

Y 2020 Earnings Call

Company Participants

- Francisco Francilmar Fernandes, Chief Operating Officer
- Milton Rangel, Head of Finance
- Roberto Bernardes Monteiro, Chief Executive Officer, Chief Financial Officer and IR Officer

Other Participants

- Christian Audi
- Pedro Soares
- Vicente Falanga Neto

Presentation

Operator

Good day, ladies and gentlemen. Welcome to Petro Rio's conference call to discuss 2020 results. Thank you for standing by. (Operator Instructions) This event is also being broadcast simultaneously over the Internet via webcast and may be accessed through Petro Rio's Investor Relations website at ir.petroriosa.com.br by clicking on the banner 2020 earnings release.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call relative to the company's business perspective, projections and operating and financial goals are based on the beliefs and assumptions of Petro Rio's management and on information currently available to the company. Forward-looking statements are not a guarantee of success. They involve risks, uncertainties and assumptions as they are related to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Petro Rio and could cause results to differ materially from those expressed in such forward-looking statements.

I would now like to turn the floor to Mr.Roberto Monteiro, CEO; Mr.Francilmar Fernandes, COO; Mr.Milton Rangel, Head of Finance; and Mr.Emiliano Gomes, Legal Officer.

Mr.Monteiro, you may go ahead.

Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Good day, everyone. Welcome to Petro Rio's 2020 conference call. Before I begin the presentation, I would like to really thank the Petro Rio team, our employees. The year of 2020 was very challenging. And still, we were able to have an excellent year. And this is a great deal because of our team and their dedication and energy.

I'll also start with our highlights. The first, as could be expected, was our focus on safety and health. We were able to minimize the effects of the coronavirus on our operations and on the company as a whole. We always value the well-being and health of our employees.

The two bullet items that follow are acquisitions. We were able to complete two very interesting acquisitions along 2020. The first was Tubarao Martelo Field and OSX-3, which is now called FPSO Bravo. This is a very interesting project because it will allow for the tieback of Polvo to this FPSO. So we'll be able to operate the field, TBMT, Tubarao Martelo, and Polvo in the same FPSO, which will be the FPSO Bravo. So this is a very interesting project in terms of operational optimization for Petro Rio.

And the other very interesting acquisition for the company was the acquisition of 35.7% of Wahoo. It's kind of the same story, but happening at Frade Field. We'll be able to develop this new area that was acquired called Wahoo. We'll be able to develop it, producing oil at Frade Field, which also leads to very important economies of scale for the company.

The next point to highlight was our volume of oil sold, 9 million barrels, a record number for the company under our management. Actually, it was a record mark for the company, full stop, generating a revenue of almost BRL2 billion. So another very interesting result.

Moving on to Slide number 4. I would also like to mention our reduction in lifting cost and ongoing trend along 2020. Granted, in the fourth quarter, the lifting cost was impacted by the low efficiencies that we had in November. Francilmar will give you more detail on that. But the Polvo FPSO fell way below our expectations in November in terms of efficiency. And this is exactly the FPSO that will be leaving the field. This once again proves that our decision was right to have Polvo and TBMT fields producing out of the FPSO Bravo, previously called OSX-3.

But anyway, we can see here a constant reduction of our lifting cost. And we can also see, we included in here in the dotted lines, the pro forma lifting cost that we would have had if Frade had been 100% approved since the end of 2019. And we see -- we would have gained another \$0.80, give or take, per quarter in lifting cost reduction. So we believe that this was one of the main drivers of our good results along 2020.

Production. We have spoken a little bit about sales. From the production standpoint, the story is kind of the same. We ended the year with an average daily production of around 30,000 barrels. We currently have a higher production because of Frade Field with the recently approved acquisition by ANP of the remaining 30% stake belonging to Petrobras. So here, we would have to add another 30% of Frade Field. Currently, our production is greater than 35,000 -- 35,500 barrels a day.

Another very important point is that we had a very well-disciplined cash management that culminated with a follow-on operation that we had in January of this year. We ended the year with more than BRL800 million in cash. And in January of this year, we had a follow-on operation and raised more than BRL2 billion to boost our cash. So that was a very interesting cash management that will allow the company to enjoy continuous growth.

And lastly, the flip side of the coin along 2020 was the reduction of our net debt-over-EBITDA ratio. Our operating numbers were good. Our cash generation was very good. And that led us to a reduction of leverage quarter-after-quarter, getting to a net debt-over-EBITDA of 1.2x.

Now with the follow-on operation, we are no longer a company with net debt. We are now a net cash company. The situation is reversed. We now have more cash than debt. In a nutshell, we had very efficient management along the year. I will turn the floor now to Francilmar to discuss our operations, and then Milton will speak about the financials, and I'll be back at the end to talk about the next steps. Thank you very much. Francilmar?

Francisco Francilmar Fernandes {BIO 21185801 <GO>}

Thank you, Roberto. Hello, everyone. Let's start with the operating highlights, starting on Slide 5. The reduction of the company's lifting cost in 2020 was quite significant. It started at \$22.9 and fell to \$14.5 consolidated for the period. We continue to implement initiatives to reduce this even further.

Production. We sold 9 million barrels in 2020 with an average production of 26,000 barrels, quite representative and the highest production ever for us. The drilling campaign at Polvo Field was rather positive. We started producing at a new well in a reservoir that had never been put into production at the field, increasing production by around 2,500 barrels a day for starters.

As for TBMT, it was a new field acquired. We handled the whole transition and start-up of production as well as the connection of a new well, TBMT-4, that was completed and connected to the platform, all amidst the COVID-19 confusion. We started the tieback project connecting Polvo Alpha to the FPSO of Tubarao Martelo. It is progressing quite well with more than 40% of the physical implementation done. And it is expected to be finished by the beginning of June of this year.

As for operating efficiency, despite all of the issues faced and all of the initiatives to fight COVID, we were able to maintain a good operating efficiency and production. And here, I would like to thank our whole workforce. My big thank you goes to the Petro Rio team that was able to maintain a good work rhythm, avoid operating problems and mainly, they were able to maintain high levels of safety, taking care of the environment with excellent numbers as always.

Let's move to Slide 6, the one that gives you an overview of the performance of our assets. We can see all of the numbers. I want to highlight that total production increased

FINAL

by 38% already, considering the integration of TBMT Field and the start-up of production of the new reservoir at Polvo.

On Slide 7, we see more detail about the lifting cost. Along 2020, we had good results with a quarter-after-quarter reduction. In Q4, we suffered a little more. We're taking a number of measures to reduce the lifting cost, either by optimizing our resources or renegotiating. We were able to renegotiate contract scope and values, and that has yielded results. But in Q4, we suffered some pressure on our lifting cost, mainly due to production reduction at the fields. At Polvo, we had a stoppage of the FPSO Polvo. More on that later when I speak about each asset.

At Frade, we lost one specific well. Here, it is worth mentioning that this lifting cost does not include the 30% stake of Frade Field acquired from Petrobras, which would improve the numbers a bit, as you can see in the graph in the upper left-hand corner.

Now speaking in detail about Frade, Slide 8. We see that the field has been performing well, with the exception of Q4 when we had an impact on production cost, specifically by stoppage at well MUP3. That had a hydrate formation in the subsea production line. This well has been put back into production, but it negatively impacted the fourth quarter.

Similarly, there was a delay of the preventive maintenance program in the compression system. And that negatively impacted production at the field as well. Other than that, the field has been operating in excellent conditions.

At Polvo, on the next slide, number 9, we can see this field is more challenging. In Q4, we had a more serious problem at FPSO Polvo, which is chartered. It should be leaving the field in the end of July when we complete the tieback project. But until then, we have to deal with this vessel in the best way possible. We had a problem in the energy generation system. And due to corrective maintenance that was needed, we had a downtime of close to 10 days. And that strongly impacted production at the field, forcing the lifting cost up.

Other than that, on Slide 10, I would like to give you an update on the field revitalization program and mainly, on the production of the new Eocene reservoir. We see in the bottom right-hand corner graph that the pressure of the well has been maintained stable, and it is quite promising. And this has been a very positive surprise for us. And now with all the data we've been collecting and reassessing, the reservoir has proven to be a lot more promising than we expected initially, which gives us confidence to drive -- confidence and drive to continuing the process to develop production for this reservoir. In the near future, we should drill more wells in this reservoir.

Moving forward to Slide 11, I give you more detail on TBMT field. We started the transfer of the field in the second quarter of last year and completed the transfer in Q3 of 2020. We've been maintaining the operating efficiency of the field at good levels as before, and we are working to reduce costs. The field has been behaving very well and should continue to do so.

FINAL

On Slide 12, I'd like to give you a quick update on the tieback project between Polvo and Tubarao Martelo. The project is unfolding well at a good pace. So we can see here on Slide 12, on the left, this illustration showing the tieback, the connection of a production line that we call the umbilicals and the completion and connection of this well, TBMT-10, which is right in the middle between the platform and the FPSO. So the project is unfolding well. Even with the COVID threat and the impact on some operations, we don't see a real threat at this point. We are on schedule at 42% of physical progress and advancing as planned. We expect to have it completed by July of this year. TBMT-10 should start production, flowing first oil by September of this year.

On the right, we see some photos of services that are being performed, both at the FPSO and at the platform, all according to schedule and for the coming months.

Moving to Slide 13, I'd like to speak a little about Wahoo, which was acquired together with Itaipu in November of last year. This is a block in the pre-salt in the Campos Basin, about 30 kilometers away from Frade, with a similar water depth of 1,400 meters, a reservoir with excellent quality oil 30 degrees API. But what is most important here, moving to Slide 14, is that you appreciate where we currently stand.

We have finished Phases 1 and 2, discovery and evaluation. This was done by Anadarko. A number of wells were drilled, there were discoveries, the wells were tested and put into production. Now we are detailing the development phase. This year, we will be planning and working on the engineering, design and preparing the development plan to submit to the authority, ANP.

By the end of the study, we will have detail on all of the specs of the equipment and on the best strategy to develop this field. Initially, we are planning to drill four producer wells and two injection wells, depending on the actual need.

We will also install a subsea manifold to converge and connect all of the wells and send production through multiphase pumps to the FPSO of Frade. This tieback is expected to be 30 to 35 kilometers long, but this will be detailed after we conduct more thorough evaluations. And we will be producing, in principal, 10,000 barrels per well. This is the plan for Wahoo, and we'll give you more info in the coming months. With that, I end my part of the presentation. Thank you very much. And I turn the floor to Milton.

Milton Rangel

Thank you, Francimar. Good afternoon, everyone. To continue our presentation on the next slide, we will go over the main financial highlights for the year, starting with our net revenue of BRL1.9 billion in 2020, our adjusted EBITDA of BRL876 million, net income of BRL528 million, numbers excluding the impact of IFRS 16. Another relevant point is the continuous reduction in the company's leverage, expressed by net debt-over-adjusted EBITDA, now down to 1.2x at year-end. But we also highlight our hedging operations along the year, particularly in the beginning of the year when we were able to hedge our selling price at \$65 per barrel in Q1 and for part of Q2, thus preserving the company's cash generation at a very critical moment of the COVID-19 pandemic in 2020.

Additionally, we also renegotiated our debt with Chevron and extended the terms of our Prisma debt, to be explained momentarily. We completed our follow-on operation in the beginning of 2021 after we closed 2020. And this reinforced our cash by more than BRL2 billion.

Also, in the beginning of 2021, in February, we completed the acquisition of the remaining 30% stake of Frade and now own 100% of the field.

On the next slide, our financial performance. We start talking about the fourth quarter. We can see that Q4 2020 was very strong due to an increase in offtakes. We sold approximately 3.9 million barrels compared with 2.3 million barrels in the fourth quarter of 2019. We also highlight adjusted EBITDA in the fourth quarter 2020, which is an EBITDA that excludes all noncash and nonrecurring items, which totaled BRL465 million in the fourth quarter, and with an EBITDA margin in keeping with the fourth quarter of 2019, as we can see on the bottom of the slide.

In the full year 2020, our revenues totaled BRL1.9 billion, the highest revenue ever reported by Petro Rio. It is important to note that although the average Brent price dropped from \$64 per barrel in 2019 to \$43 in 2020, even so, mainly because of a higher number of barrels sold, because of the growth of the company, we were able to post significant growth both in revenue, EBITDA and cash generation in a year that was very, very challenging, as was the case in 2020.

We also observed a relevant increase in the amortization, depreciation line item, basically, because of the FPSO Bravo and Tubarao Martelo Field as well as the full recognition of the depreciation of Frade, which was partially recognized in 2019.

Regarding our annual adjusted EBITDA, we also reported the highest amount ever posted in the history of the company, which comes to show how resilient the company was in such a difficult year.

On the next slide, we'll speak about funding. Here, I'd like to highlight two relevant credit events. First, the refinancing of the vendor finance of Frade with Chevron, which allowed us to improve the company's liquidity in a moment when the oil price was plummeting on account of the pandemic. As a result, we now have still two installments to be paid; one, has a principal of \$30 million that's due in May of 2021; and the other, \$97 million payable in November 2021.

The second event was the rollover of our Prisma debt. That loan linked to the acquisition of FPSO Bravo and TBMT Field. We were able to execute well the extension plan, which was originally planned in our agreement with Prisma. So in the end of 2020, we managed to convert the bridge loan that we carried in our balance sheet into a more long-term loan. And so now we have 4 installments of \$25 million payable every six months until January 2023.

Also, we highlight that we conducted an extremely successful equity operation, a follow-on, raising more than BRL2 billion in the very beginning of February, or end of January,

which reinforces the company's cash, preparing us for our future growth and giving us a lot of liquidity comfort.

Now moving to the next slide, talking about leverage. We can see the track record of the company. We can see that in 2018, we had a negative leverage. In other words, the company had net cash, and we only had the assets of Polvo and Manati.

In 2019, the debt increased because of the acquisition of Frade, that working interest from Chevron in the first quarter of 2019. Another relevant event was the acquisition of FPSO Bravo and TBMT in Q1 2020. So these are periods when we observe a climb of this indicator of net debt-over-adjusted EBITDA. We also note that after each one of these acquisitions, the company's leverage tends to reduce as we start to have cash generation from these assets. And this is not immediately recognized at the moment of an acquisition. When we acquire an asset, we recognize the full debt taken on for the deal, but cash generation starts being recognized in the following quarters. And that's why we see this characteristic reduction in leverage that we can appreciate here.

And we ended Q4 2020 with a ratio of 1.2x, which is a level that shows a lot of financial discipline, which shows that we have the right strategy to maintain a healthier company and to have a company with an optimal level of debt. So here, we highlight how strong that reduction was from 1.9x in Q3 to 1.2x in Q4 of 2020. And also, I'd like to underscore, as was mentioned before, the follow-on operation that happened in the beginning of 2021. So there's no impact here on this graph coming from the follow-on deal. But we should see -- we will see a positive impact already in the first quarter of 2021 given the substantial increase in the company's cash.

With this, I turn the floor back to Roberto, who will talk about the next steps. Thank you very much.

Roberto Bernardes Monteiro {BIO 16616322 <GO>}

Thank you, Milton. Well, on Slide 19, let's speak about the next steps for the company in 2021.

As expected, we continue to focus on safety and health of our employees. Well, the first reason for this is because this is one of the core principles of our company. And secondly, because it seems that we still have a long way to have this pandemic behind us. So our main focus remains the health and safety of our people. This has always been our focus. And it will continue to be even more so while we continue to live through this pandemic.

Having said that, I bring you four projects for the company, projects which we will be executing along 2021. In my opinion, all of them are transformational projects for the company. And that's why they are -- here is our next steps. The first project is the tieback between Polvo and Tubarao Martelo, which we expect for the middle of the year, in July. So this is one project, the tieback between Polvo and TBMT.

FINAL

The next one is part of our organic growth, i.e., to have one well producing, TBMT-10, in the second half of the year. And we are also considering the possibility of including in our operating agenda the drilling of another well in the Eocene. Francilmar showed earlier that there is a possibility to do more in the Eocene, so that would be our idea. The expectation here could be similar to the previous one. It could be something around 2,500 barrels a day, something around that, and we are trying to include this in our operating agenda.

Another point that we would like to begin this year is the drilling campaign at Frade. We have planned to start it last year, but with the COVID-19 pandemic, we had to revisit our plans. And now we are resuming the Frade drilling campaign agenda, and we would like to start drilling this year. Another interesting project, which is also transformational is the tieback project between Wahoo and Frade.

This year, we have to move forward a lot with this tieback project and the development plan for the field. So that as soon as we have ANP's approval, we can proceed with the trade declaration and possibly start the execution of the project. And after that, of course, I include in here one last point, inorganic growth.

We will continue to be extremely focused on M&A opportunities. One of the main allocations of the proceeds that we raised in January, in the follow-on operation, is exactly M&A deals. We see a lot of opportunities out there in the market, and we want to be well prepared, capitalized and ready to take advantage of even more opportunities for inorganic growth M&A deals.

Well, with that, I close. And I would like again to say big thank you to our team for their energy and determination in some decisive moments for the company. And now I would like to open the floor to questions. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session for analysts and investors.(Operator Instructions) Our first question is from Christian Audi with Santander. Go ahead, sir.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you, Roberto and the whole management. I have a couple of questions. Number one, going back to Slides 8 and 9, when you speak about what happened with Frade and Polvo. I'd like to get a sense of what you expect will be the lifting cost for 2021 given that many of the problems you faced have been resolved. That's question number one.

FINAL

My second question, Roberto. When you talked about the outlook, you mentioned Polvo to Tubarao Martelo tieback to be completed by June, and you mentioned TBMT-10. Perhaps you could elaborate on the level of difficulty and complexity that you can expect from this operation. Is it something straightforward? Or is it something that keeps you awake at night?

And my third question has to do with Frade and the campaign at Frade. Do you know when it will be starting, the drilling campaign, third quarter, fourth quarter? And finally, Roberto, do you have an update regarding the continuous conversations you're probably having recording Wahoo with IBV, Total, any news you can share with us?

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

Christian, hope you're well. Thank you for the questions. There are four topics here, and I will try to address them all.

Regarding the lifting cost. Our expectation for the lifting cost this year is something close to what we had in Q3 and Q4 2020. And we expect the same level for the first six months of this year. For Q1 and Q2 of 2021, we should expect a lifting cost similar to what we saw in Q3 and Q4 of 2020. Why Q3 and Q4? Because we have an FPSO at Polvo that has lower efficiency. And every now and then, it causes trouble. But these are one-time-off things.

In terms of the lifting cost, it should be at that level. With the tieback project completed in June, July, we should reduce the lifting cost. And I'm going to give you a wide range, okay? It's rather wide. I believe it will be between \$10 and \$12 per barrel. I'm sorry for this wide range. But I don't want to be too assertive regarding that. But we will be gaining a little, improving our lifting cost. Of course, together with that, we're going to have the effect of the integration of Frade. When I say we're going to be performing similar to Q3, Q4, it would be Q3 and Q4, including Frade, so it would be between \$12 and \$14 per barrel. But then with the start-up of TBMT, I believe the range will be between \$10 and \$12, perhaps more towards \$10 than \$12. This is what should happen along this year regarding the lifting cost.

As for the tieback project, the project is unfolding very well. The flexible lines are being manufactured. In the end of last year, in Q3 -- around Q3, we were a little concerned about the COVID-19 situation in the U.K. Because our umbilicals being manufactured in Scotland, if I'm not mistaken, yes, Scotland. So we were a little concerned. But now that the situation is more under control, this is no longer a problem.

The flexible lines are being manufactured on schedule. The main equipment, the spools, we showed a photo of that in the presentation, all those spools are being manufactured. We already have a hook in the fixed platform to be able to pull the line. So it's all unfolding well. I think it is a challenging project because we have to integrate a number of things. We have several parts and pieces having to arrive on site at the right timing.

From the engineering standpoint, it's not that challenging. But it is a project that we're implementing for the very first time. We have to look at a number of things that need to

FINAL

be synchronized. But we are very confident and very comfortable with the project as a whole. I think that by middle of the year, in July, that would be the expected completion date. And I think that we're going to get there.

Regarding when we will start drilling at Frade, Christian, we want to begin this year. Of course, expecting first oil in 2021 is a little more challenging, but we would like to start drilling in Q4. Now that depends on the contracting of the drilling rig. That includes the equipment that we need, we have to review the Christmas tree, a number of things that we are already working on so that we can effectively start drilling in Q4 2021.

Now if we do really well, if we are able to start drilling in the beginning of the fourth quarter, if everything unfolds perfectly, we might even flow first oil this year. But I think this is unlikely. Most likely, we will start drilling in Q4, but first oil would be expected for the first quarter of next year. And finally, an update on Wahoo.

Of course, we have been talking constantly, particularly with Total, as I have always been saying. I think that we are progressing in our relationship. Total now is our partner at the field, and so we are building a closer relationship with them. We are having more and more constructive conversations with them with Total. We also started talking with IBV. We're not talking about M&A deals with IBV, but we're getting closer to IBV. They are partners of ours at the field. And we're interested in, yes, having some kind of conversation related to M&A deals. But that's all I can say for now. It's not that we are not talking with them, that we are radio silent. No, we are talking with them. They are our partners.

Q - Christian Audi {BIO 1825501 <GO>}

Perfect, Roberto, very clear. If I may ask a follow-up question. Regarding Bacora [ph], has Petrobras given you an update regarding when you could expect an answer from them whether what you submitted was acceptable or was accepted? Any timing that we could expect to have an answer from Petrobras?

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

Well, now Christian, informally, I can tell you, and that's very informal, okay? We estimate that along the month of March, we might hear back from Petrobras. So we might expect that. But again, this is off-the-record, okay? We haven't received a deadline from Petrobras or an advisory saying we'll get back to you by such a date. That hasn't happened.

Q - Christian Audi {BIO 1825501 <GO>}

Okay, perfect. Thank you very much.

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

You are welcome.

And of course now, with the change in the Petrobras management, they have a lot of big things to discuss. So March is an expectation for us.

Q - Christian Audi {BIO 1825501 <GO>}

Okay, perfect. Thank you.

Operator

Our next question comes from Pedro Soares with BTG Pactual. Mr. Soares?

Q - Pedro Soares {BIO 20879952 <GO>}

Good afternoon, everyone. Most of my questions have been asked and answered. But quickly, I'd like to ask about the Frade drilling campaign. I'd like to confirm with you. After you drilled the first well, which should happen, as Roberto mentioned, in Q4 of this year, those other wells to be drilled, when will this happen? After the tieback with Wahoo, is this the plan? Has the plan changed? I'm just trying to rephrase Christian's question regarding Bacora and an update from Petrobras. Have you felt in any way that the process is now lagging behind and perhaps impacting other assets as well because of these changes that happened at Petrobras or not?

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

Pedro, hello, good afternoon, and thank you for the questions. First, to speak about Wahoo field, regarding drilling -- but we'll talk about Frade plus Wahoo, right? I wrote down Wahoo, but we are going to speak about both. For Frade, we will start drilling in Q4 of this year. The idea is that we will finish the first producer well in the first quarter of 2022. And then soon after, we'll start drilling the two water injection wells at Frade.

So the sequence will be -- we are going to lease a drilling rig. And the sequence is - one, producer well at Frade; two, injection wells at Frade; and then that rig would be moved to Wahoo to drill the four producing wells at Wahoo. That would be the ideal sequence for the drilling rig. That is the sequence that would optimize our operation. Most likely, we will lease the -- a rig for perhaps not all seven wells. It will really depend on how ideal the drilling rig is and its capacity. But in our base case, we will drill all seven wells, three at Frade and then four at Wahoo, sequentially.

And after Wahoo -- after these four Wahoo wells, Francilmar is reminding me, then we would take the rig back to Frade for the second phase at Frade, another three or four wells. Why do I say three or four? Because the producer well might need an injection, a water injection well or not. So depending on what happens, we will be drilling a fourth well or not. So this is what we are envisioning for the drilling campaigns. It's a long agenda. When we lease the rig, we will have a long agenda in deepwaters. And also, Pedro, that's why we are thinking of including another well at Polvo, at the Eocene. Our original idea was to have the Polvo, Tubarao Martelo tieback. And have Tubarao Martelo-10 put into production. That was our original plan.

Now what Francilmar is trying to do is include another Eocene well before we actually move to deepwaters because when you move to deepwaters, the whole team tends to focus on that. And we don't want to have two teams, one handling deepwater drilling and the other team looking at Polvo. So that would be our idea.

Regarding Bacora, we didn't sense any delays. Maybe it's too early to say, but I haven't felt anything yet. The process with Petrobras apparently is the same. So we expect an answer in March. We had the expectation to learn the companies that would move to the second phase still in March, and that expectation still holds. But it's just an expectation. It might be too early to tell.

Q - Pedro Soares {BIO 20879952 <GO>}

Okay, very clear, Roberto. Thank you.

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

Okay, thank you, Pedro.

Operator

Our next question comes from Vicente Falanga with Bradesco BBI. Mr.Falanga, go ahead.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Roberto, Nelson, Francilmar and the whole team, thank you for taking my questions. I have two questions. First, can you ask for indemnity from BW given all of the issues at Polvo? And just out of curiosity, a technical curiosity, the Tubarao Martelo FPSO, what does it have that the current FPSO does not have to stabilize production at Polvo? And the second question is regarding the temporary increase in the lifting cost. Is it possible for you to break it down to how much came from Frade, how much came from Polvo and which one was the offender here? Thank you.

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

Thank you, Vicente. Hello. I'm going to answer questions number one and three, and then Francilmar will speak about the FPSO of Tubarao Martelo. Regarding BW, yes, there are discussions ongoing regarding the contract. You see, every FPSO contract is like this. There is an allowance of downtime days. And once we go over this downtime days -- downtime allowance is over, then there is a fine. And we had a downtime of 10 days -- around 10 days. So once the allowance is over, we can recover part of that financial loss.

In addition, there is a possible arbitration for the future. That's reserved for the future, depending on what happens when the contract ends. So there are a number of legal mechanisms that can play in our favor, in addition to the fact of that downtime allowance, which is set forth in the contract.

Regarding the increase in lifting costs, I would say that 95% of that came from Polvo, if not more than 95%. I mean at Frade, yes, there was a problem with well MUP3. But when we put it all together, that's neglectable. Again Polvo with an operation of close to 10,000 barrels daily, and you compare times 12 days of downtime, we're talking about 120,000 barrels of loss.

So during the downtime, we're talking about 120,000 barrels at Frade. It was a well that had a downtime, but it was producing 400 barrels. The effect is neglectable. And Frade was producing more than budgeted. The decline was smaller. So the effect of Frade was very limited. The problem was Polvo. I'm going to turn the floor to Francilmar, and he will speak about the Tubarao Martelo FPSO and why it is a lot more efficient than the FPSO of Polvo.

FINAL

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

Okay. Let me try to detail this a little more. The Polvo FPSO, in addition to being older, its design, it uses a steam generation boiler to supply and generate energy.

The TBMT FPSO was a lot more modern. It uses a turbine to burn diesel and then gas. So we're going to have a whole system that is newer. The manufacturing is a lot better. The total system has more redundancy. If a piece of equipment fails, we have another to operate. And the power generation system is a lot better, a lot more reliable. Given the history of FPSO Polvo, we expect that TBMT FPSO will be a lot more reliable. So once we tie back to TBMT and Polvo and once they operate from a much better vessel, the operation is going to be a lot more round and reliable. And that will help us lower our lifting cost.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Very clear. Robert, a follow-up question. You said that in the past, the BW FPSO was 10 days stopped, did I understand it right?

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

Vicente, I don't remember exactly, perhaps a little more than 10 days. But it went beyond the allowance. But I was thinking about November, it was 11 days of downtime.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Okay. But it went beyond the allowance.

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

It did go beyond the allowance for other problems. But in November, that's what impacted the lifting cost, and that was 11 days of downtime. And when production stops, it's 11 days of downtime. But in practice, it requires a ramp-up of the wells. So 11 days of downtime at the FPSO. But in terms of production, we lose 11.5 days or 12 days.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Okay, perfect, clear.

Operator

(Operator Instructions) Our next question comes from the webcast by Diego [ph].

FINAL

He asks - congratulations to all of you for the results, I would like to ask 2 questions. The first, have you any idea in which quarter you will start the revitalization campaign for Polvo, Frade and TBMT? Second question, are you thinking about issuing more shares? Thank you.

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

Hello, Diego. As regards the revitalization campaign, what I can tell you is Polvo and TBMT, that will happen by the third quarter of this year. So we have the tieback that is being executed, and we have TBMT-10 that will start producing and the possibility of drilling in the Eocene. All of that will happen by the third quarter.

In Q4, we should start the Frade campaign, as we've said before. Regarding issuance of shares, we don't have any action undergoing for that or happening for that. But depending on the performance of the company, and the performance has been very positive, this is definitely going to be considered in due time. But today, as we speak, there are no plans, no actions being taken to issue more shares.

Operator

Thank you. Our next question also comes via webcast by Andre Louis Pedla [ph]. He asks - oil price has been increasing, perhaps leading to an increased evaluation of new fields, how does the company intend to maintain financial discipline to use the proceeds? Any negotiations undergoing for new M&A deals? Thank you.

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

Hello, Andrea. Yes, oil price has been increasing. But we have to pay attention when we speak about that. We shouldn't think about the spot price of oil, which is the Brent price, the price with which we sell our offtakes. You have to look at the oil future price. Spot price is around \$63, \$64, future around \$55. So that's what you need to look at, long-term future oil price, if it's increasing. It's not increasing as much as the spot price. The spot price is increasing more.

So it is true that with oil prices going up, the price of the assets will go up. But it's not as much as we would imagine if we look only at the oil spot price. And our financial discipline is focused on return. So we will continue with the same financial discipline, and we will continue looking for the same levels of return on investment. So of course, if the future price of oil increases, the asset that we buy will be appreciated. We'll try to buy these assets for a price that will give us perhaps a higher return because we are buying it at the moment when the oil price is higher. But indeed, what we look at is the return on investment. And the financial discipline will continue for sure. It is what brought us this far, and it is what will keep us going in the future.

Regarding the pipeline for M&A, you asked about that, but I cannot give you a lot of detail on that. The company continues with a solid pipeline. We have opportunities in our portfolio, some conversations going on here and there. But again, every time you ask me about this, this is how I'm going to answer. And every time you ask me, I'm excited about M&As. And these are the only two things that I can disclose right now.

Bloomberg Transcript

Operator

Thank you. (Operator Instructions) There are no more questions. So this concludes today's question-and-answer session. I'd like to turn the floor to the management for their closing statements. Mr.Monteiro, go ahead.

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

Thank you. Well, with this, we conclude our earnings conference call. I would like to thank all of you for joining us. I would like to particularly thank the discipline and dedication of our team. Once again, they delivered and showed the resilience of Petro Rio, the resilience of our business model and of our culture. I'm hugely proud to present these results. And of course, I want to thank the investors who have supported us all along and the new investors that joined our investor base during the follow-on operation. Thank you very much to all of you.

Operator

That does conclude Petro Rio's conference call for today. Thank you very much for your participation, and have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript