

## Y 2018 Earnings Call

### Company Participants

- Blener Braga Cardoso Mayhew, 'CFO Investor Relations and New Business Officer'
- Milton Rangel, 'Head of Finance'
- Nelson Queiroz, 'Chief Executive Officer'
- Roberto Bernardes Monteiro, 'Chief Operations Officer'
- Unidentified Speaker, ''

### Other Participants

- Analyst
- Tiago Noel

### Presentation

#### Operator

Good day ladies and gentlemen. Welcome to the conference call to discuss the Fourth Quarter 2018 Results of PetroRio. Thank you for standing by. At this time, all participants are in listen-only mode.

Later we will conduct a question and answer session for analysts and investors when further instructions to participate will be provided. (Operator Instructions). This event is also being broadcast simultaneously over the Internet and may be accessed through PetroRio's investor relations website at [www.ir.petroriosa.com](http://www.ir.petroriosa.com).

br by clicking on the banner 3Q '18 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 perspectives, projections and operating and financial goals are based on the beliefs and assumptions of PetroRio'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 PetroRio, and could cause results to differ materially from those expressed in such forward-looking statements. I would now like to turn the conference over to Mr.Nelson Queiroz Tanure, CEO; Mr.Roberto Monteiro; COO; Mr.Milton Rangel, Head of Finance and later Mr.Blener Mayhew, CFO, IRO and New Businesses Officer. Mr.Tanure, please go ahead.

## Nelson Queiroz

Good afternoon, everyone.

Thank you for joining us in this call to discuss 2018 results. I think that there are many people interested in the call and many employees following us. So thank you very much, and I would like to thank all of our staff. I'd like to thank you all for your effort, dedication.

It is because of you that we are delivering such important results, posting growth year-over-year. So thank you very much to all of you. For those of you who are listening to this call and who are not employees of the company, I'd like to say that more or less 80% of PetroRio's staff is a shareholder. So you can be sure that just like you, who are investors, many of us are as well.

To think about 2018, I have to say that this was a very good year for PetroRio growth (inaudible) we operated with a lot of safety, had a lot of financial and operational discipline. It was a profitable year and the whole year was very productive to us if you were looking about our assets, also PetroRio's main assets. Regarding the results of 2018 performed in a very robust way. 2018 was the first time in eight years that Polvo had made drillings.

Just the fact that we had all of the equipment working, drilling rigs, our personnel, the platform, all working very efficiently and safely, that in and of itself is a reason to celebrate. It proves the operational capacity of our team, but in addition to that, we were successful in our wells. We found oil. We considerably increased the production at the field as we will detail momentarily, and this production rise happened when the Brent price increased.

Brent is a reference for our oil. So the increased production, then the price increase and with a hedge strategy, we were able to secure a very interesting price for the company for the year. So Polvo performed really well in the drilling campaign. Excited as we'll continue to do new drilling campaigns in the following years and we have one campaign for the second half of this year, and we're quite excited.

Our second largest asset is Manati, and it had a very good year. It was a field operated by Petrobras. They operate with a 35% stake. We have 10%.

But even if we weren't being the operator, contributed to the performance of this asset. Our PetroRio team is very much focused on efficiency, production and cost efficiency. And in the case of Manati, we're not the operators, but still, we're very focused on those areas. And so through suggestions and our own initiatives, we were able to add more efficiency to the cost of the field.

We'll detail more that initiative momentarily. So let's go through quickly about the operations of the company in 2018. In the end of 2018, we had an important acquisition, actually two acquisitions, two working interests at the field of Frade. First, we acquired 18% from a Japanese consortium called Inpex at the end of 2018.

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And in the beginning of this year, we announced the acquisition of 52% stake plus the operatorship -- the possibility of becoming the operator from Chevron. With these two acquisitions, we now hold 75% of the field, which we believe is very high potential. So we believe that a lot of the gains that we had at Polvo are also applicable at Frade. It will take a little while for us to get to know the field, the geology, the contours, but we believe there are many upsides in terms of cost efficiency, the reservoir as well, et cetera and potentially -- and not potentially, but there's a high likelihood that we are going to have a drilling campaign in the beginning of 2020.

So we are all very excited about Frade Field. Let me speak a little about the macro results of the company. 2018 was very good. I believe that many of the elements that helped us in 2017, '16, '18, can be summarized by method, a method and a great focus on cost control and production.

This is what produces results for the company and focusing on that lever, which is most the productive, what we assume. So we focused on method and execution. And I am very confident to say that I think 2019 is going to be an even better year than 2018. And to finalize, I'd like to share one point with you, shareholders of the company.

I talk a lot about the macro side of growth, financial results focused on operations, excellence, safety, all of these points which are so important for our company. And there's another point, culture. Most of our employees are partners of the company, so they have this ownership. And you're the owner, you care more about what you have, and this is something we stimulate as a company.

So I want to share something with you and something that also represents something very productive. In 2018, we launched an internship, and we had 10 slots to fill, 10 job positions for many areas of the company, operations, all corporate functions. But these 10 job positions we had more than 12,000 applicants. This makes me very happy because in a way, we can ensure that we're going to attract good talent, devoted people.

And because of these people, I believe that we'll be able to deliver interesting results in the short, mid and long term. Thank you and I will turn the floor to Roberto, our COO.

**Roberto Bernardes Monteiro** {BIO 16616322 <GO>}

Thank you, Nelson. Well, I will speak a little about the operational part.

Let's go to slide 3, operational highlights, and then I'm going to speak a little about our drilling campaign footprint in '19 at Polvo. As Nelson mentioned, 2018 was a very important year for us in terms of we had more strides towards the revitalization of a mature field at Polvo. We have been drilling, we were successful with high level of operational safety. Hence, we were able to achieve our targets that we were working for improving the production of Polvo.

At the time of (inaudible) drilling, we had about 6,500 barrels a day that increased close to 11,000 barrels when we ended the last well drilled. So if you look at the mix of the

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increase, that's less Polvo field to be at production levels close to what we had in 2014. What I mention here is quite important because it marks our path for Frade as well. Our idea about Frade Field, just like we did at Polvo, is to have strong cost management in the beginning.

Frade is the field with high operating efficiency. Later, we will focus on revitalizing that field as well, so the successful step taken at Polvo makes us very confident and excited to repeat the same results we had from Polvo at Frade, always with the highest level of operational safety and caring for the environment. So talking about Polvo, last year we maintained a high level of operating efficiency. We had a little more than 95% operating efficiency, which is the uptime of the field.

As part of the 95%, we had an eight day scheduled stoppage. Net of that scheduled stoppage the company do -- there's not one single way of measuring operating efficiency, but if you ask me to exclude the scheduled stoppage, we would reach a 97.5% operating efficiency, which we believe is a satisfactory level of efficiency, always trying to improve, always trying to increase operating efficiency at different levels than we had in 2015 or '14. With that, we had a lifting cost at Polvo of \$25 a barrel in August. Obviously, the average for the year was not good because we had some months in the beginning of the year with higher cost of production and so on and so forth.

But this is an important mark for us in terms of our reserves because drilling increases production increases the field's reserves. In terms of 2P reserves, we increased from 12,900 barrels in December 31, 2017. We ended the year with -- if we consider just Polvo, we ended the year with 20.5 million barrel of 2P reserves, so we almost doubled the 2P reserves with the drillings that we had. If we are to add Frade and Manati, we increase from 12.9 million barrels to 83.6 million barrels, and this is pro forma number because Frade was not under our management.

It's not under our management, and it wasn't under our management in December of last year. Finally, underscoring what Nelson said about Manati and about the fact that we are always efficiency, operating efficiency, cost efficiency and so on and so forth, I think a good example was our action at the Manati consortium where we have a 10% working interest at the field. And then we were able to really the process of reassessment of the abandonment of the field. Of course, this process counted on the work of Petrobras, the other partners, QGEP among them, but we had this initiative after revisiting the abandonment of the field.

The abandonment will be \$240 million and we made an effort to reduce that number, and we were able to get to \$120 million. Now why is that important? Because Manati Field requires an escrow deposit. This is done monthly. After the sale of the gas, part of the revenue goes to the escrow account.

By reducing the size of this provision for abandonment, of course, we reduced the size of our escrow. Our escrow is currently almost 100% covered. Of course, this is a number that we consider to be (inaudible) worthy. Very well.

One last thing about the escrow. We consider to be 2.1 million per year for the escrow account, and we'll start contributing with 300,000 a year. So that's the size of the positive impact, but before anything else, it shows active management. Okay, let's go to slide 4 please, and I'll speak about the drilling campaign for 2019.

The title is -- as well, it says 2018, but it's actually the drilling campaign for 2019. If we look at the region that is in blue and in red, we increased 22 prospects at the field, and most of these prospects, if not all of them, are of the (inaudible). And in these 22 prospects we did a peer review. We hired a technical consultant, specialized consultant, to look at the work that we did, listing the prospects and to prioritize the prospects.

So we got to four best prospects, the ones with the most -- the best cost benefit ratio for the company at this point, and they are identified here in red. These are the prospects, Ipanema, Leblon, Copacabana and Piratininga. With this, we defined the drilling campaign for 2019. The total drilling cost will range between \$30 million to \$60 million.

Depending on the economic viability of each one of the prospects, we estimate something around two months to drill -- to do the drilling and the completion of these prospects. And we estimate an initial flow in positive cases of about 2,000 barrels per day. Of course, there's some variability in this number of 2,000 barrels a day. It's not an accurate number, but it is a ballpark figure in terms of what we would estimate as an initial production.

And in fact, 18 prospects remaining for future drilling campaigns. And as we are successful in previous campaigns, we will continue releasing investments for new prospects as we drill and are successful. We reduce the risk of future prospects. This is how it works so we still have 18 prospects for future drilling campaigns for coming years.

Now I will turn the floor to Milton. He will speak about the financial highlights of the company. Thank you very much.

### **Milton Rangel**

Thank you, Roberto and good afternoon, everyone.

Please turn to slide 5. Our net revenue is around BRL850 million, up 59% versus 2017. There are many factors leading to that. The growth stems a lot from the increase of production at Polvo.

Because of the drilling campaign we did, we achieved more than 10,000 barrels produced per day, the level that we had in 2014. And we also had some tailwinds, Brent price and the exchange rate. Regarding depreciation of the Brent oil price, we took advantage of the timing and we basically gained two operations, two hedge operations. One larger one in May when prices were higher than \$80 a barrel.

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So we did an important hedge operation to protect our off takes for the second half of 2018. (inaudible) during October were close to \$85, practically the top price for the year. We did another smaller hedge operation given the successful campaign that we had and rise in production, greater than we were expecting. So we were quite fortunate in the timing to hedge the cash generation of the company.

Regarding adjusted EBITDA, which excludes non-recurring events, almost BRL280 million a year, we almost tripled the adjusted EBITDA. It showed the operational leverage resulting from our business model and our financial discipline. What is important to notice is that this is not just an absolute record mark. We also had a margin record adjusted EBITDA Margin was close to 33%, almost double compared to the 17% we had in 2017. And with all that, the company's net income was -- reached more than BRL200 million a year, increase of 303%.

And you can see the margin, almost 30%. Looking at the industry, we are very happy to see that this is one of the highest EBITDA margins, 32, almost 33%, even when we compare with other South American countries. With that, we would like to highlight that operational cash generation was the highest ever posted in our history. BRL276 million is very much in keeping with the adjusted EBITDA showing that the company, with its operational generation, was able to more than fund the drilling campaign at Polvo.

Finally, I would like to highlight that these results have not the impact of Frade. This acquisition should impact our results only in 2019. Please move to slide 6. Here we have our financial performance, which is what I've just mentioned but in more detail.

Here I would like to highlight three points. First, the fact that we were able to increase our revenue a lot more than our cost increase. This reflected operational leverage that our model enabled, as I mentioned. This pushes the margin of the company up.

This was quite productive, quite expressive in 2018, and we had a strong financial result. Some factors contributed for that. We made some investments, increased our liquidity even more to deal with the M&A that we announced. As I mentioned, those successful hedge operations, and the exchange rate, which was a tailwind for us.

Finally, I would like to highlight that our result was not just strong in terms of increasing revenue and operational momentum and an improvement in the EBITDA. But if we look our return indicators, let's look at some initial estimates. Our return on equity is at a level of higher than 80% in return on assets. It's more than 13%, which again places Petro Rio as the company -- as one of the most successful oil and gas companies in Brazil even when you compare with other listed companies in South America. Well this is what I had for you.

Thank you very much and I now turn the floor to Blener Mayhew to speak more about the outlook for the future. Thank you.

**Blener Braga Cardoso Mayhew** {BIO 19502444 <GO>}

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Well good afternoon everyone. I'd like to thank you for joining us in this call and for your interest in our company.

I'm on slide 7 please. Talking about M&A Here, I will give you a little bit of the timeline and the history of acquisitions by the company. Some of the old timers will really remember 2014-2015 when we acquired 100% of Polvo, which launched the strategy of the company of investing in mature producing assets. Since then, we have been consistently making one relevant acquisition a year.

As you see, these are not arduous acquisitions. It's us thinking out of the box and working hard to achieve these acquisitions. Then it's also the result of lessons learned along the way of not relying on sales by Petrobras. Yes, Petrobras is the company that has the most assets in Brazil.

They have 95% of the production. They have excellent assets. Its divestment program is very interesting, and we're always keeping an eye on it, participating in the process. But you're talking about a billion company, a (inaudible) company in 2016, when we participated in some processes.

In the end, they ended up not happening, not going through. So after thinking a while about our strategic growth, we thought, yes, we need to participate with Petrobras divestment, but we have to have other options on the table. We've been doing this. We've been delivering some results.

Our latest acquisition is the acquisition from Chevron of their working stake at Frade. And we're since '18, that field since last year. So we've talked with all of them. We've been talking with all of the parties.

Back in 2014, they started the -- it wasn't the right time to sell, but we kept in touch with them, and they came to us when they wanted to sell, and we were ready to buy. I'd like to speak a little bit more about that. We don't see a lot of M&A transactions at producing assets in Brazil, but we are a company that are free to acquire a producing asset in Brazil. We saw some strategic moves, Petrobras, Equinor; Petrobras and Total [ph], so large partnerships, but it didn't seem to tell acquisitions in the market.

So we were able to do somewhat interesting work, diversifying the portfolio of the company. Now we have three producing assets, generating cash for the company and an interesting portfolio for the future. Let's go to slide 8, and let me tell you a little bit about Frade Field. As Nelson and Roberto have said, Frade Field is an asset that we're very much fond of.

We've been looking at it for quite a while, and we think it is a unique asset in the market. It is not always that you find an asset that has such a big reserve for a number of strategic reasons of Chevron and the consortium members. They decided no longer to invest at the field. It's a field that hasn't seen investments to increase production in the last nine years, and that's a gigantic reserve, a lot of oil underground, and it was just sitting there, waiting for a new buyer with appetite to drill, invest and increase production.

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At the time, Chevron invested money in that asset, and that was back in 2010. Chevron was able to produced 80,000 barrels a day with water flooding and drilling. I don't want to give you any guidance or expectations regarding future production, but it's always nice to look at the past because this might be reference to the future. We expected to start drilling with optimism in the first quarter of next year.

Both of our operations department and financial department, we were talking with some service providers, and some companies that provided drilling services are showing interest in funding this service, financing our CapEx so that we can pay back this CapEx in the long term with the cash generated by the new wells. And that's been an interesting possibility we are considering because we can unlock this value way before we expected any pay with the production generated. It's something we are considering. As we advance in our studies, we'll be able to give you more in terms of what we are going to do there.

We'll keep the market informed. Now speaking a little about funding. We had two very important deals with the company. The first one we have long-term debt.

This is important not only from the financial standpoint of bringing more cash, and how that can be used for CapEx in new acquisitions, but it also shows the market feeling regarding Petro Rio. In 2015-'16, the market was very closed. Oil was at \$30. We only had Polvo.

So when we talked with investment banks and speak about credit, it was a difficult conversation. They said oil price was low, we only have one producing asset. But when you're talking about \$60 million that we closed with PetroChina and ICBC, it's not a big this amount of dollars, but it is a new door opening for the company, a credit door. Financial institutions are looking at our cash flows, vetting our cash flow and they envision the future of the company and all of the possibilities ahead of us.

When we have those approvals, we were very happy. We were launching a new phase for the company. The same goes for FINEP We got a long-term loan with them, a credit facility, and this money will be used for investments in technology, polymers, enhanced oil recovery, things that will help us increase the production of Polvo. Polvo produces a lot of water, so we are considering some techniques that might help us improve the recovery factor in using some Northern Sea, Norway technologies.

And we have a slide on our corporate debt. We are considering issuing a long-term debt, this time with a higher amount, something between \$400 million to \$500 million. We have some alternatives. Recently, the media published an issue in Norway.

We are -- we have conversations underway with Norwegian banks, so this is a hot topic. It's advanced, but it's not our single option. We're assessing the market, we are talking with many people and very soon, when we have more consolidated information and a clearer direction, we'll keep you posted. This \$400 million, \$500 million, it is partly to accelerate our CapEx, both in Polvo and Frade in 2020, and partly to phase or to enable us to make new acquisitions.



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Regardless of the Frade acquisition, we're still considering new options, new acquisitions. There's a number of projects out there. The fact that we acquired Frade doesn't mean that we are not going to do anything else. Actually the company has about 30,000 barrels produced a day in 2016 and we wanted to reach 100,000 barrels a day.

That's the target at the time. A good part of this goal would include the purchase of Petrobras assets. That's when Petrobras announced their divestment program, but we have problems with the TCU, the Federal Court of Accounts, and our relationship with Petrobras, and a lot of these purchases never happened in 2016. A lot happened in 2018 with clear and established rules by TCU who have been participating in many projects.

And what I can tell you is that today we envisioned in our horizon the possibility of achieving, yes, 100,000 barrels a day only with acquisitions by adding 70,000 barrels to the 30,000 that we already have. This possibility exists with the market, there are assets for sale. In some, we are at an early stage of conversation in some, having more advanced stage, nothing binding. But M&A deals take months, if not a year.

But this is just to illustrate that we have a track record of acquisitions, we have a track record of generating value for the company, as we did at Polvo. We'll repeat the success story at Frade, and we expect we'll be able to buy other assets similar to Frade and Polvo. Thank you very much. We now will open the floor to questions.

Thank you very much. (Question And Answer)

## Operator

Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions). We have one question by Tiago Noel, Athena Capital.

## Tiago Noel

Three questions please. Your expectation of closing the Frade operation. How do you compare the possible opportunities for reservoir management at Frade Field? What was -- how was this done in Phase 1? Will the drillings -- do new drillings have the potential to increase the production curve? Is the company still considering other M&A deals for the next one or two years during the restructuring process and the cost of restructuring for Frade? Do you have the human resources for that and capital structure to deal with one -- two or more acquisitions in a short period of time?

## Unidentified Speaker

Tiago, thank you for the questions. I will try answering the first part of your questions, and then I'm turning the floor to Blener.

Regarding the closing expectation for Frade, well, regarding reservoir management, yes, we believe that there are some possibilities that Frade Field, not exactly similar to what Polvo was in Phase 1 because Polvo in Phase 1 we didn't have any drillings, but we needed

the rig for workovers and so on and so forth. But Frade, well, we believe there are some things to be done in the reservoir even before we need to use the rigs and so on and so forth. It's not as significant as it was at Polvo, but yes, there will be something there. The second part of your question was, let me see -- it was regarding the improvement in the production curve, which is exactly what we said just now.

I will turn the floor now to Blener to speak about M&A outlook.

### **Blener Braga Cardoso Mayhew** {BIO 19502444 <GO>}

Okay, Tiago, thank you for the question. Regarding Frade, regarding the stake from Chevron and the Japanese, we expect to close in the second quarter. I can't really tell you amount, but we are working strongly in the transition process with Chevron, and we expect to have this transferred to us in the second quarter.

Given the structure of the deal since we acquired the company, the company has employed employees that work offshore, Chevron employees that are offshore in the platform don't come with the asset. So this operation will not need to go through ANP, and that helps us a lot. It will help us buy the asset way before in a shorter period of time, and we'll start working on how to get the best out of that asset. The screen was a little confusing to us, I'm sorry.

There was another question about if the company has capital to buy more assets from the financial standpoint and the human capital standpoint. Well like I said, we continue to look for assets when they're active in the market. We have identified new opportunities that we consider to be interesting for the company's portfolio, and right now, we don't have any limitation. Normally, we will buy the asset if we think it's good or do the work of understanding the asset, renegotiating contracts, reducing costs.

That takes about three to four months for us to revisit all of the contracts, get the expected results. And then the asset starts running with the assets team. And of course, we have our geology, reservoirs, wells engineering teams that will study the drillings and so on and so forth. But everything will run in parallel, and we believe that yes, we can go and buy more assets.

From the financial standpoint, since we're talking about acquisitions of producing assets, these assets are producing, they are generating cash flow and then helps us a lot because we can use the additional cash flow of the target asset as leverage. So when we look at an asset, we need to have about 30% of the value of the asset. If it's only \$1 billion asset, it will generate \$300 million. The remaining 700 million will be funded in other ways.

So that's kind of the calculation. Although it sounds a lot of leverage, the assets that we are considering produce a lot of cash, so this leverage remains for a while or is in place for less than a year.

### **Operator**

(Operator Instructions). We have another webcast question by Rodrigo Figuera.

## Analyst

Is there an estimated date to start the drilling campaign at Polvo? What are the expectations for each prospect in terms of 1P reserves and production?

## Unidentified Speaker

Hello Rodrigo. Our initial estimate to start the drilling campaign will be in the middle of the year, so along the second quarter until July of 2019. Regarding production, these prospects are very similar in size to last year's prospects. So we're talking about an initial outflow of 2,000 barrels and 1P reserves close to 2 million barrels for each one of the prospects.

Of course, there are some variations. There are some larger and smaller prospects. I'm giving you just a ballpark figure.

## Operator

Thank you very much.

(Operator Instructions). Next question from Felipe Villella.

## Analyst

Do you expect to get the same efficiency gain that you had after the acquisition of Polvo?

## Unidentified Speaker

Hello Felipe. Regarding Frade, because I understood that you're asking about Frade, if we're going to have the same efficiency gain at Frade, Frade is operating with high operating efficiency.

When we look at the uptime, look at only the Polvo, that increased from 85% to 95%. This doesn't happen at Frade because Frade is already operating with high efficiency, but there is a great efficiency to be captured in terms of cost. We're going to have two operations very close together, relatively close to with one another. And it will make sense to concentrate a lot of our operations.

We'll concentrate our logistics operations, our support vessels. We'll concentrate our helicopters operation and so on and so forth. That in and of itself will bring a great operational gain for Frade. We expect that in the future the cost of Frade will be something close to \$15-\$20 a barrel.

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I don't want to give you a very accurate range, but that was kind of what we expect. So we have expectations of having great efficiency gains at Frade, not in terms of uptime, but in terms of cost efficiency.

## Operator

(Operator Instructions). We have a question by Mathias (inaudible).

## Analyst

We'll have a new FPSO for Frade.

## Unidentified Speaker

Hello Mathias. No, we will not have a new FPSO at the Frade operation. This is actually an interesting question.

Everything which is offshore will continue to be running exactly as it is running today. All the Chevron people will be migrating to Petro Rio. The whole offshore operation is migrating to PetroRio, and this will continue to happen as it is happening today, so offshore, no great changes there.

## Operator

(Operator Instructions).

A question by Rodrigo Figueres, an investor.

## Analyst

Are the negotiations or interest in acquiring the 30% stake at Frade that belongs to Petrobras?

## Unidentified Speaker

Well, Rodrigo, yes, we are interested in increasing our working interest. If we could buy another 50% of Frade, we would. We understand that just for Chevron, this is not a core asset.

For Petrobras, it is not either. Petrobras has something a lot more interesting to tackle in the results [ph]. So I guess that, yes, eventually, we might negotiate with Petrobras to buy their stake, but there's nothing happening at this point.

## Operator

(Operator Instructions).

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We have a question by Tiago Hillois [ph].

## Analyst

Hello. Good morning. I would like to know whether you can share this with us, but I'd like to know overall what is the cost that's the Frade acquisition.

What do I mean by that? What is the cost per barrel considering Frade and Polvo, and the expected expenses, administrative expenses, project expenses and so on and so forth?

## Unidentified Speaker

Well it's kind of difficult to give you a number now. When you look at the projections of the company, we are looking at Frade, but Frade is not going to come to us with all of the cost synergies etcetera. We are looking at a combined cost per barrel under 30 and we always consider an oil price at \$50, \$60 a barrel. So we're considering operational profit even with a low price.

If the oil price increases, we will be considering an EBITDA of almost 70%.

## Operator

Next question, (inaudible) Daniel from (inaudible).

## Analyst

Hello everyone. I would like to ask a question to Blener.

You said that the expectation to close the deal is in the second quarter, but from what I understood, the basis for the operations is January 1st. So is this a fair statement about the base date? And if this is the case, how do you recognize this will result in the beginning of the year and for the closing of the operation? Will it be recognized entirely in the first quarter or along the year?

## Blener Braga Cardoso Mayhew {BIO 19502444 <GO>}

Hello. Well, could you please repeat the question?

## Analyst

I would like to know the base date for the operation for the deal is January 1st. If you close this deal in the second quarter, how do you recognize the results, the beginning of the operation until the closing date? Do you recognize everything in the first quarter?

## Blener Braga Cardoso Mayhew {BIO 19502444 <GO>}

Okay.

The base date is January 2018, not 2019. So in the M&A deals, the way it works is the bank stipulates the price you're paying and the amount of reserves included. In this period between this base date, January '18 and the closing, when we are going to close the deal of the asset, we do an adjustment calculation, almost like a P&L Everything that the company has sold, the company that owns Frade sold of oil, the costs and the net profit or loss. And this accumulated profit from January '18 to the second quarter of '19 will add or be deducted from the price agreed upon.

For example, in this period of 15 months when Chevron is selling oil, they also bear the cost. If the P&L is \$100 million, this will be deducted from the amount. If we paid 150 million, and we sold 100 million, you have to pay 50 million at the closing, and this is more or less how it works. You don't see in our balance sheet this production since January '18.

You're going to see it -- you're going to see a price adjustment reducing the price. And regarding the second quarter, the moment we have the closing -- the moment we close the deal, that's when we'll start posting production and the results of that field in our balance sheet. I hope I have answered your question.

## Analyst

Okay.

So it's going to be posted in your balance sheet as an asset. It's the net amount that you're paying for the deal.

**Blener Braga Cardoso Mayhew** {BIO 19502444 <GO>}

Yes, exactly, which is going to be lower than the \$410 million, \$412 million, which would be the amount to be paid by the two acquisitions. Yes, logically, yes.

I cannot give you any more details on that because we are under a confidentiality agreement here.

## Operator

We are now closing the question and answer session. I would like to turn the floor to Mr.Blener Mayhew for his final remarks. Mr.Mayhew, go ahead.

**Blener Braga Cardoso Mayhew** {BIO 19502444 <GO>}

Well folks, thank you very much for your participation. Like I said, we think that we had a very good year with the acquisition of Frade, (inaudible) Polvo. We envision a very positive

year in 2019. The funding we're going to get this year will allow us to continue in our trend to acquire assets and in fact Frade, is just one.

Thank you very much.

## Operator

This ends Petro Rio's conference call for today. Thank you very much for your participation and have a good day.

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