

## Q1 2019 Earnings Call

### Company Participants

- Blener Braga Cardoso Mayhew, CFO, New Business Development & IR Officer and Director
- Milton Rangel, Head of Finance
- Nelson de Queiroz Sequeiros Tanure, CEO & Director
- Roberto Bernardes Monteiro, Chief Operations Officer

### Other Participants

- Tiago Noel, Partner & Equity Research Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good day, ladies and gentlemen. Welcome to the conference call to discuss First Quarter 2019 results of PetroRio. Thank you for standing by. (Operator Instructions)

This event, as always, is also being broadcast simultaneously over the Internet. And may be accessed through PetroRio's Investor Relations website at [ri.petroriosa.com.br](http://ri.petroriosa.com.br) by clicking on the banner 1Q '19 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, operating and financial goals, projections 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 can 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 after to Mr. Blener Mayhew, CFO, New Business Officer and Investor Relations Officer.

Now let us begin with Mr. Tanure. Please go ahead, sir.

## **Nelson de Queiroz Sequeiros Tanure** {BIO 20365123 <GO>}

Good afternoon, everyone. And thank you for joining us today to discuss PetroRio's First Quarter results. I think that there are many people who work at the company participating in this conference call. So I want to greet all of you. And as I always say, you are the driving force of this company. Because of your dedication, hard work and devotion, this company is here producing results. And with a very good outlook. So thank you very much. For those of you who are not employees, I want to repeat something that is very important. 80% of all PetroRio employees are also shareholders. This is a very important element explaining our success.

To speak about the First Quarter of the company. We had a very safe quarter in terms of operating efficiency and very high safety indicators.

Safety is a priority for all of us at the company. Polvo Field has been operating at a very high safety level, which is vital for us.

Our HSE; health, safety and the environment, continues to reach very high industry standards. And this is a matter of pride for us.

Manati Field operated by Petrobras has been operating at a very satisfactory safety level as well. As regards Frade Field, we became the operator only on March 25. But we prepared all a lot so that when PetroRio took over as operator of the field, this transition would be as fluid and safe as possible.

In this period, from March 25 until the end of the quarter and until now, we've had a period with a lot of safety and a lot of predictability. This makes us very happy. And we intend to keep the bar high. This is a priority for the company.

To start with the highlights of the First Quarter. (inaudible) with the completion of the acquisition of Chevron's working interest of Frade Field, Chevron was the operator of Frade. When we closed the deal, PetroRio became the operator. That happened on March 25. And we now have an increased working interest. And I hope we will soon close the deal with impact that will bring us to a 70% share of the field. But this is a transformation of field for PetroRio. In addition to more than doubling the production of the company, we believe we have a great potential to generate value, both from the standpoint of optimizing cost and sharing resources with Polvo Field and also as regard of better management of the reservoir to increase production. And I believe that most likely in 2020, we will have a drilling campaign at Frade Field to increase production from the asset even further. So we are very happy. And we are very excited with this deal.

Just one more comment regarding Frade's results. When you analyze our numbers, it is visible that the whole debt related to this deal is reflected, while only 5 to six days of results are posted. But I would like to give you some peace of mind that this debt is totally manageable. It will be repeated in two years -- actually less than two years.

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The company remains extremely well capitalized with a very healthy and solid capital structure. Moving on to Polvo. Polvo Field continues to generate many results for us at the company. It is a surprising asset regarding its longevity. And this is not just a surprise, it stands from the dedication of our technical and operational team led by Roberto. And Roberto will give you more detail on Polvo. The only highlight about Polvo that I would like to mention is that, in addition to continuing to operate at a very high level of safety, we are preparing ourselves for a drilling campaign in the second half of the year.

So all that part of preparing the rig for another campaign, getting quotes from suppliers and preparing to start to effectively drill at Polvo. All of that is at an advanced stage. And Roberto can give you more on the preparation for the Polvo campaign.

And our third producing asset is Manati. This field has been producing for quite a while now in a very satisfactory way. If anything, it has been a positive surprise. Manati is an excellent field. We had a scheduled downtime and this maintenance was expected and it was scheduled to happen. And it is something that the field needs to make sure that it will remain very safe. So Manati is doing quite well. I would like to conclude my remarks with a final take-home message for all of you, which is, "All of us who work at PetroRio, in addition to being passionate about the company, we think about the future of the company, its sustainability. And we want to create value in the short, mid and long term. We care a lot about operating discipline as well as about financial discipline." With this, I would like to stress and share with you our optimism that the company will continue be a player in the M&A market in Brazil, both participating in formal divestment programs, the most famous one being in Petrobras. And looking at other assets that might not be on the table yet as well as analyzing assets in the Gulf of Mexico.

For the company to continue to grow in such a sustainable fashion, making smart acquisitions that create value for PetroRio, the company has a number of interesting alternatives.

We have been approached by banks, funds, offering credit facilities, other exploration and production companies that are already in Brazil and others thinking about coming to Brazil or approaching us for JV's associations and to buy assets jointly, which is very interesting.

And there is another alternative that we announced and spoke about, which is the possibility of funding through a Norwegian bond, which is also a very interesting alternative. And I can tell you, we are considering all of these options in order to choose the best for the company.

With this, I thank you for your time and turn the floor to Roberto. Thank you very much.

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

Thank you very much, Nelson. I will start on Page 4. Speaking about our operating performance.

Firstly, I would like to speak about Frade. It has been producing around 19,000 barrels. And this was also the volume when the field joined PetroRio's structure, five days before the quarter ended.

At Polvo Field, we produced 9,600 barrels a day approximately, very much in keeping with our expectations. And at Manati Field, we are producing, more or less, 420,000 cubic meters a day, which is also very much our expectation.

In the case of Manati, we had a scheduled maintenance stoppage in January. In the case of Polvo, we are not going to have any scheduled stoppages along 2019 and the same goes for Frade with no scheduled downtime.

Additionally, something important to be highlighted is the increase of our reserves. We increased from more or less 12 million barrels, 12.9 million barrels to 57 million barrels. Most of this increment arguably came from the acquisition of Frade Field. We now hold a 70% working interest. And a part of that increment came from the drilling campaign at Polvo Field, which happened during 2018.

Regarding costs, firstly, we have the lifting costs of Polvo. We have the First Quarter with a cost of around \$30 per barrel. So we remained highly competitive regarding our costs.

Speaking about Frade. We have already signed a number of contracts. We had, what we call, an innovation of contracts. Some other contracts, we renegotiated in full. And currently, we are operating Frade in the logistics base of (FSU), actually Frade and Polvo in a consolidated operation. Our helicopter operation has been consolidated with flights leaving from Macaã. We have added approximately 20 people to our staff and in here, I'm speaking about onshore, about our office operation, not to mention, of course, all of the people who work at Frade Field itself at the FPSO.

With that, with all of these cost reductions and more to come regarding vessels, regarding our integrated emergency plan, what we call PEI. And so on and so forth, our expectation is to by year-end or operating next year with an approximate cost of \$20 to \$22 a barrel in a consolidated fashion for the company, meaning the production of Polvo plus Frade should be having a cost of \$20 to \$22 a barrel. Obviously, there will be a cost allocation and so on and so forth. But in a consolidated fashion. This is an important number that we should keep in mind.

Moving to Slide 5, please. In terms of operating efficiency, here we see that Polvo Field continues to operate at a high level. We ended the quarter with almost 99% of operating efficiency. So Polvo Field has been having a good performance. We did have some quick shutdowns, short stoppages, particularly in the month of February. But nothing that impacted our daily production too much.

Regarding Frade, we had a quarter with an operating efficiency of 94.6%.

In prior quarters, we had 99%, 98% operating efficiencies. So an operating efficiency that is very close to what we've been having at Polvo. So Frade still have a little room for improvement. But it was nothing new happening at the field.

The FPSO, historically, has always had a very high operating efficiency. And we are going to bring it back to the prior level very soon.

What is important on this slide that I would like to draw your attention to is that PetroRio already operates 30,000 barrels of oil a day when we are at the operations of Polvo plus 100% of Frade operations. And that puts us in a very interesting level considering all field operators in Brazil.

Finally, moving to Slide six and talking about the drilling campaign.

This is an investment that we will make in Polvo Field. It is a continuation of what we did last year in 2018. Compared with the previous campaign, what we did basically was seismic reprocessing with a great focus on carbonate. It is the whole procedure of peer review, we heard people from outside of the company. We're doing an independent assessment of the prospects that we have found. And then with that plus our own expectations, we linked these prospects.

Mind you, this is not only a size-based ranking. But rather a risk-return ranking, a risk-sized ranking, I should say.

This was the methodology that we used. We also provided maintenance to the drilling rig to prepare for this new campaign. So considering it all, it seems that the drilling campaign in 2019 will start in July.

We estimate about two months for each well. Of course, this can vary a little, it can be a little more or a little less because as much as we have seismic data and all, only when we're actually drilling a well can we really get to know what there is underground. So that can vary a little. We are estimating a total cost of this investment between \$30 million and \$60 million.

So we have these wells to drill. We already have 3 to 4 prospects aligned out of 18 that we listed after the seismic reprocessing.

So we will do this year's campaign. We will reassess. And most likely, we will start thinking about future campaigns.

This is what I had about our operation. And I will now give the floor to Milton, who will speak about the financials. Thank you very much.

**Milton Rangel**

Thank you, Roberto. Good day, everyone. Let us continue with the presentation. And let's move to our financials.

Please go to Slide seven for the highlights of the period. We reached a net revenue of almost BRL 140 million, up 19% from First Quarter '18.

It is important to highlight that this net revenues does not include any impact from Frade because the closing happened at the very end of the quarter.

EBITDA now. Comparing with what the EBITDA would be before the IFRS 16 adjustment, we would have posted an EBITDA of BRL 35.6 million, 133% higher year-on-year.

The EBITDA that we are reporting, as we will see in the next slide, is higher than that because of the impact of IFRS 16.

This EBITDA, just as I mentioned for our revenue, had no contribution from Frade. In this quarter's results, you can see we had a negative bottom line. And I will comment on this negative bottom line in more detail later. But it is basically due to some nonrecurring effect. So with that, we had a cash generation of BRL 36.4 million, very much in keeping with the EBITDA before IFRS 16 adjustment. And we -- as mentioned by Roberto, we have the drilling campaign at Polvo Field in the acquisition of 18.26% stake of Frade without the need for new funding or taking on new debt to fund these obligations.

So this is important from the standpoint of the company's liquidity.

Moving to Slide 8. We can see the numbers I mentioned before in more detail. Company's EBITDA of BRL 55.2 million, basically the EBITDA increased with the IFRS 16 effect that led to a reduction of leasing expenses. But on the other hand, started to have higher depreciation and amortization and an impact on the financial results.

Just because of this IFRS 16 change, we estimate an impact of approximately BRL 15 million negative in this quarter, just because of an accounting change. Also we can see that the big offender of our result in this quarter was the financial result.

And what happened here? Well there are some explanations. The first is that we did a hedging operation. Because of the closing of Frade, you will remember that I think in the beginning of the quarter, all your prices were very volatile. The price ended the year at a very low level, below \$55. And then started rebounding again. When it reached \$61, we chose to conduct a hedging operation in order to hedge the floor price of the oil at \$60. And we used a call option. So as to keep this operation cheap, we bought a put and we sold a call at \$65. We bought at put option at \$60. And sold the call option at \$65.

So it happened once that the oil price increased to around \$65, \$67 along the quarter. And well, we were closing the hedging operation. And that brought us a negative financial impact.

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But our rationale was to be conservative, given the volatility of oil prices. If oil prices dropped a lot, price adjustment at Frade would be high. We would be penalized by reducing oil prices. So we chose to have an insurance. So to speak, to back the closing of the operation. And this, of course, had a negative repercussion on our financial result. However, we see this as a conservative approach to our business. And we see this as an extremely onetime off event because of that deal that was being closed, more specifically.

In addition, we have some financial expenses with no cash effect of an exchange variation nature. There was some exchange variation as part of the cash that was used for the payment to Chevron for the acquisition and closing of Frade. We had an FX variation by recognizing leasing as a liability according to the change brought along by IFRS 16. So you see we had a series of events. But events of a nonrecurring nature. All of them happening during this quarter, which we can basically link to the change of an accounting standard. And because of the acquisition of a very relevant asset as well as all the Chevron's measure we adopted to neutralize possible pricing effect. And to have a soft closing and uneventful closing for the company.

So this makes it clear that despite having a negative result, the company is interested in making good investments for the future of the company. Of course, we cannot see this future yet translated in our results. But we are convinced of the excellent acquisition of Frade. And there is no problem here. I mean, of course, no one likes to report a negative result. But we will not be necessarily managing the company by quarter. This acquisition was important at this time. It did bring some nonrecurring negative effect. But what matters is that in terms of fundamentals growth and value creation, this was an excellent acquisition. And we are very convinced of the successful future of the company.

Moving to Slide 9, please. And talking about our financial result. I mean still talking about our financial result, we have a comparison, a pro forma income statement showing what our results would be had we integrated Frade since the beginning of the quarter.

So it is interesting to note that the company's result had an EBITDA margin of 40%. Frade would have the potential to contribute with almost 60% of the EBITDA margin, an EBITDA of BRL 125 million. And in this pro forma table, we would have reached a margin higher than 50%. And an EBITDA of BRL 180 million in the quarter. Thus, it would have contributed quite positively to our results. And we expect that in the coming quarters, the positive impact of Frade's acquisition will be more and more observed and felt. I would like to remind you that this pro forma result reflects Frade Field as it is today. Of course, we have a complete plan to more and more improve cost management for the asset. As it could be asset as the whole. So we hope to report increasingly better and stronger results through this important acquisition.

On Slide 10, please. The company reported new loans, which is a very good thing in terms of balancing the capital structure of the company. It is important to note that we tried to be very assertive in this funding and to avoid paying more for third-party capital. So the acquisition of Frade was done partly by cash, partly by financing by the seller, what we call vendor finance at a cost of LIBOR plus 3% per annum with a term of two years, in a total amount estimated at \$224 million.

Recently, we also signed an export prepayment agreement with the Chinese bank ICBC and PetroChina in the commercial part. This loan also has a cost of LIBOR plus 3% per annum in term of four years and amounts to \$60 million.

We also previously reported contracting a credit facility of up to BRL 90 million from FINEP. We have this with the first tranche of this facility of BRL 36 million at a cost of TJLP long-term interest rate plus 1.5% a year, a term of 10 years. And a 2.5-year grace period to amortize the debt principal. In addition, we also have what we call a True Sale; that is the name of this product. It helps us have some working capital comfort at a cost of LIBOR plus 1.6% per annum, basically in connection with advanced payment of receivables, amounting to \$25.6 million at quarter end. So basically, we can see an average cost of debt which is quite interesting, both in dollars and Brazilian real. We try as much as possible to be as competitive as we can to reduce the company's cost of capital and to maximize return.

On Slide 11, we give you more color on our amortization program. We see that in the next 24 months in years 1 and 2, this debt will be reduced abruptly, which is basically by the repayment of the vendor finance that we have with Chevron.

It is important to remember that this is a debt that will be repaid by the asset itself. Now that we hold the 52% working interest of Frade. So the asset itself is expected to repay this debt. Additionally, we are negotiating, as Roberto said. And we expect to soon complete acquisition of the remaining 18% of Frade.

And this remaining stake has no debt attached to it. It is totally unencumbered. With this, the company's debt schedule after year 2 is quite reduced.

The company still has a lot of room for future funding. We have a lot of momentum. And this is really good for the growth and strengthening of our business plan, also considering future acquisition. In terms of currency, we have a great predominance of dollar-denominated loans, which is also in keeping with the company that generates a lot of cash in dollars, that has the essence of its sales in dollars.

Well these are my comments regarding the financials of the company. I would like to thank you all for joining us on this webcast. I now turn the floor to Blener Mayhew to speak about the future of the company and about mergers and acquisitions. Thank you.

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

Thank you, Milton. Good afternoon, to all of our partners. This quarter, as has been broadly mentioned by my colleagues, the main highlights of the acquisition of Frade Field, which belonged to Chevron.

In a moment with the whole industry was focused on Petrobras divestment program, Frade was not such an obvious asset. With the announcement of the deal, we caught a lot of people by surprise. But actually, we have been pursuing this asset for four years with a lot of resilience and persistence. We were able to structure the deal in such a way that the



seller financed a substantial part of the price in installments to be paid every six months along two years. Thus, the deal was affordable to us. And we did not have to resort to loans.

Not resorting to banks was fundamental for the success of our strategy, as we maintained the confidentiality of the deal, which avoided the information mix that could have attracted other companies to compete with PetroRio for the field.

Still talking about Frade. We used to create a solution to structure the corporate ownership, which allowed us to take over the operation very quickly with (traders) operating at the field in March, just two months after we signed the purchasing agreement. Regarding the Japanese working interest of 18% of Frade, in my opinion, I think that we are going to be able to close the deal in the coming months. We just need to sort out some details regarding internal approvals by the sellers. So I think that in a couple of months, this will be resolved.

PetroRio has proven that we can do a lot with little. This is our motto. With our modest cash from an oil company, (scars excess the) credit in a period where oil prices reached historical lows. Year-after-year, we were able to execute our strategy to grow through the acquisition of producing assets. And we have completed 2 drilling campaigns at Polvo, one in 2016, one in 2018. PetroRio in 2013 was a company with no producing assets, a company with 0 revenue. Today after five years, we are a company with a projected revenue of more than BRL 2 billion in 2019.

We are also a company with a diversified portfolio, with a total of 6 assets. We have 3 producing assets. They are: 100% stake of Polvo, 70% of Frade. And 10% of Manati that produces gas.

We also have one asset under development. 100% stake of Pirapema, a gas field that we are very optimistic about. And we believe it's going to be very promising in the future. It has a proven reserve. We also have 2 exploratory blocks, one in Foz do Amazonas where we have 100% working interest, a neighboring block to Total. His block came with the Brasoil deal and we recently acquired another block, a CearÃ; offshore block, where we hold a 50% stake. And we are a partner of Ecopetrol. This field was recently acquired with the new deal of Frade. It used to belong to Chevron.

Our business ambition is somehow translated by depreciation of our share price. In 2015, when our shares were forgotten in the stock exchange, our share price was as low as \$0.17. Now after a lot of blood, tears and sweat, our share price reached BRL 21 in the beginning of the year, an enviable appreciation of 3,000%.

Undoubtedly, PetroRio is the consolidated success case, not only in the oil industry. But also in the capital market.

Now with the production of around 30,000 barrels a day, we became one of the biggest independent players in Latin America.

However, we don't intend to stop here. We have a lot of energy and we have ambitious plans for the future because we have in our pipeline deals at different stages of negotiation.

These are producing assets, most of them offshore in Brazil and abroad. Some of these assets are more obvious, others are not that obvious.

And looking out, part of this business shows that we are one step ahead of our competitors in the race to buy new assets.

It is always good not to forget financial discipline, responsible leverage and creation of value for our shareholders in all of the acquisitions that we make. I believe that after the completion of the projects that we are (spudding), we will achieve our dreamed goal of exceeding 100,000 barrels of daily production.

Of course, we will need new loans to realize this bold plan of acquisition. But for good projects there will always be capital.

We are living in a window of opportunity in the oil and gas industry in Brazil. And I believe that PetroRio, with its track record, unleveraged balance sheet and a robust and perennial cash generation, is undoubtedly the best positioned in Brazil to capture these several consolidation opportunities that will arise in the coming years.

We are very proud of the work that we have done. And we are very optimistic about the future. Thank you very much to all our shareholders for their confidence and trust. And now I open the floor to questions.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from (inaudible) with (Santander).

### Q - Unidentified Participant

I have three questions. First, related to Polvo Field. It did good work regarding lifting cost that had a 30% reduction year-over-year. I just would like to know, do you have any specific goal to reduce lifting cost even further after the drilling campaign you're going to have in 2019? Can you get perhaps down to \$18 per barrel that you envision for Frade? Could you elaborate on that please?

My second question has to do with capital allocation. Actually. And cash generation as well.

I did very quick math here. I've mentioned that you should be generating about \$500 million in cash flow when you integrate Frade. And given that you have an amortization of debt in the next two years, I believe that in the third year, you're going to have more

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leeway to generate cash to have a dividend payout or to continue with your M&A plan. So I'd like to understand a little more about your plan. I'd like to have some clarity on that, please.

And my third question is related to leverage. In a quick calculation, net debt over EBITDA is about 4x considering the last 12 months as a reference. You mentioned that you have an expectation of 1.5x net debt over EBITDA. That would mean an EBITDA of about \$700 million a year.

So I would like to understand from you when do you expect to reach this goal of 1.5x? And could you give us more color on that?

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

Thank you for the question. This is Roberto speaking. I will start speaking about costs at Polvo. Then Milton will speak about capital allocation.

That was your second question. Then regarding our debt profile. So regarding costs. We currently have Polvo Field at \$30 per barrel. And Frade Field at more or less \$24 a barrel. These are more or less the costs.

Our expectation is that, particularly with operating synergies in here, I mean the same base, helicopters leasing from the same site under the same contract, supporting vessels, rationalizing, supporting vessels. And even a dramatic reduction of G&A. And so on and so forth will be allocated to the operation, I mean. So our expectation is that we're going to get reconsolidated cost already in December of \$20 a barrel or close to that.

Considering \$20 a barrel, we would have to take into account cost allocation. But considering \$20 a barrel we would have Frade running most likely close to \$18. And Polvo running close to \$21 a barrel. \$20, \$21 a barrel. The Polvo operation is smaller than Frade. And that's why with the simple math, you can get to these numbers.

So this is it. I remain focused now in terms of cost reduction. Well up till now we were rationalizing the operation initially in 2015. And along with that, a strong wave of renegotiating contracts.

We believe that this tranche will always happen. There's always room to cut cost a little bit. And so on and so forth. But we believe that the main wave of cost reduction will come from operating synergies and consolidation of operation. And this is the name of the game until the end of this year. I would say that in December, we should be operating at that level of cost. And then we will be able to see 2020 with the company remaining at that level of cost. I will turn the floor to Milton. And he will speak about capital allocation and about our indebtedness.

### **A - Milton Rangel**

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This is Milton. Well regarding funding, that was the bulk of your question. Actually, we considered different funding options for the company. You understand that we also mentioned during the call is the Norwegian bond. We understand, we see this as a very interesting option. We are really considering that option.

But other than that, there are some other alternatives in the market, including new M&As do not depend necessarily on that bond because we want to be able to access the debt market with exports prepayments as we did with Polvo. Not to mention the possibility of funding these acquisitions with financing from the seller himself, as well as the case with the deal involving Frade and Chevron.

The fact is that with the acquisition of Frade Field, as we showed in the pro forma income statement, we expect to show in the coming results, cash generation of the company changes. It becomes very strong, very significant. And this will change our indebtedness in future quarters.

Regarding the second part of your question, regarding almost 4x net debt over EBITDA ratio, actually this is a non-fair comparison because we are considering the current indebtedness, considering Frade acquisition. But the EBITDA in the last 12 months doesn't consider anything, any contribution coming from Frade.

So when we do a more a fair comparison considering debt coming from Frade and revenue coming from Frade, you will see that the ratio behaved a lot better. And there's an expectation that next year debt ratio will be dramatically reduced.

## Operator

Next question from webcast.

## Q - Unidentified Participant

The question is, are we negotiating with Petrobras to acquire Petrobras 30% of Frade? And what are the investments expected for Frade? Can Petrobras deny investment? Have Petrobras given a green light for investment at Frade Field?

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

Well thank you very much for the question. I'll speak about Frade. As we said in the past, in several past occasions, PetroRio, obviously, is interested in having full ownership of Frade. That will, obviously, include Petrobras' working interest.

Our operational agreement, what we call JOA, joint operating agreement, considering (Sudufi), the subsidiary of PetroRio and Petrobras, this JOA includes the right of first refusal for PetroRio in case Petrobras intends to sell their stake.

And finally, it doesn't seem -- I'm inferring here. But I don't think Frade is a core asset for Petrobras. So we are talking about something that makes sense from every angle you

look at it, from the angle of PetroRio, from the angle of Petrobras. Now of course, that depends on some internal stages of approval at Petrobras internally. We cannot control that. Particularly, we cannot control the timeline. At the moment, there's nothing to say or to announce regarding Petrobras' 30% stake of the field. But we continue to say on the front that yes, we are interested.

Regarding the investment program. I think this is not a question of Petrobras not approving or approving. When an investment has a strong net present value for the field, it is, obviously, impossible to deny it. So in my opinion, I think that it's a matter of we, as operator, redesigning the program to redevelop Frade. It was basically done by Chevron in the past. But we have to rekindle that or we have to rework with that, adapt it to our shape of strategies and our assumptions and subsequent to the consortium items, see Petrobras holding this back. It is just up to us to finalize the redevelopment plan and to submit the plan to the consortium, something that we expect we can do sometime in the first half of next year, perhaps by year-end.

I think this is what we have to say about Frade. Thank you very much for the question.

## Operator

Your next question comes from Tiago Noel with Athena Capital.

## Q - Tiago Noel

I have one question regarding Frade as well. We saw at the Polvo campaign, the first phase was little focused on drilling new wells. It was more focused on management initiatives.

For Frade, most specifically, what draws my attention is that for some wells, is the possibility that we can inject more gas? So what are you planning in terms of initiatives, in terms of management? And what do you see in terms of results of these initiatives? And if you could give some color regarding the timing of those initiatives.

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

Tiago, this is Roberto again. I will be speaking a little about this. We see Frade Field, our strategy for Frade is divided into 4 main phases. The first phase, actually the first and the second one are stages that are happening in parallel. One is rationalizing cost reduction, synergies, consolidation of the operation around one logistics base, helicopters leaving from the same site, everything we've talked about.

That will bring about a strong cost reduction for the field. But let us talk about revenue and production. Today, Frade Field is producing approximately 19,000 barrels a day. We have maintained that production flow preventing decline. And how are we doing that? Today, Frade Field has some wells that can still produce a little bit more than what they were producing in the past without having major reservoir issues. That's just a matter of managing the reservoirs well. And this is for the short term. During the short term, Frade

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Field has 2 wells which are closed. One of them for hydrate and the other one -- we don't really know whether it's hydrate or fine. There's a big discussion about it.

Since Chevron (inaudible) (there are 2) wells that are halted, closed. And our intention is to bring these wells back to life. One of them, at least, for sure, the hydrate one. We want to bring this well back to production. It's an intermittent well. It produces every other month, that's the strategy of the well. But that well has been closed for quite a while now. So that's for the short term.

And none of that requires investment. For the midterm, we would make some one-time investments, occasional investment that do not require a rig. What kind of investments are these? We're thinking about stimulating the wells. What we saw, what we had in one of the Polvo wells. And we think it's perfectly applicable to Frade. It's innovating with a certain chemical and asset so as to clean the reservoir, to dissolve some fine into the reservoir. And with that, we're able to increase the productivity index of the well.

I believe there is an opportunity for that in some Frade wells. We would also do some polymer treatment to ensure the formation of water channels in the field. So these would be for the midterm. And something we don't really know whether it is going to happen in the midterm or the long-term, it's the possibility to reinject water in the field.

Chevron itself used to take this into accounting their redevelopment plan. We believe it makes a lot of sense. ANP, the Brazilian oil agency, has analyzed the problem. They have analyzed that this possibility and considering some parameters and some conditions, I would say that there are no problems there.

But that depends on the equipment that we need to have to reinject water because this field hasn't have -- hasn't had water injection for a long time. So this could be for the long-term. And for the long-term, we're talking about end of 2020. So after that, we would start a drilling campaign. And those were investments that would require a drilling rig.

But in the long term, there's still a lot of idle capacity for the rig. So we have seen very competitive quotes from companies that own drilling rigs. So it's just getting started, talking to some of these companies. You check with them the possibility of starting to think about this drilling campaign in a more assertive fashion.

So that's what we envision for Frade. There are number of work fronts there, several stages. The first 2 related to cost and reservoir management, this is underway. Midterm, everything that does not require drilling rigs. So that should start in the first half of next year. And in long-term, I would say, would be second half of 2020 onward.

## Operator

Our next question comes from webcast.

## Q - Unidentified Participant

Except for the pump selling in March, Polvo Field production decline seems to be more marked than expected. What do you think?

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

Thank you for the question. Well Polvo production is very much in line with our expectations. And it is important, excluding that pump failing in March, we see Polvo production very much in line also with our budget, with our production forecast for the year as well.

What is important to say and to remember is that Polvo increased production last year from 6,000 barrels, more or less, to more than 10,000 barrels. And this is because of the new wells. When you add new wells, these new wells are specifically, any new wells that starts producing, these wells will have a decline rate which is a little higher than the decline rate for the rest of the field which is more mature. So sometimes people might have the wrong impression. When you don't look at the detailed data well-by-well, you can have the impression that the field is declining faster. But it's not true. You just increased production in the new well. These new wells have a more (inaudible) decline in the beginning. And that is totally normal. But our whole investment thesis remains exactly unchanged, exactly the same. From now onwards, the decline of these wells will be closer to the general decline for the field. But this year, we will start drilling again. And if all wells are successful, we should add more wells, more production. And we're going to see this effect again by year-end beginning of next year.

**Operator**

Next question also from webcast.

**Q - Unidentified Participant**

When is the company selling the shares that you normally keep as treasury?

**A - Milton Rangel**

This is Milton speaking. Why are we selling our shares? Well this move is basically to give even more comfort for the company in terms of liquidity and to maintain the minimum cash. We think it's very prudent to maintain a minimum cash for our operations and to have a good working capital management. Also we see a very positive effect, which is increased liquidity for our securities. And in recent past, we saw our shares entering the small-cap industry. And now with the new rebalancing of IBRX, there is an expectation that we're going to have an upgrade. So I think that this is what moved us to sell some of our shares.

**Operator**

Our next question comes from webcast.

**Q - Unidentified Participant**

Any expected maintenance stoppages for the next month?

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

(Nicholas), thank you for the question. No. No scheduled maintenance at Polvo nor at Frade in 2019. Yes. We will be stopping Polvo and Frade in 2020. And these will be scheduled downtime. It's too, since I say, that they will probably last 7 to 10 days, 7 to 12 days. Something along those lines.

For Manati. Well Manati, we've had a maintenance shutdown. It stopped for almost 10 days in January, I think eight days. 8, actually 20 days. 20 days in January. But the rest is behind us. So from now until year-end, no more scheduled stoppages.

**Operator**

Your next question from Tiago Noel with Athena Capital.

**Q - Tiago Noel**

If I may have one more question. You mentioned you're prospecting from assets in the Gulf of Mexico. It's then naturally in the numbers of what you did in Polvo and in the potential of Frade. And capital allocation in Brazil is higher. And this business model, more specifically in the Northern Sea and in the Gulf of Mexico, what you think is more competitive and developed model? Do you think it is possible to replicate your strategy with the same level of return that you have been obtaining in Brazil also in the Gulf of Mexico? Or perhaps this endeavor will be less transformational?

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

Well in the past, we've analyzed a lot of the Northern Sea and the Gulf of Mexico. The Gulf of Mexico, in particular, which is what we spoke more about. And we're getting them very close to closing some deals in the Gulf of Mexico. Well the Gulf of Mexico has some interesting characteristics. The market, overall, is leaving shallow waters, is moving to deep waters in the Gulf of Mexico. And they're moving a lot to onshore. So regarding returns, what we saw that was very attractive at that time, where we even bid for the Gulf of Mexico, was the entry price. The starting price was very interesting. And the possibility of raising very cheap capital, very quickly.

From the profit standpoint of synergies, et cetera, our intent in the past was to start as non-operators in the Gulf of Mexico. That was our first reaction because the entry price made a lot of sense.

In general terms, what I can tell you is that, particularly in the Gulf of Mexico, I'm talking about more about Gulf of Mexico because that's what we know more about, what we studied more. Well the Gulf of Mexico have many synergies realized. We have a field producing in a platform that is producing in another field. There's an integrated logistics. And so on and so forth. So I think the synergy gains will not be that great.

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Also because it would be another country. But sometimes, we see entry prices that are very interesting.

## Operator

This concludes today's question-and-answer session. I would like to invite Mr. Roberto Monteiro to proceed with the closing statement. Go ahead, sir.

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

So in the first place, I would like to thank very much all of you who joined us today. Thank you for your questions. Thank you for your dedication regarding -- your dedication to PetroRio, to our company.

I want to say that I've been with PetroRio since 2015. And I've seen a lot of things happening here. We went through a lot. We went through several different moments at the company. And I should say that this moment we're living now in 2019, half of 2019, perhaps, would be one of the most dramatic transformational moments for the company.

We increased our production a lot. We have a field that has a relationship of barrels produced (relation to) reserves which is gigantic. The total outlier in this brings huge possibilities of upside for the company when we look at Frade field. And when we consider normal recovery factors for Frade, we see that there is a huge amount of potential gaining.

So I just want to say that the whole management of the company, all of our staff are very excited about this new stage of being able to deliver good results, seeking synergies. And so on and so forth. So thank you very much.

## Operator

This does conclude PetroRio's conference call for today. Thank you very much for your participation. And have a good day.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)

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