavy money, and we cannot come in with 45% or 55% of such a project. We have to prepare for that.

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

Okay. Thank you.

**Operator**

Excuse me. Our next question comes from Luiz Carvalho from HSBC.

**Q - Luiz Carvalho** {BIO 18040760 <GO>}

Hi, Milton. Hi, Nilo. Hi, everybody. I've two questions here. The first one, if you could give more color and the detail about the committees formed to maximize value for the current shareholders. What would be that and how are you're going to plan to basically maximize it apart from the sales of the asset that you are planning, but how it's going to be in terms of the timeline, in terms of returns to, say, the margin now?

And the second question would be following up with Caio's question in terms of Solimoes. You mentioned that the CapEx for LNG project and for additional wells would be at relevant and you want to decrease that, but could you give us bit of color, how do you expect that to fund your additional CapEx for the development of its project, I'm not asking the amount of money that you are you going to raising, but much more, how do you plan to finance that? Thank you.



FINAL

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

When I start, Luis, how to maximize value for the shareholders, just consider one very simple side of the equation. That strong cost reduction we have been able to introduce in HRT from very simple measures like, I don't have to dive those anymore. We reduced the salaries of the officers, we are revising the ways we do business, everything that can be outsourced will be outsourced, and we will have a smaller and leaner company and hopefully more flat and transparent. If we achieve this, you will have a more efficient oil and gas company. On the other hand, we are strongly divesting assets we have invested in the past for very good reasons, but in our evaluation today we don't need this anymore like for example helicopters, planes and labs with the Erickson being on our door knocking our door to enter Brazil through the Amazon, this is a very interesting opportunity.

The same for companies they are knocking in our door to enter the lab market, we already have six or seven offers of local and international companies that want to enter Brazil to do services, lab services.

With this we can focus more officers, time and managers they have less managers today in office today than we had in the past, on really core functions for the company. And if this company is let's say prepared, our members of the Board they are including this group, has been approached already by several other companies that want to talk about HRT.

There may be synergies that can be explored between ourselves that have for example two very large assets. We are very focused in our portfolio and some other companies are very focused in their portfolio. They have to lift of assets 10, 15, 20 different assets and the merger of two companies that have a profile like ours and some others could be a good decision to jointly operate in a more efficient fashion in the future.

So that's all I have to tell you at this time. This is an ongoing work. It's just starting, we'll work on a very short time frame with the help of very well prepared International Group and the local group, its Goldman Sachs. And we have to say expecting results as I said in the fourth, still in the fourth quarter 2013.

## **Operator**

Excuse me, our next comes from Mr. Gustavo Gattass from BTG Pactual.

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

Hi. I had a couple of questions here. Actually, some of them are just follow-ups and some more questions have been answered before. The first one, I just wanted to understand the message that Ricardo is putting out for marketing the cash proposal. Now whether it was okay, how the restricted cash and it's cash that I can use or if gets out of restricted cash, because it has been paid to BP and as a result we shouldn't even think about it as additional funding sources. So just want to understand what the -- not the motivation that what the like the story is there for the future.

FINAL

The second question that I have had to do with something that John said and I apologize because I wasn't able to hear it properly on the call. He mentioned something about the source rock data on the Murombe in order to place or something like that, just wanted to understand what he meant by it.

And that the farm-out at least Murombe I understood what he said had timing limitation that it couldn't happen during the drilling of the wells. If you could just touch on those three points, it would be great for us. Thank you.

### **A - Ricardo Bottas Dourado**

Okay, Gattass, thank you. I'll answer your first question then pass to John to answer the following questions. About the Polvo transition in the Polvo view, we have that cash as a guarantee of the PSA to support the transition and the PSA agreement. And soon as we have the closing, we receive that money current in escrow account and the purchase price will be adjusted with the results from that since January 1st. So that's the simple way to make the calculations. So that \$125 million minus 10% arrested, we have to deduct from those amounts that results from the asset, since January. And then, we release the funds in escrow to pay the difference. That's the simple way to make the calculation, okay.

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

Okay. So part of that -- the money gets unlocks and part of which is related to paying we did for the acquisition anyway.

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

That's right.

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

So it's the way to think about it. All right, super. Thank you.

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

John, I would like to invite you to answer the another questions.

### **A - John Willott** {BIO 16988551 <GO>}

Yes. John Willott, to clarify what you just asked, on the Murombe well, the relation to source rock to our objective, but well just prove that they are just provide a connectivity between the source rock and our objectives and that led to the unsuccessful results. As for the farm-outs, what we've learned that it's very difficult to bring in additional partner in the middle of the drilling of the well itself. And that is what we try to convey that, it's very difficult to do calculus there for the farm-out effort.

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

Okay.

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**A - John Willott** {BIO 16988551 <GO>}

Right after your question?

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

Yeah. If I may just qualify what you said, when you said the position in relation to objective and connectivity between objective and the source rock woven there, do you mean source rock and Baobab or source rock and Murombe itself?

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

The source rock had potential of sourcing each one more likely than Baobab, but it has a potential source in Murombe. We are also looking for other source rock for Murombe, but the main problem with the Murombe was that it was just non-reservoir.

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

Cool. Alright. Perfect. I think I understood it.

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

If I could add something to you, Gustavo, is normally what we see in the producing basins is that in between the source rocks and the reservoir rocks, there a list of what we call migration paths or migration avenues that oil that is sourced can reach the reservoirs and these paths, they are normally false, they may be on conformities, but they have to exist to this charge occurring and this is what Joe is mentioning.

When you look to the area of Murombe, there are some faults that links for example the main source rock to the Baobab reservoirs, but they are minor faults and inexpensive units. And this analysis and answer to your question was one of the discussions we recently had -- I recently had with Joe Paul with respect to the new well, the new basin in Orange that we have some other prospects, you see much larger number of falls of migration avenues in the Orange Basin than you see in Wingat. That's how it really works.

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

Thank you.

**Operator**

Excuse me. Ladies and gentlemen, this concludes today's question-and-answer session. I would like to invite Mr. Milton Franke to proceed with the closing remarks. Please, sir, you may now go ahead.

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

Ladies and gentlemen, thank you all of you for listening to us. I know that time is an important commodity today. I (inaudible) remember a final word that we know that we have important challenges over the next months and years.

And we have -- are very clear to us and but we on the same time, very comfortable to communicate, but we are really opening new avenues for HRT's future. I think if we are able to in continuous work reduce even more our cash exposure and diversify our portfolio, keep the key people inside HRT we need for the future, we will be successful. This is what I have to say and thank you very much.

## Operator

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

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