

## Q2 2021 Earnings Call

### Company Participants

- Francisco Francilmar Fernandes, Chief Operations Officer
- Jose Gustavo, Investor Relations Manager
- Milton Salgado Rangel Neto, Chief Financial Officer
- Roberto Bernardes Monteiro, Chief Executive Officer and Investor Relations Officer

### Other Participants

- Bruno Montanari, Analyst
- Christian Audi, Analyst
- Guilherme Levy, Analyst
- Leonardo Marcondes, Analyst
- Pedro Soares, Analyst
- Regis Cardoso, Analyst

### Presentation

#### Jose Gustavo {BIO 1862213 <GO>}

(Foreign Language) Welcome to Petro Rio's conference call to discuss Second Quarter 2021 Results. I'm Jose Gustavo, IR Manager and Treasurer, and I'll be the host in this event.

#### Operator

Available in the Petro Rio IR website. We also have an interpreter for simultaneous translation. Please choose a sound channel icon on the bottom of you zoom screen.

(Foreign Language)

#### Jose Gustavo {BIO 1862213 <GO>}

This conference call will be presented by Petro Rio's CEO, Roberto; CFO, Milton Rangel; and COO, Francilmar. They will present the Company's results and will be available during the Q&A. All participants are in listen-only mode. (Operator Instructions) This event will be recorded and will be available on Petro Rio's Investor Relations website.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call are based on the beliefs and assumptions of Petro Rio's management and on information currently available to the company. Forward-looking statements are not a guarantee of success. They involve risks, uncertainties and

assumptions as they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, we will start the presentation with Roberto. Please go ahead.

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

Good day, everyone. Thank you very much for joining us today for Petro Rio's conference call to discuss second quarter 2021 results. (Foreign Language) I will start the presentation going over the main highlights of the quarter, then I will turn the floor to Francilmar, then Milton, and then I'll be back for my final remarks at the end, after which we will hold a question-and-answer session.

Now moving to Slide number 3 of the presentation. I would like to raise and explain some important points on the accounting side, regarding the highlights of the quarter and then some operating ratios, and I'll mention some achievements that we had during Q2. Talking about the accounting highlights. In this quarter, we posted a net revenue of BRL1 billion, the highest ever posted by the company. Our net income ex-IFRS 16 was more than BRL300 million. The adjusted EBITDA totaled more than BRL600 million. And of course, behind all of that are the company's offtakes totaling 2.8 million barrels of oil, and obviously a very strong oil price in this quarter.

We have already passed all the effects of COVID, and so on and so forth, and the market recovered in a very solid fashion. So the combination of very high sales volumes, plus a strong oil price gave us these results, which are perhaps one of the very best results in our history, but that is not all. We also had some interesting achievements on the side of our operation. For example, ANP approved the development plan of Frade Field, this quarter. We also had the approval for the acquisition of Wahoo field both the BP working interest and Total stake. We were able to solve a point that we always talked about in prior calls, which was our short-term debt. So we were finally able in this quarter to access the fixed income market in the United States. We issued a \$600 million bond with a book that was five times oversubscribed. We considered this a very successful operation. These \$600 million have a five-year maturity, so this relieved the company from that constant refinancing that we had at those short-term loans for working capital, et cetera. So the company was able to once and for all sold out its capital structure.

And I guess that the main highlight of this quarter was the tieback of Polvo and Tubarao Martelo, TBMT, although technically we completed the tieback on July of 14th. I have to say that, what we are holding this conference call in August, is still high, I would say that this was another achievement with celebrating. The tiebacks performing well. Francilmar, will be speaking about this in more detail. He knows the process backwards. And this was one of the deliverables due this year, and it's a deliverable that is very much linked to our business model with our business line in what we intend to do in the future. So now that the project was successful. It gives us a lot of comfort to move forward with our business strategy and all.

FINAL

But now moving to the next slide, Slide 4. Here we have some ratios, some indicators, both operating and financial indicators. Another important highlight in Q2 was our lifting cost at \$14.2 per barrel. So very much in line with what we had recorded in prior quarters. In all of that taking into account that in the second quarter, we had some scheduled downtime. We can see on the right side of the slide, the increase in production, and we can see production broken down by the different fields. And when we look at the second quarter, although, we had a 31,200 barrels produced daily on average and this is net for Petro Rio.

Although we have this volume, which remained kind of in keeping with Q1, that includes a scheduled shutdown for the maintenance of the Frade FPSO. I can't really recall how many days for sure. If I'm not mistaken, seven days or eight days, and it includes stoppages of Tubaro Martelo. Most of the stoppages of TBMT and Polvo on account of the tieback. And Francilmar will be speaking more about that.

TBMT downtime happening in June, and for Polvo, a little bit of June, and a little bit of July, then again, the total part of that production volume. So production and lifting cost are both under control. As for our cash position, I don't think the company was ever first prepared for growth. We currently have BRL4.5 billion in our cash. Our net debt which is not really a debt, we are a net cash company. So that is also totally under control. So, today I can say that the company in the second quarter is ready and prepared to take some steps forward to actually big strides forward from the standpoint of growth. But I'll leave that for later, when I talk about the next steps.

I will turn the floor now to Francilmar, who will be speaking about our operation, and I'll be back at the end of the presentation. Francilmar, over to you.

### **Francisco Francilmar Fernandes** {BIO 21185801 <GO>}

Thank you, Roberto. Hello, everyone. Well, I will be presenting some more detail on our operation. Starting on Slide 5, we have the performance of our assets. I'd like to draw your attention to the first part volume of oil sold. We had what I think is one of the highest sales volume in the history of the company. And this is due to some production increase and also in the case of the FPSO Polvo. We had to sell all the oil, as we were ending the vessel contract. The vessels stopped producing on the 28th of June or so, and we sold all the oil that was left in the vessel. This was a very busy quarter from the operating standpoint. We have some production downtime in three production units to perform preventive maintenance, general maintenance, and to adapt to the new project, and there was a big impact on production. On the upside, we had a well that started producing at Polvo Field and that helped increase production. Overall, we worked on the lifting costs that ended up at \$14.2. I'll speak more about it, but I want to highlight that we had a production increase, year-over-year, a significant increase more than 30% production increase with a significant sales volume 2.8 million barrels in Q2.

Now moving to the next slide, Slide number 6, I'm going to discuss the lifting cost in more detail. As you know, as we have said many times before, the lifting cost is our main weapon to gain resilience. It is a fundamental point of the company's strategy. In this quarter, we worked to reduce it as much as possible, but it was positively impacted with a

start up of production of the new well in the Eocene at Polvo Field, and we were able to work and reduce some lines of cost. But on the negative side, we had some scheduled downtime. As I mentioned before, each shutdown lasted eight days to nine days, impacting production of the assets and increasing the lifting cost. But here the upside is, that once the stoppages are behind us, we should have a better performance of the assets, just like when we complete the tieback, we will see an improvement in this number in the coming months.

Now moving to Slide 7, and speaking in more detail about Frade Field. In this quarter, we had a scheduled shutdown at Frade, basically to make some necessary adjustments at the plant and a planned stoppage for preventive maintenance that impacted production and consequently the operating efficiency. Other than that the unit is operating well, at around 99% operating efficiency, so performing as well as always. Another relevant point in this quarter is, that we finally got authorization from ANP after many, many years. Since we acquired the asset, we have been struggling to get authorization for water injection in the wells with all the necessary safety, all the necessary analysis done. So in the end of June, we started to inject water. There was a big risk that we wouldn't inject anything. We are still injecting very little. And we are starting to see how we can improve that to try and to lay a little, the pressure decline in these reservoirs. So we are injecting a little water and it's something, and we hope to get some results in the future.

Moving forward to speak a little about the revitalization plan of Frade Field. This is something we had in mind, since we acquired the asset. It's our big goal in this field. We got authorization by ANP for the development plan. Now we have a firm commitment to complete the redevelopment of the field. It includes drilling seven wells; four producing wells and three injection wells. We'll divide this into two phases. Phase 1 with one producing well and two injection wells. We should be starting that in the first quarter of 2022. For that, we are moving ahead at full speed. The engineering work is underway, as well as the commissioning of goods and services. We signed a contract for a drilling rig, a rig which is operating already in Brazil, with a good track record, a good operating performance.

We signed the contract already thinking about the Frade operation, already including Wahoo Field, treating them as a cluster. These two fields have some similarities. They are located closer together. So we can work to gain scale. And at the end of the day, we reduce costs and speed up the schedule. So we signed a contract to giving us enough time to allow us to execute all the campaigns Phase I of Frade and Wahoo and perhaps Phase II of Frade.

Moving on, now on Slide 9, talking about Polvo Field. Polvo in this quarter, this was the last quarter, when the field produced for FPSO Polvo. Over the years, there has been a decline in the production system and for plant. So we suffered a lot with the poor performance of the process plant, particularly the water treatment plant for a few days. We were impacted by the low quality of the water-treated, and we couldn't discarded, so we had to restrict the production of some wells, which ended up impacting overall production of the field and consequently it impacted the lifting cost. The upside of the field was the start up of production of the -- you've seen well, which we call POL-K in May. So we were able to complete the drilling at the very best pace to date. This was an

FINAL

important milestone. And this was relevant both in terms of cost and time to execute. We drilled a well very fast. So, overall the field performed well. The vessel stopped production in the end of June, and it will no longer produce. So, now we are producing totally through FPSO Bravo.

Now moving to Tubaro Martelo, TBMT. We had a scheduled shutdown in the month of June for preventive maintenance and to prepare the unit to receive fluids coming from Polvo Alpha platform. This is done, it took about eight days in June. Additionally, we had a production loss on account of Well Number 8. We have not completed it yet. We're still working on the well. We had some more challenges in that well. We are working to complete the work over by the end of August. Other than that, the vessel itself has an excellent performance. Excluding these production losses, the vessel itself is working with an excellent performance, above 98%.

Also for TBMT, we have Well Number 10 planned for. It will be completed and interconnected to the vessel. As soon as this is done, the rig is set, all of the materials are ready to be mobilized. As soon as we complete the workover on Well Number 8, the rig will be relocated to Well Number 10, and then within 30 days to 40 days, we expect this status to be completed and to start production at the field.

Moving on to Slide 11, I'll give you more detail on the tieback project between Polvo and TBMT, putting the assets together as one. And this is what we see here on the schematic showing the Polvo Alpha platform, a flexible line connecting to FPSO Bravo. And this is already operating today. This is already one single system. We finished the project at the beginning of July, and this was truly spectacular in less than 12 months. We were able to execute the whole project during a pandemic no less. It showed Petro Rio's ability to execute, involving several companies, more than 50 suppliers directly involved in the project to complete the tieback and deliver the project. In addition to hundreds of professionals working, all of them aligned towards one single goal. We were able to complete the tieback on time, on budget and mainly with safety. We didn't have any incidents or problems, whatsoever during the whole project. So we are very happy and very proud to be able to do that, not the consequences of this project will note that it is complete, we will reap the fruits.

So operationally, we'll have one less unit at the field, and the costs linked to vessel chartering diesel. So that entails a cost reduction of around \$50 million. But we'll refine these numbers in the coming months. And of course, we'll work to improve them even further. There will be also reduction in CO2 emissions. We're talking about roughly a 23% reduction in CO2 emissions, but this is just an estimate. In a few months, we'll be measuring this, and very likely will have a much better number. There is another relevant point, as of July with the tieback being complete, the company Petro Rio will be entitled to 95% of the oil produced by the cluster or by Tubarao. And this was already included in our agreement with Dommo.

Now moving to Slide 12, I'm going to give you more color on Wahoo Field, it is part of the cluster, Wahoo and Frade. Now, we got a green light from ANP, regarding the stakes of both BP and Total. And we are now working at full steam to develop the project in detail, the development plan of the asset. We are conducting geology, subsurface, studies, the

FINAL

wells, project, the subsea project for the tieback, or to adapt the Frade vessel. All of that is ongoing and should take a few more months to have the DP, the development plan ready to be submitted to ANP for approval. I mean while we have some resources ready for us which was the rig, we have until the end of next year to execute the Frade project and then the rig will be available for Wahoo. And we'll try to derive as many synergies and as possible and to gain scale with these projects in a combined fashion.

So as regards the next steps, we need to further a detailed engineering piece, which is undergoing the process of signing some contract amendments for the concession is happening. The state of the cash calls is practically done, and then we'll follow the protocol, the declaration of commerciality. When the development plan is ready, will be submitted. And then we'll get to the execution part itself, trying to bring forward as much as possible over these storage and the end of the project, because what really matters to us is to have first oil flowing at Wahoo Field.

So now turn the floor to Milton for the financials. Thank you very much.

## Milton Salgado Rangel Neto

Thank you, Francimar, and good afternoon, everyone. We'll continue the presentation. Now focusing on our financial performance. We can see what happened during Q2.

On Slide 13, on the column that excludes the effects of IFRS 16, we see revenue of over BRL1 billion, on the back of more than 2.8 million barrels sold at an average price of \$66 almost \$67 per barrel. So we achieved the significant result in Q2. Year-to-date in the first six months of 2021, we have almost BRL1.7 billion. So quite a significant number. Then we can see some line items, such as general and administrative expenses and other operating expenses. We have some provisions in this quarter driving these expenses up a little. On the other hand, we had a positive financial result in Q2, because of the appreciation of the Brazilian real, the Brazilian currency, that happened in the last few months, which pushed our financial revenue up a little. At the end of the day, we had an income in Q2, a little over BRL300 million. If we were to include the effects of IFRS 16, we achieved an income, a little greater than BRL420 million.

Now talking about adjusted EBITDA, which is the EBITDA that excludes all non-recurring and non-cash effects, et cetera. We posted an adjusted EBITDA excluding IFRS 16 in Q2 of BRL642 million with an EBITDA margin of 63% year-to-date in the first six months of 2021. This number is a little over BRL1 billion. And here, we have an important highlight to mention. This adjusted EBITDA already exceeds the adjusted EBITDA that we had for the whole year of 2020. Because of the recovery of the Brent oil price and increased production by the company cost improvement and so on and so forth, we achieved a significant adjusted EBITDA with an EBITDA margin of 64% as well, very solid. Including IFRS 16 in Q2, adjusted EBITDA is BRL725 million with a 71% margin.

Now moving to Slide 14, speaking a little about funding. The company's funding ability, cash, and debt amortization schedule. Starting on the left side of the slide, we can see a marked reduction in the cost of debt for working capital. There is more say, short-term

loans, for the company's daily activities, down to 3.45% per annum in Q2 2021. This stems from an improved credit rating and improved perception of the company's credit rating. We also issued a bond that had an interesting rating and there was a perception by the market, by the banks that we work with, that the credit rating of the company is improving a lot. So, we are getting cheaper and cheaper loans for working capital.

As for the bond, we raised \$600 million in June of 2021. This was a very successful operation. The book was more than five times oversubscribed, more than five times the amount that we aimed to raise. And so we raised \$600 million at a cost of 6.125% per annum in a five-year loan. And the strategy behind this funding was basically to repay those loans that were very much concentrated in the short-term and to elongate this profile of financial liabilities, so that the company could have more peace of mind to operate and make investments. So we have this liability management. We can see on the right side of the slide, a very strong cash position more than BRL4.5 billion. The short-term amortization schedule still has some working capital loans totaling BRL467 million. But concentrated beyond the next five years, we have around BRL3 billion payable referring to the bond that I have just mentioned.

Well, moving now to the next slide, we see the performance of the company's net cash. We ended Q1 of 2021, with a net cash of roughly \$212 million, despite having a very strong EBITDA, we see that our net cash continues add around \$210 million. So what happened here, posted an EBITDA of a little over \$120 million in the quarter. We had a small component of tax payment in cash. We had a strong effect of the working capital because many of the offtakes we had were completed in June, but the cash is received in July. So we have an average of 30 days to receive payment, and that impacts the company's working capital in the quarter. Additionally, we also had our CapEx. These are investments that the company made in the tieback between Polvo and TBMT in drilling at Polvo as well as improvements made to our rig, the Kingmaker, and some general maintenance expenses. Also relevant, we had a cash reduction of \$30 million in financial expenses. And here, this includes the bond issuance fee, some expenses related to hedging, some interest paid and the prepayment of some whole loans. So all of that had an impact, but these are one-time off items, not recurring items. In this quarter, we had a number of non-recurring events that led to slightly higher financial expenses. And when we put it altogether, we reached a net cash in the end of the second quarter of 2021 of around \$210 million.

Now moving to Slide 16, will speak a little about the company's leverage, an indicator that we like to follow up close is net debt over adjusted EBITDA, excluding the effects of IFRS 16. And we can see the performance of Petro Rio starting I should say in 2019, when we increased the indebtedness of the company. We started 2019 with a ratio of 3.3 times given the acquisition of Frade Field, the position of the working interest belonging to Chevron. So now after we had a marked reduction because of the cash generated by this asset that started being accounted for in the following quarters. Then in Q1 of 2020, we had a new increase to 2.3 times, and this stand from the acquisition of Tubarao Martelo, for which we took on another loan. And again, we started generating cash in this asset in the following quarters. And we were able to reduce the ratio quite a lot, along the following quarters getting to Q4 2020 with a net debt over adjusted EBITDA of only 1.2 times. And then in the first quarter of 2021, we successfully conducted the follow-on

offering of the company that brought in a lot of new cash for the company, so that we became a net cash company. That's why the ratio is negative. And now we remain at a negative 0.6 time net debt over adjusted EBITDA. On the back of a strong cash generation, strong EBITDA, and the company remains at a very healthy level from the standpoint of indebtedness and we are ready for new steps in terms of capital allocation. Thus we are in a position of great financial health.

With that, I turn the floor back to Roberto to speak about the next steps. Thank you.

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

Folks, thank you, and I'm back. Thank you, Milton and Francilmar for your respective presentations. I will go over the next steps of the company, and while we are thinking what our agenda is. Well, I did not include any deadlines here anything, but it is important that you know what that reduce thinking, and what we are expecting for the next quarters. Of course, our focus will always be the safety and health of our employees and contractors, and everyone who has some play of the company. This will always be our main focus and our main driver.

And then we have some deliverables, yet to be delivered. We still need to deliver TBMT 8, which is that well, that failed at TBMT in March, if I'm not mistaken. Then the process was delayed because of the rig that was undergoing some maintenance work, and then we started the workover. During the workover, we had a number of little problems popping up that have been solved. Hopefully, we'll be able to deliver TBMT 8 in a matter of weeks. And then we will move straight to TBMT 10. This is all being done with our Kingmaker rig. And this is the first time that we are working with this rig. The first activities of Petro Rio at TBMT field. So of course there is a learning curve, but this will be the main focus of Francilmar, and his operating and engineering teams in the quarter.

Parallel to that, and now we are talking more about preparation and engineering. You're talking about the preparation for the Frade campaign and getting prepared for the development of Wahoo field. As we said in the past, we intend to declare commerciality of the Wahoo still along 2021, so that that we -- so we can submit the Wahoo development plan to ANP, the regulatory agency. So we can start drilling at Wahoo Field next year. So our operating schedule now will be TBMT 8, then TBMT10. And well, this is not certain yet, but we'll be considering the possibility of drilling another well at Polvo. However, this is still being studied, cannot give you any certainty that we'll do that. And then next year, we will start drilling at Frade.

In the revitalization campaign of Frade, that is expected to begin in March of next year and more towards the end of the year of -- more towards the end of next year, we should start the development campaign of Wahoo Field. So now the whole company will get ready to execute on this operating agenda. Of course, parallel to that, we will always be paying close attention to inorganic growth opportunities through M&A opportunities. Like I said before, the company was never this prepared for this last line of inorganic growth. And of course, we'll try to take as much advantage as possible of the fact that we are so prepared to grow as a company. So these are the next steps.

FINAL

Bloomberg Transcript



I would like to close this conference call, thanking our employees, our teams. I know that sometimes it can be hard having all of these organic growth projects together considering how strong and bold that they can be, and by bold heavy [ph] agenda. But all of our employees have pushed themselves to the limit and delivered what is expected from them. So I would like to extend my big thank you to the whole team. And I would also like to thank all of you who participated in today's conference call.

And now, we can open the floor to questions. Thank you.

## Questions And Answers

### Operator

Hello, everyone. Thank you for joining us. Now we'll start the Q&A session for analyst and investors. (Operator Instructions) So, we can start the Q&A now. The first question is from Guilherme Levy. Guilherme, we'll unmute your mic. Go ahead.

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

Hello, Guilherme.

**Q - Guilherme Levy** {BIO 20821639 <GO>}

Hi, can you hear me, well?

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

Yes, we can.

**Q - Guilherme Levy** {BIO 20821639 <GO>}

Congratulations on the results. And thank you for taking my questions. I have two questions. Related to our M&A activities, as much as possible, if within the limits of what do you can comment. Perhaps you could give us an update on the timing for the sale process of Albacora? What are the next steps from the side of Petrobras? And perhaps you could comment on what do you feeling in terms of competition for this asset? And the second question has to do with the sale of Manati Field. Any update regarding the timing. When should we expect the process to be complete? Thank you.

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

Guilherme, thank you for the questions. Let me speak about Albacora, and then I'll speak about Manati. Regarding Albacora, the last information we got is that the bidding will happen next Monday, August 9th. This is a binding offer for both handsets Albacora East and Albacora West. When we have the binding offer, then we understand -- and this is our opinion, but we understand that Petrobras will have a period of some weeks, perhaps some months. This is what we have seen in other processes. There is no formal announcement by Petrobras, when they will decide. But it will take some time, a few weeks to a month. They should decide on what they call the preferred bidder, the highest

FINAL

Bloomberg Transcript

FINAL

bid, from their standpoint, of course, and the preferred bidder will enter a contract negotiation phase with Petrobras. Today, while we have, while we received the package of information, as part of that, we received a contract. So we submit a bid, and we market everything that we would like to change in the contract. We submit that to Petrobras. They identified the best proposal. They call the preferred bidder to negotiate. And the negotiation process well, we don't know. That can last anything from four months to six months in my opinion. I seen this kind of negotiation process take longer.

I think it's hard that it will take less than that. So we are talking about the negotiation process that we'll be extending until year-end. And by year-end, when this crucial piece of the process is over, Petrobras might have a re-bidding. When they'll show the contract to the second preferred bidder, sometimes to the second and third bidders, and then the second and third players can increase their bidding based on that contract. But then they have no way of changing the contracts anymore. And then based on that contract, the second or third players can raise their bid. And then after the rebidding process, Petrobras will see, who offers the best proposal, and that's when they'll close the deal. So this is how the process goes for Albacora. It will be followed for both Albacora East Albacora West.

In practical terms, next week, there will be a bid. We think that this will entail a longer negotiation process. So I think that the timing would be perhaps year-end or beginning of next year. As for other bidders, Petro Rio is participating in the process. During this week, we will run our internal processes for approval, to decide whether we will bid, and how? And then in the media, we hear and read the same as you do, that there are four interested groups. Our group and other group led by a consortium of four companies. Two independent producers in Brazil, competitors of ours and a private equity fund, plus a company in the Gulf of Mexico, another big oil company, and then another small isolated oil company bidding. So theoretically for bidders, but this is what we know, can't add anything more to that, as for Manati, as we mentioned before, we signed a contract or sales contract of the company. They signed the contract with us, this coal to gas bridge. One of the contract conditions was that, he would be successful in acquiring Petrobras working interest. So they went through those same stages that I mentioned. They paid, they were the winner, they negotiated the contract, now they're waiting for Petrobras to call the rebidding process, which is the last stage that I explained. Once that is over, those signed with Petrobras, the acquisition of Petrobras working interest and then our business will go through. This will be submitted to ANP approval. Once ANP approves the deal, we'll get paid, where the sale of the field. I think that, if everything goes well, we can expect the deal to go through still this year, but you know these things do not really depend on us. Every (inaudible) regulatory authorizations. So it's kind of hard to predict the right timing. So this is what I had about Albacora in Manati. Guilherme, and I hope I have answered your questions.

**Q - Guilherme Levy** {BIO 20821639 <GO>}

Perfect. You did. Thank you very much.

**Operator**

Thank you, Guilherme. Next question by Christian Audi with Santander. Christian, your mic is unmuted. Go ahead.

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

How are you, Christian?

**Q - Christian Audi** {BIO 1825501 <GO>}

Rob, can you hear me?

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

Yes, we can.

**Q - Christian Audi** {BIO 1825501 <GO>}

Hi, Roberto, and the whole team. To begin, congratulations on the results. And secondly, excellent presentation, straight to the point, very clear. Congrats on that. My question, Roberto was more directed to the last point that you mentioned, the M&A deals, because the Albacora process what you explained in detail takes time, some thinking. You have a very strong financial position, right now. And of course you're interested in Albacora. But could you give us some color on, could you explain to us, how can you manage to remain interested in Albacora and process that can take nine months perhaps the next year, and at the same time looking for other M&A opportunities. Can you do that? Can you explain the dynamic of how you think?

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

Well, Christian, this is an excellent point you raised. These M&A deals, they take a long time. And they are not really very easy to monitor and follow, because the company, it's almost like the company is living in that process for a long time. So what we do is, we continue working. Since our follow one in January, we have been saying that our goal for the follow-on proceeds. We didn't want to have an equity raise, just for the sake of doing it. So we always get the market, some color saying our intent is to participate in the Albacora process and to explore some M&A opportunities. Notably, we always spoke about the possibility. And I'm not saying that the process is happening, but the possibility of negotiating Peregrino or some other asset by show something that belongs to Total. So our thesis was always around Albacora and some other assets. So we continue to study those assets.

If a new asset happens faster, there are some things that are even greater than Albacora. So this is the kind of risk that Petrobras is running with this long process. But this is how things are. For Petro Rio, we are keen not to stop exercising. We don't want to be putting all of our eggs in the same basket of Albacora, putting all our hopes in Albacora, because we don't really know how it will play out. It's a windy process. I mean, I don't want to say windy [ph] process, because it sounds like it's not well conducted. It's not badly conducted, but it does have many stages. So we are always considering other things, Christian. We are considering other deals. There are other things ongoing, and that's how things go. And we have also to focus on Albacora.

FINAL

Bloomberg Transcript

**Q - Christian Audi** {BIO 1825501 <GO>}

Thank you. It's clear. And my second question, from the operating standpoint. You made it clear, what the next steps are; TBMT 8, then TBMT 10. Could you or Francilmar mention, what are the challenging points in these operating projects. What has a higher risk, compared to more comfortable processes. We just want to understand the risk in these next steps in the operating aspect of the company?

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

Sure. I can to commisiion explain that. What is really challenging for us as a whole bear to kind of touched on is our heavy agenda. I mean we set out to execute the projects as quickly as possible. To bring forward production, and the market is used to seeing companies, do things for a long time. So we start it with the supply chain, and the micro things about 24 months to 36 months to have first oil flowing. But, we always try to compress that and focusing specifically on Frade and Wahoo. These are projects that are starting from scratch. So, we have to commission all the equipment and services to make that happen. From the engineering and execution standpoint, there is nothing new. We have 100% control on the supply chain. Our suppliers are used to the way we work. So nothing challenging regarding execution, but we have to execute on time and on budget.

In the case of TBMT, we're executing TBMT 8 and well 10 will begin. And there's nothing new there, nothing challenging. But you know things happen and they were inherent to our business and our operation. But it's nothing really new. Things, issues happen and this can delay the project for a few days, but it will be able to deliver.

**Q - Christian Audi** {BIO 1825501 <GO>}

That's excellent. Thank you very much.

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

Thank you, Christian. Always good to have you on board.

**Operator**

Our next question comes from Pedro Soares. Pedro, go ahead.

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

Hello, Pedro. How are you doing?

**Q - Pedro Soares** {BIO 20879952 <GO>}

Good afternoon. Can you hear me, well?

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

Yes, we can.

## **Q - Pedro Soares {BIO 20879952 <GO>}**

Good afternoon, Rob, to Milton, Jose, Francilmar (inaudible) and the whole team. One last follow-up question regarding inorganic growth and M&As, because I think we've spoken about them is to obvious assets. I just want to understand a little bit more about Wahoo. Roberto, you mentioned the IBV stake, that it was at an advanced stage. So, it would be in that binding phase in an analogy with the Petrobras process. But you said you were waiting for an answer by the Board of IBV. Could you speak more about that, about that negotiation that would be appreciated.

And from the operating standpoint, my second question, would be now, Rangel you have completed many of the achievements along the first half of 2021, the tieback is completed. POL-K drilling is complete and thinking that production will be normalized in the second half of the year? Could you give us more color regarding what we can expect in terms of the lifting cost for the second half, because there will be some operating leverage, I believe. But you will be enjoying the benefits from the tieback. So, could you give us some more detail on what you're expecting?

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

Perfect. Pedro, just speak a little about Wahoo. Here is what we did. We submitted a binding proposal to IBV, which holds the asset. The two partners who own IBV, barge oil and vertical [ph], they received our proposal, and now they're assessing, evaluating the proposal. Unfortunately, waiting [ph] to take longer than we would like. Wait until now they haven't said, yes, but they haven't said no, either. So we are waiting for their internal meetings, Board meetings. And then we'll know, whether it will move forward with the deal or not, it is a little frustrating. Believe me, it is frustrating for us too. But this is a process that we are trying to overcome, and that we're trying to win. Now on the positive side, they haven't said no.

On the other hand, they haven't said yes, either. So the present is, I'm going. We submitted a binding proposal. We are interested in acquiring the rest of the stake. But again, they work on a different pace than we do. So, we Petro Rio, I have to learn to cope with that somehow. But the process hasn't died. We are still interested. And it's just taking longer than we would have liked. And it is rather simple thing actually. We already have a referenced price. There are contracts. Of course, the reference price that we have in the market is for a stake when you were the operator. You have that premium have been the operator, but it's a good proxy. And we continue firm and trying to make the deal go through.

Regarding the lifting cost, Pedro, we are thinking well, of course, we expect increased production will have TBMT 8, that should resume operation. In Well Number 12, we had a recent failure in our BCS, our pump. I think in the week after the tieback, we have the BCS failing in Well 12. So we have to end TBMT 8, well this is separated, right. We have TBMT 10, to stay at operating. So yeah, we can expect an increase in production. But I mean drivers cost reduction. We had a consolidated OpEx running rate of consolidated OpEx close to \$190 million a year, considering all assets. The leasing of the FPSO, and will reduce that by 50 million. Our OpEx will be down to \$140 million, and that will definitely have an impact on the lifting cost. We expect it to be between \$10 and \$12 per barrel. This

is our expectation. Of course, this is not going to happen in the third quarter, because there is a decline. We had 14 days of leasing that the FPSO. But yes, the well already stretching a positive effect on Q3. And Q4 will be wonderful. So, this is what we were expecting for the lifting costs.

**Q - Pedro Soares** {BIO 20879952 <GO>}

Very clear. Thank you. If I may, I'd like to ask a very quick last question to Milton, regarding CapEx. Regarding those \$36 million in the quarter, could you break it down? What would be recurring maintenance CapEx? So we can exclude the growth effect.

**A - Milton Salgado Rangel Neto**

Sure. Of the \$36 million CapEx, we had about \$20 million in the tieback. We are in an intense period to pay for the tieback. Maintenance was the smallest report \$5 million, maximum of \$10 million. So, it was very much concentrated on the tieback, good deal of this \$36 million.

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

Oh, and that is important. I'm sorry to interrupt, Milton, but it is important to think that this maintenance CapEx was related to the shutdown of three assets. These were scheduled shutdowns. So it is to be expected. So a good part of that was what we called the turnaround of the assets. So you shouldn't think that this will be repeated every quarter, it won't. This was a one-time off effect given the scheduled maintenance downtime.

**Q - Pedro Soares** {BIO 20879952 <GO>}

Thank you.

**Operator**

Thank you, Pedro for the question. The next question is by Leonardo Marcondes with Itau BBA.

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

Hi, Leo. How are you? We cannot hear you, Leo.

**Q - Leonardo Marcondes** {BIO 20870206 <GO>}

One thing, you can hear me now. Thank you for taking my question, or my questions. My first question has to do with the tieback projects of the company and the learning curve involved. I would like to understand what the company has learned from the tieback of Polvo and TBMT, in terms of rights and wrongs? And how can you mitigate the Frade Wahoo tieback project in your view?

My second opinion -- my second question has to do with M&As. You mentioned that you're looking at the Albacora cluster is a consortium, but when we look at the portfolio of Petro Rio, we see Petro Rio with the working interest of almost 100%, in the other assets.

So I'd like to understand how should we see the company in the possible M&A opportunities? Some of them which you have already mentioned, or should we expect future projects and partnership or with the company owning 100% of the asset? And if there is any preferred model for Petro Rio? And if I may, I just want to understand the forward thinking of the company. What do you consider to be an ideal leverage level for the company? Thank you.

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

Well, to give you a quick overview, if you stop and look at this, we started with the Polvo and TBMT tieback, which theoretically is a lot simpler. It's one single flexible line, shallow water, 10 kilometers between them. And then we'll move to greater distances and deeper water. So, the learning curve was very rich. We had great results, particularly regarding the engineering piece of the work. And the Brazilian system works with the BCA contract. They want to hire one single contract, one single company, that will deliver everything to you. But we did not choose that path. We chose to do engineering and management in-house, because we believe we have first sense of ownership, and it's very strong. That had a huge effect. We were only able to execute as we did, because we have control over the project. And that's a great point was the interconnection of many sectors, such a project.

Many companies work with different project departments. Somebody drafts the project and delivers the project to operation, not here. The operation that is going to operate the project is integrated during the drafting phase of the project. So everyone pitches in, and everyone works together, and everyone shows the deliverables. And that helped the whole process and set up the whole process. And this is something we'll continue to do, and will improve the project, the future projects even further. And then regarding the geographic distribution, and the types of suppliers that we used. So we have a lot of lessons learned that we will fine tune even further for the next project. For Wahoo, we are already at the engineering study phase. We exchanging ideas with the market trying to get proposals, but we'll use a lot of the lessons learned for Wahoo. So I believe that we'll be able to deliver an even better project.

Leo, to speak about M&A deals and our ownership stake, it is true. The Albacora process is a little different than what we have done. We have a 50% partnership with Petro Rio. 50%, a construction company in Spain. And they are now in the process of selling to a big French company called, IC. So it's a 50-50 stake. This is not very normal, but I cannot tell you that as of now everything will be like this or not. We simply found a partner, who chose our mindset, who -- a partner that has a similar mindset as we do. We had some conversation with them, and they said that they believed in our model, not in our business model, because everyone knows our business model, but they trusted our operating model. And they have an operation in Mexico, and operation in Ecuador or Peru, I'm not sure. I think in Ecuador, I guess. And they wanted to have an operation in Brazil, and they trust and believe our operating model. They share the same operating philosophies that we do so kind of made sense.

We've thought it would be a good idea to participate in the bidding with us. We thought it made sense. I have a partner, as long as the partner shares a similar mindset to ours. But this is the only M&A deal, where we're thinking about a partnership. The other efforts that we have, they are all deals, where we are the only players. So, perhaps Albacora is the

only outlier, I should say in our history. I cannot tell you that from now on, this is how it will be, or it will not be like this. But it just makes sense. They think similar to how we think, but we cannot say that from now on we'll always have a partner or not. We cannot make any final statements about that.

**Q - Leonardo Marcondes** {BIO 20870206 <GO>}

Perfect. And what do you think to be the ideal leverage level for the company?

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

Look at the chart that Milton showed in the presentation. We had 3.3 or 2.6 net debt over adjusted EBITDA ratio. And we think that these peaks happen, because we buy an asset. The asset is not generating any EBITA. So we account for just expense of acquiring the asset, that reduces the net cash without the counterpart revenue. But we have to think about an adjusted level. Once we account for that in the debt to acquire the field, and when EBIT is generated. I should say the ideal leverage would be between one and two, but a low leverage ratio. We don't want to be having a high leverage, because this is a company that leaves off M&A deals. So we have to have a balance sheet that will allow us to enjoy opportunities, that will allow us to be opportunistic, rose something interesting might appear. And until we get ready for it, we'll have missed the opportunity, that can get underway. So a leverage of one to two times closer to 1.5 times, 1.5 times to 2 times, but something around that, not much higher than that.

**Q - Leonardo Marcondes** {BIO 20870206 <GO>}

Thank you very much. Very clear.

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

And our covenant is 2.5 times. So we can't even go higher than 2.5 times, but they have it.

**Q - Leonardo Marcondes** {BIO 20870206 <GO>}

Perfect, thank you.

**Operator**

Our next question comes from Regis Cardoso with Credit Suisse.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Thank you. Thank you, for the questions. One regarding the timing for Wahoo. I understand that the Frade campaign starts in March of 2022. Does that imply, will that lead to a delay in the Wahoo campaign, given that you intend to do one after the other. And the second question also an operating question regarding the drilling schedule. Do you now have more visibility? Could you have an additional drilling in the Eocene reservoir, particularly considering the Frade timing? And also if you can comment any updates on Well Number 10 of TBMT? Are you maintaining the expected deadline, or will



the work -- or will the workover at Well 8 will cause some delay? I just want to get a sense of the timing of the start-up of the wells.

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

Okay. Regis, let me try to answer your question. First, with the Wahoo project. It's actually the other way round, have this opportunity. We were able to get the rig at a very good price, and it's a rig that has excellent performance. So we decided to put those two together and see them as one project. So we'll have Frade, the three wells that should take about 210 days for the Frade campaign, then we'll move to Wahoo. So this will bring forward the startup of the works at Wahoo. We initially thought of starting that in 2023 for drilling, but we can bring that forward a little, and this is positive. We are going to have mainly synergies when we see this as one in terms of mobilizing, demobilizing equipment, and this is going to be very positive for the company. And Wahoo is going to benefit greatly from this sequence these 500 days. Well, we try to -- the rig for 500 days to cover Phase I of Frade, and then Wahoo Wells. Then we negotiated some options to renew the contract, so that we can accommodate Phase II of Frade, and other possible opportunities that might arise. We talk about a two-year time frame. So we might have other opportunities.

Let's speak about TBMT, Tubarao Martelo. Yes, the event we had in Well Number 8, delayed some. While we expected for Well Number 10 to start production. I always like to work to give good news and not bad news. So I expected to have this well already producing, but with this scenario, we were expecting it to set operating for mid-September. So officially I think it will be kind of the same. Our guidance for Well Number 10 was September, and now within the frame that happened, we won't be able to bring it forward, AOP in September. So we will start operating in September.

And to your final question, if Well Number 10 starts producing in September, we'll have October, November, December, perhaps January 3. And that's when we will consider the possibility of drilling, one more well in the Eocene, because we will have these four months, practically with the rig 3 idle, but this is a point that has been studied, considered, debated I cannot tell you Regis, that yes, we'll drill. We are in the middle of the workover process for TBMT 8. So we call this phishing. When we pulled the column three, four clamps fell inside the column. And we had to phish them back. It takes some time. It's feasible. But it can be a slow process and this is what is getting and the way of Well Number 8. We want to be sure that Well Number 10 will not have this problem, but when this is done for Well Number 8, we'll have a clear idea of when it will start operating, Well Number 10 as well, and then we'll know whether we will drill another well.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Thank you very much, very clear. Congratulations on the results.

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

Thank you, Regis.

**Operator**

We have one last question live from Bruno Montanari with Morgan Stanley. Bruno, you can ask the questions.

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

Hello, thank you for my question. I have just one follow-up question, regarding the partnership with the COBRA group. The question has two parts. Number one. Potentially, COBRA Group will be sold to IC. Do you see the same mindset alignment with the new controlling shareholder versus the Petro Rio mindset? And the second question I don't want to speculate on the valuation of Albacora, but I imagine that the size of the check might be relevant. So I want to understand any restrictions regarding the size of an individual asset in your portfolio, in terms of production in terms of the size of the acquisition. And if perhaps in the future you could buy the COBRA Group's stake in Albacora, I just want to get a sense of what you're thinking?

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

Well, Bruno, this was also our concern regarding the Spanish Group, that is being sold. Of course, that raised some doubts for us, but the process happened even before the first bit this was already going. I'm not sure whether it has been formalized or not, but this process that we knew about, since the beginning of the story, since the beginning of the relationship. It was not something that cut us by surprise. And as far as we know, we had some conversations with the Group, the C level of the Group.

What it makes us for the French, because the COBRA Group had an interesting pipeline, including our partnership with them. So, we don't see it as a problem, we don't see it as an issue. We are in constant contact with them with formal documentation regarding the bid agreement and so on and so forth. So we talked a lot. And of course the decision regarding capital allocation, and will be then abroad then they have their own Board. The French company has its own Board, but you know day-to-date, nothing has changed. We continue to work with the COBRA Group, the Spanish group. So we don't think of that, this will bring obstacles.

And there was another part to your question, how was it, Bruno? Was it this?

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

Yes, I'm thinking about the valuation of Albacora, can be a big check bigger than what we have seen in Petro Rio's portfolio. To have any restriction regarding the size of an individual asset, in terms of production, production contribution? And if you could think about acquiring the stake of the partner and own 100% of the asset.

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

No, we don't have any restrictions regarding asset size in Petro Rio's portfolio. And yes, in the future, if the partnering group is interested in selling will be the first to look into that like our assets. So that's why in Wahoo, we are trying to acquire the rest of the working interests. And if we are to be the owners of a piece of Albacora would be no different here.

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

So, yes, interested. But the main point about our company is how we allocate our Capital? In the bid, that we submit will need to have the adequate return on the capital invested. We stopped about 20% to 30% return in dollars and this is our business and with the hand, we try to allocate capital. This is the main driver of our operations. Of course, there are things that we look at. And we will not bet the whole company on one single asset, but more and more we're getting away of those kind of scenario. We have Polvo and TBMT. We have Frade. We have Wahoo. So I guess we are beyond that. We already have a diversified portfolio of assets and our thinking is a focus on return a bit, if it is attractive, and if we have an adequate return.

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

Very clear. Thank you.

**A - Jose Gustavo** {BIO 1862213 <GO>}

Bruno, thank you for the question. Now we will move to room question. But given that we are beyond the time allotted to us, we'll answer all of them together. The first is from Rodrigo Cicada [ph]. He asks about North six rig that we contracted for Phase I of Wahoo. And he asks about the second phase of Frade? How this would fit in the schedule?

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

For the contracting model, already included that. We closed the first Frade campaign. and we'll move to Wahoo. And then we left an option. We have 350 days with five possible wells to be drilled. Under the four wells in the second phase of Frade, and something extra that might arise. We have a two-year horizon for that. But these are options. After the 500 days, we will decide on a well-by-well basis. With that, we believe we have two years of a direct and synergic campaign for Frade and Wahoo.

**A - Jose Gustavo** {BIO 1862213 <GO>}

Perfect. Thank you. And one last question by R.J. Miro Rodriguez [ph]. He is asking about our hedging for the next quarters considering oil price?

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

Milton, you will help me with this.

**A - Milton Salgado Rangel Neto**

We recently did some hedging operations protecting the sales price from June to October for a net sale, net selling price is around 68, so it's actually between 65-30, 65-40 for 100% of our offtakes in June, July, August, and 50% from September to October. So some time ago considering the six month time frame, we announced adding new possibilities of extending the hedging into November or December. So we are following oil prices up close and particularly volatility in oil prices. Volatility is 35-36 points. So for hedging purposes, when this level is down to 30, 32 points, we're considering this. The company is well hedged until October, as I mentioned and we're keeping our eyes open.

FINAL

Let me clarify something over a minimum selling price. It's almost to \$68, that is the minimum selling price. Everything above that is ours. If it's less than that, we'll keep \$68. And to have this kind of hedging insurance, we pay kind of little over \$2. So it would be 68 minus 2, around 2, so that gives us \$65 and cents. With these \$2 have been paid. They are part of that financial expense that includes hedging cost. So looking forward what we are going to see is a minimum price, minimum selling price of Brent of almost \$68 per barrel. And talking about June, July and August, and then in September, October and November, we are talking about half of our production. We look at oil volatility and when volatility is reduced, we do the hedging. We make adjustments, so that for the next three months, we have 100% of production hedged, and then 50% of production hedged. We hedged our oil in June, volatility increased a lot and that is why we didn't update our hedging policy. So we're waiting to see if we have low volatility will replenish our hedging levels.

**A - Jose Gustavo {BIO 1862213 <GO>}**

Well, everyone, thank you very much for the questions. We are closing the Q&A session, and I turn the floor to Roberto for his final statements.

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

Well, Jose, thank you. I would like to thank all of you for participating in this conference call. Thank you for participating. I would like to particularly thank all of our investors who have always back those up and continue to support us. And I would like to thank again all of our employees, who delivered a very good quarter. They completed the tieback in very good time, just seven days beyond what we thought a year ago. So you know congrats on budget, on time. And I'd like to thank all company employees who were able to exceed the expectations deliver an extra mile for us to deliver these positive results. I wish you good health. Hopefully, we are at the end of this COVID process, the population has been vaccinated, the economy is recovering and everyone is getting close to resuming normal life. So, thank you very much. Stay healthy. And I'll see you next quarter. Thank you very much. Petro Rio's conference call has ended.

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