

## Q1 2014 Earnings Call

### Company Participants

- Milton Romeau Franke, Chief Executive Officer
- Ricardo Bottas D. dos Santos, Chief Financial & Investor Relations Officer

### Other Participants

- Bruno Montanari, Analyst
- Caio Carvalhal, Analyst
- Luana Helsinger, Analyst
- Vicente Falanga Neto, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen. Welcome to the Audio Conference Call for the First Quarter 2014 Results of HRT Participações. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session for analysts and investors and instructions to participate will be given at that time.

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 first quarter 2014. As a reminder, this conference is being recorded. And the presentation will be available to download shortly through HRT's Investor Relations website.

Before proceeding, let me mention that forward-looking statements that may be made during this conference call 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 as they relate to future events. They are not guarantees of performance, 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 HRT and could cause results to differ materially from those expressed in such forward-looking statements. This conference call is attended by Mr. Milton Franke, Ricardo Bottas, Eduardo Larangeira Jácome, and Jose Carlos Pedrosa.

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

## Milton Romeau Franke {BIO 17311636 <GO>}

Ladies and gentlemen, good morning, and thank you for participating in this conference call. It is with great pleasure that on behalf of HRT, I am here with the company's management to start the presentation of the first quarter 2014 earnings presentation. We will also present the consolidated results for the fiscal year of the first quarter, 2014.

Please go to slide 2. Well, this is a disclaimer that was mentioned just now. We want to remind you that statements that might be made during this presentation are fully covered by this legal disclaimer.

Slide 3 gives you the highlights for the first quarter and subsequent periods. I would like to start saying that this was a special quarter, a very special quarter for us, HRT management. In the quarter, we had HRT's first operating results with revenue, EBITDA and net income generation.

In addition, there were other important events for the present and the future of the company. I highlight in the first place the election of new members for the Board of Directors and the Fiscal Council of the company. In this period, our board established new strategic guidelines for the company, and this was an extremely important step for the future of the company.

Secondly, already as a result of the guidelines we received, we, the management promoted the restructuring of the company, including our governance structure. Thirdly, as per the Polvo field in this quarter, HRT started activities as the operator in the Polvo field, with the sale of two crude oil shipments in this quarter. Also worth mentioning in this period is the early full payment of the loan with Credit Suisse turning HRT a debt-free company.

Fourthly, I would like to talk about Solimões. We signed the final agreement with Rosneft, which in a foreseeable future, will become the operator of the blocks that we hold in partnership. A number of other items about these contracts will be addressed momentarily when I give you more details.

With regards to Namibia, we've started new a farm-down campaign and we already have a number of companies engaged in these discussions with HRT. Finally, in this first quarter, we disclosed the new reports by DeGolyer & MacNaughton on the reserves and resources that we own in our assets in Brazil and abroad.

Please go to slide 4. Slide 4 of our presentation, please. Here, I would like to talk about the shareholders' meeting that we held on April 30, 2014. We held our Annual Shareholders' Meeting, and the Special Shareholders' Meeting is being called for June 2014.

These are events that, as I mentioned during the beginning of my talk, brought new decision regarding corporate governance of HRT. On April 30, 2014, we held our Annual Shareholders' Meeting, ASM, when four major decisions were made.

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Number one, management accounts and financial statements of the company regarding the fiscal year ended December 31, 2013 were approved. Number two, approval of the maximum global compensation for the management in the fiscal year 2014. Please note that we proposed a 78% reduction in compensation compared to 2013.

Thirdly, we had the approval of agreements with former board members of HRT, and it is making effort. This was an extremely important step as well. And fourthly, we approved the installation and election of Fiscal Council members.

Still on slide 4, on the right side of the slide, it is important to mention that we are planning a new meeting to be held in mid-June. It is important to mention that because for the Special Shareholders' Meeting, we have some important topics to be addressed. Important topics for the future of HRT.

Number one, amendments to the company's by-laws, so to simplify the by-laws and adjust the company to its current status. Number two, approval. We want to approve the moving of the company's headquarters to a less expensive location. We need approval from the shareholders to change the headquarters of the company.

We also included as number three ratification of capital increase in light of the exercise of options, which are created in recent years. And number four, approval of the reverse stock split of the company so that the value of these securities will also be adjusted to the company's current reality, in Brazil and abroad. We also present on the slide, in the bottom of the slide, the names of the members of our Fiscal Council. These are all people who are very well known in the sector in our country.

Please go to slide 5. Here, I give you a simple figure, but one which is very important for us, the management, because it is up to us to make decisions following the guidelines of our board. Slide 5 displays in a very simple way the new strategic guidelines that we received from the board for 2014. This slide highlights six guidelines, and in the smaller print, we have some events that have already taken place following the aforementioned guideline.

The first one is about the diversification HRT's portfolio obviously to reduce the exploratory risk, which was included in our portfolio with investments in production assets. The results of Polvo are encouraging us to continue in this direction. And in the small print on the right, we can diversify our portfolio through the acquisition of new production assets.

Number two cash generation and protection. This has been one of our goals for the last two years or so. It is important to highlight the cost reduction that we were able to achieve and the increase in liquidity of the company. We continue focus on cost reductions in the future.

This third guideline is the search for new strategic partners for our assets in Solimões and Namibia. This refers to a reduction of HRT's exposure in these two big exploratory assets.

As I mentioned, in Namibia, we are talking with a number of companies and we have one also interested in Solimões. Gas monetization in Solimões through alternatives such as LNG, Electric Power Generation or GTL are well known in our efforts (11:01). And we are meeting with potential partners and the Brazilian government.

The fourth guideline would be the company's restructuring for efficiency gains and to simplify processes. It is at the bottom of this figure, and we call it organizational efficiency. We're emphasizing the review of processes, the review of the organizational structure, and reviewing our head count. And we continue to adjust the company to this new phase.

The fifth guideline is called Meritocracy. This is not a new topic at the HRT, but the use is indicated to determine variable compensation in a Meritocracy principle. It is something that is being strongly implemented at HRT, and it is a focus that we intend to follow, particularly when we talk about the variable compensation of the management and invoice based on strong results.

And finally, the sixth guideline has to do with the company's peace-keeping effort through resolution of lawsuits in recent years. We had expenses related to hiring law firms and so on and so forth and these have been very high costs. And we want to have this peace-making, not only to allow our managers to focus on the results of the company, but also so that our managers can more efficiently use the funds of the company.

Let's move to slide 6 now, please. Here, I talk about the Polvo field, our primary asset today given the revenues it is generating. Polvo field is our first oil and natural gas production asset, which we operate since the beginning of 2014 after an extremely important transition process involving the BP. Daily oil production is seen on this slide, the green line, as well as the accumulated production in the period in black. They both indicate that the production is slightly declining. It started in January with around 12,000 barrels per day and the production is currently at 10.4 thousand or 10.5 thousand barrels per day in the end of April.

In the period, there was a total stoppage of production in the beginning of March, which coincided with Carnival. Production was stopped to repair a minor leak in the bypass of the wellstream cooler. We were very successful in this maintenance, and production started again after about seven days.

Close to the end of March, we've dealt with another challenge and another decline in production. We started producing with one last well because of a failure of the seawater lift pump in this well, which required the first HRT workover in the Polvo field. And again, in a matter seven days, the workover was successfully conducted and our field team is to be commended for such a quick repair.

Our production does not include water injection, which reduces the production that we could be getting at this point. And this explains the spread of this decline in production.

As a rule, I want to stress that the Polvo production is unfolding well according to the volumes we expected and that we are quite satisfied with the results achieved thus far in

this field.

Let us move to the slide 7. Slide 7 is still on the Polvo field. I would like to highlight the crude oil offtakes that took place in the first quarter 2013. We had three offtakes. Actually, there were two offtakes and the third is forecast for the second quarter. Given an agreement within HRT and a partner, we organized the sales in the most efficient way possible for both companies.

On the right, we give you the crude oil volumes in these two offtakes. And for the third shipment, we highlight the logistics operations and finance. We defined a process which we believe is more efficient operationally speaking so that we intend to work with bigger shipments. For this, we needed to optimize the use of the tanks in the FPSO so to increase storage capacity to optimize offtake costs and to expertly (17:06) produce oil. We are reducing the number of offtakes and by selling at longer intervals of time. We'll be able to improve the efficiency of our operation.

Please go to slide 8. Here, I will mention some operating factors which are oftentimes neglected, which is the case of natural gas production in the Polvo field, and it's used in production activities. This chart shows that we produce in the first quarter about 3 million cubic meters of natural gas. A high amount of this gas, about 2.5 million cubic meters, were actually used as fuel in the field. This means a lot of phasings (18:06) in other fuels such as diesel simply by using the natural gas produced, natural gas associated with oil production.

On the right bottom corner of the slide, we show you the wastewater quality in the field. And we show you that the wastewater quality of HRT is way below the necessary threshold of 15 ppm.

Finally, I would like to use the slide to address - the part on the left - which is called subsurface. I want to refer to these studies that have been conducted by HRT America as part of the HRT Group.

In this period, we purchased all the Polvo 3D seismic data and we started mapping almost the other reservoirs we could potentially have a production in the field. I'd say potentially productive reservoirs because some of reservoirs in the Polvo field are not yet in production and eventually, in the future, we will be talking about work in these reservoirs.

We also reviewed the development plan for Polvo field. We evaluated and continue to study the impact of water injection in some reservoirs at the field. Studies carried out shown that water injection is positive in production. We've started simulating the reservoirs that are producing in the field. No need to highlight that all of these studies will continue in the coming quarters. Our results will be disclosed when possible.

Please go slide 9. It is the last slide on the Polvo field in this presentation. Here, I talk about the social and environmental programs started by BP in which HRT is continuing. It involves 10 municipalities in the Polvo production area. We're talking about 10

observatories, which were built in common agreement with the local communities in these municipalities that you see in orange in the slide.

These observatories not only identify indicators, they can assess the social and environmental impact of oil and gas, but can also provide with the local people training courses to identify, supervise and address in their municipalities the environmental impacts of the oil and gas sector productive chain.

There are many companies involved, Statoil, Shell, and so on and so forth.

Please go to the next slide, slide 10. I'm going to briefly talk about data that we published in recent data about the DeGolyer and MacNaughton reports, which were published in the first quarter, which are a review of the old figures. The table on this slide refers initially to Polvo and shows that Polvo in DeGolyer report published includes reserves amounting to about 18 million barrels. I don't need to mention that here. We are not including the upsides, which are resources to be prospected and which will be assessed later on.

In the case of Solimões, we have contingent and prospective resources. Contingent, 128 million barrels of oil equivalent, risks value and prospective resources of 226 million. These volumes are transformed into thousands of barrels equivalent.

And in the case of Namibia, resources after drilling the three wells of our exploratory campaign of 2013, we continue with a quite considerable volume of about 3.9 billion barrels of oil equivalent. All of these volumes relate specifically to HRT's interest or stake in these assets.

I'd now give the floor to our CFO, Ricardo Bottas, who will give us the financials for the quarter. Thank you very much.

**Ricardo Bottas D. dos Santos** {BIO 18071813 <GO>}

Thank you very much, Milton. On the first slide of 12 in the financial area, I would like to highlight the main events of these first months of 2014. Some of them already highlighted by Milton Franke, but they have had a relevant contribution to the results that I will talk about now. With the main highlight to the results that come from the 60% stake of Campos field that has generated revenue, cash generation and net profit, even considering the expenses with extra exploration expenses in the first quarter. Therefore, we have concluded the sale of two crude oil shipments that have totaled 630,000 barrels and an average discount of the Brent of 10.5%.

As it has said before, we did a pre-payment or the early payment with Credit Suisse that was made to finance the Polvo field. But that demanded from HRT series of obligations that would not allow us flexibility.

In this period, we have received R\$6 million in cash cost due to Solimões project as well as Polvo, with a total agreement of those partners. As we have forecasted, we had a

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strong reduction in our cash burn rate that is 23% in Solimões and 96% in Namibia. And the last one because we have concluded our offshore exploration campaign in the last quarter of 2013. And finally, by restructuring the company, we concluded the company with a total head count of 192 persons, 46 in the corporate structure that represents a 26% reduction vis-à-vis the first quarter of 2013.

On the following slide number 13, we have a highlight of our first net revenue due to production activities of the company that has represented 99% of the total consolidated revenue. The difference still comes from our results of lab results (25:48) that had around R\$2 million of revenues in the first quarter.

On the top right part of the graph, we see operation expenses and cost reduction implemented since the first quarter of last year. Operating expenses have been reduced basically due to initiatives and cost reduction, 50% reduction on our head count vis-à-vis the prior period and also activities reduction for exploration vis-à-vis the prior period where we were drilling and ensure Solimões as well and we concluded the mobilization to start three-well campaign for Namibia.

Additionally, in the prior period, we acknowledged the expenses with non-recurring items such as expenses, such as stock option concession of up R\$20 million. As well as in the first quarter of 2014, we have the full stake of our partners in the project, something that we did not have in the first quarter of 2013 when HRT still was responsible for 100% of the expense.

The EBITDA margin here was positive in R\$36 million, R\$134 million higher than in the first quarter of last year and that represents an EBITDA margin of 25%. The positive EBITDA is explained by the margin of crude oil sales in the period, by the acknowledgement of the gross profit of R\$46 million, and the reduction of R\$89 million in operating expenses.

Expenses with depreciation and amortization in the first quarter were impacted by the starting of operation of Polvo field by the part of HRT. Here, we have a total of R\$25 million in expenses of depreciation and amortization, and R\$22 million that refer to amortization of allocated amounts that – and they should be amortized within the life shelf of these reserves and these proven and develop the reserves up to 2016. The results of the company has concluded the quarter with a net income of R\$1.7 million.

On slide 14, we would like to highlight financial indicators and we have to show here the financial – negative financial results' reversal from 2013, and you can see that all figures here are positive.

On the next slide, we started talking about cash position. On slide 15, we the evolution of cash and cash equivalents of the company, as well as the evolution of funds that were held as collateral. In this period, cash and cash equivalents were increased to 99% including this period with a cash position that was above R\$300 million. Of those collateral amounts, that escrow account at the end of 2013, we had R\$230 million used in January 2014 for the acquisition of Polvo, R\$50 million for the early payment of Credit Suisse's loans. And the remainder is back to accounting – the liquidity of HRT. Therefore,

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HRT has concluded the first quarter 2014 debt-free, with no restricted cash and purchasing Polvo and for that Polvo is totally paid for.

Now talking about cash flow on slide 16. In the beginning, here we have our total amount of liquidity and as well as restricted cash. And we have at the end of the period, R\$388 million totally available with no restrictions. And the first part you'll see the inflow of this period of R\$140 million, most of it coming from revenue from oil crude oil sales. And the second column, we have inflow of R\$47 million, R\$41 million coming from a constant amount that we are receiving from Rosneft, as well as the sale of four drilling rigs. And also we concluded the sale of one helicopter from HRT and that has added R\$6 million to the cash flow of the company.

After the third column, we have the disbursements of cash in this period. The first one highlighted here is amortization and early payment of that loan with Credit Suisse that has generated a cash flow of R\$96. And the next bar, we had a non-recurring disbursement of R\$161 million that with gross disbursements to acquire the field. But that asset has brought two cash positions, one joint venture in loan of the company that owns the rate that add R\$47 million to the cash at the closing date in January 2014, so the net disbursement in January was of R\$161 million.

And let me just remind you that according to the acquisition contract of Polvo field, that amount that has been considered at the closing date of January 28 has been reviewed by BP and they have 60 days to review it after the closing. And so now, HRT is under a 45-day period to audit the figures so that the final results for that field result and the adjustment of that field result in 2013 will generate into the final value of the acquisition should be known - it should be known within the second quarter.

Finally, net disbursement of R\$50 million. But these are actually disbursements of R\$110 million in the operation of Namibia, Solimões, and Polvo. But they're coming from the inflow of R\$60 million of the partners of the company in the first quarter.

Now in the next slide, we have a breakdown for recurring disbursements of the company related to exploration assets and production assets, and I'd like to highlight a 42% reduction in recurring disbursements vis-à-vis the first quarter of 2013, and Solimões expenses are related to rigs lease, logistics, head count, and other maintaining activities for our infrastructure in the Amazon and Namibia, we still have residual payments for the drilling campaign of 2013 and our costs that are very low for corporate cost and maintenance cost for a - to maintain our activities of exploration of our wells, and also to look for partners at Namibia about Polvo.

We have already expenses with operating costs there besides the G&A allocated to that field operation. And the corporate, we have expenses related to wages, infrastructure, lawyers, as well as financial expenses and taxes. And I would like to remind you that all of this recurring disbursements had a reduction of 42% vis-à-vis the prior period.

On the slide 18, we show the development of total recurring disbursement, and here, we are not considering the effects of partners. But being an operator, HRT sees that in the



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beginning of 2013, we had an increase in the first following quarters and we concluded 2013 disbursements with CapEx in the exploration campaign. Three wells in Namibia, but as we had anticipated in our prior calls, in the first quarter of 2014, we would not have relevant disbursements anymore related to Namibia just as well. We would rectify our corporate disbursements, as well as a reduction that we have presented in our fixed cost in Solimões. And they are still to be reviewed and could reduce even more in the next quarters.

Finally, in slide 19, this is a known slide for this financial area, but also accounting for an expectation that we had disclosed before with a strong reduction on the cash burn of the company that was the result from initiatives and actions implemented. Since the second half of 2013 in Solimões, we have a strict cost control, we did the hibernation of rigs that is still are under (35:06) and it is an agreement with Rosneft to transfer the operation that solved everything that we're spending at the end of the third quarter of 2013, everything was then solved in the fourth quarter of 2013 and we solved all pending cash costs.

In Namibia, we have concluded our exploration campaign offshore and we have minimal costs forecasted for 2014. And we are still looking for new partners and we believe that we will be successful within 2014. New initiatives that are being developed due to the implementation in the short term. We aim to reduce OpEx for Polvo field, as well as we are still looking for alternatives to reduce corporate costs and one of them that has been announced by our CEO, we choose to change the company's headquarter to another address where we will be able to use more of our space and also decrease our lease costs.

So, I'll now turn back to our CEO for his final remarks.

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

As a conclusion, we, HRT management are aware of the difficulties that we have ahead of us. At the same time, we are very happy with what we have achieved so far. We achieved a new level of growth with our cash position, operating revenue, and the fact that we are debt-free now.

In this first quarter, we implemented adjustments in the company's corporate organization with new board members and new officers who joined the officers that we already have on board. Certainly, we have goals to be achieved and a strict working plan. We are searching new opportunities to invest in new partners.

In the first place, we are implementing initiatives to achieve an even higher operating efficiency than we've achieved so far. These initiatives are part of the daily work of the company, but new goals can and need to be achieved.

Last, but not least, the Polvo operation in these last 4 months had shown that we have the knowledge to operate in offshore fields. We are aware that we need to implement a new initiative that would be able to not only increase production, but reduce unit costs in the

field so that this field can have a more long lasting future and can help us for a longer period of time.

I would like to thank in this call all of the employees of HRT for their dedication and commitment to the company. And I would like to thank our shareholders for their support, they stayed with us and I hope you they will continue to stay with us when new goals will be achieved.

I would like to thank you all for joining us. Together with the other members of the management of HRT, we remain available to answer your questions. Thank you very much.

## Q&A

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session for analysts and investors. Our first question comes from Mr. Bruno Montanari from Morgan Stanley.

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

Good morning. Thank you for the opportunity and congratulations on the operating results. I have a couple of questions. Two accounting questions. Looking at the detail of other revenues, there is a R\$22 million amount allocated to adjustments and eliminations, which is part of that EBITDAX of R\$36 million. I would like to understand, what's that amount relates to?

My second question is regarding the cash flow. There was a big flow in the suppliers' account, R\$112 million, and I want to know how the working capital should perform looking forward. And if I may ask a third strategic question, it became clear that you're going to look for new M&A joint venture opportunities perhaps in Polvo. Can you give us a sense of what kind of assets you're looking for in terms of science, geology and what about the funding for that?

#### **A - Ricardo Bottas D. dos Santos** {BIO 18071813 <GO>}

Bruno, this is Ricardo. Thank you for your questions and thank you for joining us in this conference call. As for the \$36 million in this quarter, in the consolidated of the assets of HRT Africa, Luxembourg structure, we completed our accounts for the operation of Namibia offshore and we identified that we've found measurements and predictions that have been made by cost estimate after this is to be incurred while closing the Namibian operation, but they were not confirmed. So that accrual was not confirmed, and that generated a recovery of expenses basically associated to the Namibian operation.

But also in that period, we have the participation of our partner in Namibia, which generated this account that we call expense reducing account. This came from our partner in Namibia, which paid for some of the costs incurred in 2013. These are the components of other revenues, and that's why they are part of the operating revenues, reducing our operating expenses.

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

I'm sorry. But this would be a non-recurring effect because the adjustments have been made in this quarter.

**A - Ricardo Bottas D. dos Santos** {BIO 18071813 <GO>}

You are correct. This is a non-recurring effect so that you can use it as a guidance for recurring projections.

Now, let's talk about the take of each partner. Normally, in the same period, it is informed for each one of the line item, personnel, third party providers, et cetera. Normally, we have the net value in each of these lines.

You also asked about the cash. I have two components here. One, we had a positive working capital event in the acquisition of Polvo because if we linearize the sales, there were two sales but corresponding to the production of three months and had the inflow of these offtakes in the period. But on the side of the suppliers, we included this operation in the month of January, but we have averaged same-month transfer suppliers in 30 to 60 days and that favors the working capital.

In the suppliers' account, in addition to the natural growth because we incorporated the operation and in the balance of the suppliers in the normal day-to-day operation of Polvo, we also have in suppliers the partial recognition as an obligation of the advanced payments that we received from Rosneft for the acquisition three rigs.

They still kept us as partners because this is an advanced payment, the spread of the whole transaction, which should be completed by the approval - by HRT both for the sale of the rigs and for the sale of the 6% working interest. We have to record that as an obligation until the transaction is completed. And then, we will account for it together with a write-off of the assets that are being sold.

And if you read the release, there's an observation regarding the provision. We were quite conservative for the relinquishment of Blocks and the cost estimated for the relinquishment of Blocks. If they will occur, our expectation is positive.

We're still awaiting the final position by ANP, the National Petroleum Agency, regarding the extension of the periods for the three blocks in Solimões, if that extension occurs. It is included in the suppliers' account that they might not happen. But they are provisioned for it because we want to be conservative.

As per M&A, I'm going to give the floor to Milton Franke to give you a guidance regarding the focus - our focus in the profile of assets.

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

Bruno, this is a good question. We are preparing assets in Brazil. As you know, as everybody knows, this secondary asset market is relatively restricted in Brazil. As per the

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size of the assets, we are looking for assets which are small to mid-size. We're not thinking about any big deals because we don't have the funds for big acquisitions. These assets can be oil and gas assets. They could be onshore or offshore. And preferably, we want assets within upside. I believe that this is an almost general target for players who are looking for new opportunities.

I would like to highlight that HRT has a new business officer; Mr. Jose Carlos Pedrosa. He has been with us for quite a while now and he has a focus on this area. Approximately, 100% of his time is dedicated to this, and we are taking this very seriously - I mean, new opportunities. Some new opportunities have been identified and we are looking after those and even discussing with the owners.

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

Thank you. Very clear. Thank you very much.

**Operator**

Our next question comes from Mr. Caio Carvalhal of JPMorgan.

**Q - Caio Carvalhal {BIO 16605563 <GO>}**

I have a couple of questions but I'm going to try to concentrate on the most important ones and ask (46:13) the other ones with you later. The first one is about the Namibia. How does it compare geologically with that well that Repsol is drilling? How does it compare with the remaining assets that you have in Namibia?

And what about the concession period? Until then, do you hold the concession rights of those areas in Namibia? And still in Namibia, I would like to know about the possibility of Tullow develop the Kudu gas field. Does this change in any way your assets there in addition to improving the possibility of farm-down? Does it change anything regarding the assets, the blocks? Is there anything that you can do jointly with them in Kudu? That's my question for Namibia.

As for Solimões, my question is with this transition of the operatorship to Rosneft, have you changed anything regarding the plan about gas monetization with the supply of gas energy? Are you going to review that? Do you think that you're going to try to rethink this as the operator or did they agree with the guidelines?

So my question is, are we going back to square one or close to square one or perhaps not? We continue the business as usual, and they will simply take the operatorship and a leading position of the process. There are my two questions for now. Thank you very much.

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

Caio, it's always our pleasure to have you with us again. Let me answer the question about Namibia. The prospect of Repsol is reasonably in line with the objective of HRT for the

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Walvis Basin that is a big structure. And we are following Repsol's activities with a lot of interest because it somehow shows that a big oil company believes in the potential of Namibia. And secondly, when they think about the objectives in Namibia, they are thinking in keeping with HRT's opinion.

Now in terms of how long our license rights, I want to clarify these are not concessions; these are exploratory licenses. Well, we are currently in the process of analyzing and discussing with the Namibian government to extend these PELs and to review the commitment of HRT.

At this point, I cannot disclose what will be the result, but indeed, we continue to be interested in maintaining our interest in Namibia. Obviously, we had set through a farm-down and process. We expect to have a much smaller presence there. Almost 84% of PELs. We're thinking about smaller working interest.

In the presence of Tullow and the Kudu field that is again being developed is seen a very positively by us. Indeed, if that development happens and we have to wait for the coming months to see if Tullow Oil will really be firmly developing the Kudu field. But this will be a historical fact for Namibia, and it is very positive for all companies that have assets in Namibia, particularly for us because that's PEL 22.

We have a large number of prospects Mericat (50:03) and others that are ready for drilling. And that show that that area in shallow waters does present a very diversified and an important potential in this basin in the south of Namibia.

As for the Solimões Basin, let's start with the end of your question. We're not thinking about going back to square one, not at all. The agreement between HRT and Rosneft is very strong with them to coincide in 100% of the issues, but we have a joint line of action. All decisions are made jointly.

During this transition - I mean, not during the transition but soon after the transition, there might be changes. Rosneft, together with us, will concentrate strongly on monetizing natural gas. We have at least one more company that was brought to the deal by Rosneft to talk about gas monetization, and I see a company with a vast experience in the face of (51:33) Rosneft in Solimões, which is a big asset. I see it as a very positive deal, and there are no negative elements in their taking over as operator.

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

Thank you very much, Milton. One follow-up comment regarding Bruno's question on M&A in your strategy. I fully understand that your goal now that you have been able to stabilize operations, and then you are going to focus on production assets in the short to mid-term and focus on those assets with an upside. But I hope that very soon, you're going to re-include in your strategic goals the acquisition of exploratory assets passed in the new ANP bidding round. But I understand that this is not in the radar in the short term, but perhaps that is in the mid-term, and I hope that we can see this happening very soon. Thank you very much. Greetings to all.

## A - Operator

Thank you, Caio. And thank you for your comment.

Our next question is from Ms. Luana Helsinger from GBM.

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

Good morning, everyone. Thank you for the call and congratulations on the results. I have a quick question about the exploration campaign of the company. This year, can we expect any drilling whether in Namibia or in Solimões? Thank you very much.

## A - Operator

Luana, thank you for your question. HRT will not have drilling in 2014, but I would like to draw your attention to two facts. First, the Petrobras is drilling right now a block - a well in Solimões in Block 193, that is just by 192 from HRT at a distance that is very little from the division of these two blocks and the result is going to be very important for HRT. So actually, this well is already at a very deep level. It should be concluded in a month. And we are paying close attention to that well.

And as far as Namibia, we have Repsol drilling. That is still in the initial stages, and considering the location of that well. And being that an activity run in a very safe way by Repsol, that could also bring further an important information to HRT in our Namibia assets.

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

Okay. Thank you very much.

## Operator

Our next question is from Mr. Vicente Falanga, Bank of America.

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

Good morning, Milton and Ricardo. Just one question. Do you foresee maintenance CapEx for Polvo this year? And how much can we expect from now on?

## A - Ricardo Bottas D. dos Santos {BIO 18071813 <GO>}

Vicente, thank you for your question and thank you for being with us today. We have already disclosed the CapEx. It is a planning CapEx. And so, just to make it clear, Milton Franke has answered in a very precise and direct way one question about drilling planning in Solimões and Namibia. But as we have already said, we are preparing ourselves to Polvo's drilling, and that involves the preparation of the drilling rig that we already have there in our platform that was acquired in the transaction.

This rig has a CapEx that is around \$3 million, \$4 million, or even \$5 million or \$6 million to place that rig in the drilling rig area and the total cost that we had already anticipated

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for 100% of the well, it should be R\$35 million and that CapEx of the well is already forecasted in the total well CapEx.

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

Okay. But besides this drilling CapEx, do you have anything else for maintenance?

**A - Ricardo Bottas D. dos Santos** {BIO 18071813 <GO>}

No maintenance costs that we have are the ones that are our focus. Fixed costs that we have at Solimões. And I will take advantage of your question and mention something that maybe wasn't well noticed in my presentation, but this is a constant topic where we show a consistent and significant reduction in all expenses lines.

SG&A expenses show an increase, and that increase is nothing less but the recording of our fixed and maintenance costs, as well as Solimões' preservation that up to the prior period were being allocated as intangible assets because we had exploration campaign and often costs that had to be allocated. And because we didn't have annual planning, they are now being allocated to the expenses directly.

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

Okay. Thank you very much.

**Operator**

Our next question comes from Bruno Montanari, Morgan Stanley.

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

A question about Polvo, maybe it's too early to talk about that site, but you talked about water injection already. When we analyzed the flow rate of the 10 producing wells, it's around 1,100 barrels a day. Can we think where this flow rate could reach with the initiatives that you might develop along the next month? Thank you.

**A - Operator**

Bruno, the injection and the injection - water return in the reservoir since it's still - and few wells have an impact, but that impact is not very significant. So if we start with 12,000 barrels in January with injection and now, we are in 10,500 with no injection of water, that amount in a production will have an impact on the 10,500. But that's going to be a limited impact, maybe a 100, 200 barrels a day of increase; may be reaching 300 or 400.

Right now, we conclude the question-and-answer session. I would like to turn the floor over to Mr. Milton Franke for his final remarks.

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

Again, I would like to thank all of you for joining us during this conference call, particularly those who asked questions and who discussed with us some points related to our assets.

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We want to be very successful in the coming quarters, and again, greetings to all of you. Thank you very much.

Ladies and gentlemen, HRT's conference call is closed. We would like to thank all of you and wish you a good day.

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