Conference Call Transcription
4Q20 and Year 2020 Earnings Results
Enauta (ENAT3 BZ)
April 1st, 2021

**Operator:** Good morning everyone. At this time, I would like to welcome everyone to Enauta's fourth quarter and full year 2020 earnings conference call.

Today with us we have Mr. Décio Oddone, CEO, Ms. Paula Costa Côrte-Real, CFO and IRO, Mr. Carlos Mastrangelo, Production Director.

We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the company's presentation. After Enauta's remarks are over there will be a Q&A session, when further instructions will be provided. Should any participant need assistance during this conference call, please press star zero to reach the operator.

Before proceeding, let me mention add forward-looking statements that might be made during this conference call relative to Enauta's business, perspectives, projections, and operating and financial goals are based on the beliefs and assumptions of Enauta's management and on information currently available to the company. They are not a guarantee of success as they involve risks, uncertainties, and assumptions because they relate to future events and, therefore, depends on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factories could also affect the future results of Enauta and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Ms. Paula Costa Côrte-Real, CFO and IRO, who will start the presentation.

Ms. Côrte-Real, you may begin.

**Paula Costa Côrte-Real:** Hello, good morning everyone, thank you very much for joining us in our conference call to discuss fourth quarter and full year 2020 earnings results.

To begin, I hope you're all well. At this time, we are still going through a delicate phase of the COVID-19 pandemic. At Enauta we recently returned to remote working after the recent restrictions imposed, and in our operation, we continue for more than a year to follow all safety protocols to reduce the risk of transmission of COVID-19.

We are on slide 2 with the highlights of the quarter. We ended the year with a cash position that was quite relevant of R$1.7 billion, and we intend to use a good part of these funds to rebuild our portfolio. The goal is to diversify our revenue sources and create value for our shareholders.

Total production in the fourth quarter was 1.3 million barrels of oil equivalent in fourth quarter 20, equivalent to a daily average production close to 14,000 barrels of oil equivalent, it represents a 49% reduction compared to the same period of last year.

Our 2 assets, when we compared them in the yearly comparison, both Manati and Atlanta presented a production reduction for different reasons: at Manati, we were very close to the guidance that we had had for the year, we were able to reach that amount particularly due to production recovery along the last quarter of the year, actually, along the second half of the year because in the first half of the year we had the effects of a reduced demand for gas linked to the pandemic; as regards Atlanta, production was below our guidance of the estimated interval, particularly for operating reasons in the performance of the FPSO and we will detail that momentarily.

In the quarter, we had some relevant definitions for Atlanta field. In December, we signed an agreement with Barra Energia to takeover 100% working interest of the field. This deal has been approved by the Brazilian Antitrust Agency and is now awaiting approval by ANP.

From the operating standpoint, we resumed production at the field at one well, the second well should resume production in April of 2021, and we are working to have all 3 wells of the Early Production System to be operational by mid-2021. In March, we began the bidding process of the FPSO for the Full Development System at Atlanta and we will give you more on that along this presentation.

As regards to the exploration portfolio, it is important to highlight that we expect to drill the first exploration well in Sergipe-Alagoas basin in the second half of this year in the increment of our exploration portfolio with a 30% stake acquisition of 4 blocks in the Paraná basin in the permanent offer by ANP.

On slide 3, we can see more detailed our production performance this year. Like I said and we have been talking about this, at Atlanta we had some operating issues related to the FPSO, we operated with only one well during most of the fourth quarter of 2020, we even had a preventive stoppage of production in November for repair purposes. For that reason, in the fourth quarter production at the field was at approximately 7,000 barrels of oil a day, down approximately 76% year over year.

When we compare 2020 with 2019, we see a 9% reduction with an average of 17,200 barrels of daily production. Annual production was a little lower, very close, actually, to our projection, close to our lower range. We had estimated 18,000 and we had 17,200 barrels of daily production on average.

The good news about Atlanta is that issues related to the operation have been addressed and they are being resolved. We exchanged the pipeline of the oil heaters, one of the wells is already producing 10,000 barrels a day, and the other 2 wells are scheduled to resume production in the second quarter. We estimate 14,000 barrels of oil a day plus or minus 10%.

In Manati, in addition to the natural decline of the field, which is expected, we had a lower demand as I mentioned, a lower demand for gas in the first half of 2020 because of the COVID-19 pandemic. The Manati reduction was about 20% comparing fourth quarter 2020 over fourth quarter 2019 totalling 3.6 million m³ daily. Well, in the whole year we are talking about a 34% reduction totalling 2.4 million m³ daily. This average production was already expected and that's why it is within the estimated range that we had for the field between 2.1 and 2.5 million m³ of daily production.

It is important to remind you that Enauta signed a Sales Agreement to sell its 45% stake to Gas Bridge for R$560 million, and this amount can increase depending on some conditions precedent and regulatory and commercial conditions.

As part of the SPA signed in August of 2020, we continue to receive the result of the field until December 31st, 2020. As of January 1st, 2021, until the completion of the deal (if the deal is finalized), this adjustment of the accounting result of Manati will be adjusted by the total sales price of Manati.

On slide 4, as we could see in the earnings release, we disclosed, we had a spontaneous restatement of our financial statements of 2019, and very soon we will be presenting that for the first month of 2020 restating the way in which we were accounting for leases due to an interpretation of IFRS 16 accounting standards and the impact of our stock option plans granted by the company until 2016.

So, basically, we had 2 impacts of this restatement: the first was related to IFRS 16, what changed was that we were updating the value of the contracts based on exchange rate. IFRS 16 is a standard in which we activate the right of use of the asset; and on the other hand, we have the obligation to pay when we contract that asset, and several of our contracts are dollar-denominated, particularly in 2020 we had great exchange volatility and the impact of that volatility of the exchange rate in dollar-denominated contracts the way in which we were accounting for that exchange variation was capitalising on the asset, and that impacted the result according to the amortisation of the asset. In other words, over the lifetime of the contract and not directly at the time of the exchange variation happened.

In this reinterpretation of the standard IFRS 16, we started accounting for it directly on the result accounting for the exchange variation on the asset, so we had a variation in the result referring to the leases in foreign currency. It is important to say that both this adjustment and the stock option plan adjustment in the way in which we accounted stock option plans, well, this had no effect on the company's cash or tax effect because both IFRS 16 and the stock option provision are excluded from the tax base of the company, so they do not affect our income tax paid and to be paid, and they do not have a cash effect because these are accounting provisions.

Regarding stock option plan, the reinterpretation was the recognition on the results only by the fair value of the options at the moment of granting, and during the vesting period of the options for each one of the employees who were granted the stock option plan. So just once that happened either via prescription of the stock option when the vesting period was over or via the effective vesting period did not affect the results anymore and started being an adjustment in the asset account. The reversal was a consequence of the stock option plan adjustment, which led to reinstatement of the 2019 results and of the first nine months of 2020.

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Combined adjustments of 2019 represent a reduction of 31 million in the net income combining stock option plan and IFRS restatement in the first 9 months of 2020 R$158 million.

I'd like to remind you one more time that these adjustments do not produce any effect on the cash or cash equivalent balance of the company and do not have a tax impact either.

On slide 5, we present the results of fourth quarter 20 and full year 2020 results. 2019 results presented in the earnings release already the corrected amounts after these restatements that I have just mentioned. As you can see, production reduction and accounting restatement impacted both revenue and net income. Compared to the fourth quarter of 2019, the revenue in the fourth quarter of 2020 dropped 54% totalling R$187 million and the tax reduced by 47% to 137 million while net income was down 68% totalling R$38.2 million in fourth quarter 2020.

On the other hand, Ebitdax margin was up 5 percentage points and it was benefited by a reduction in operating costs also on the back of the performance of the Atlanta FPSO.

In the annual comparison, 2020 revenue was down 15% totalling R$945 million and Ebitdax of the company followed, dropping to R$796 million while net income was R$124 million.

As regards the composition of our net revenue, Atlanta accounted for 70% of our revenue in 2020. So, looking forward, what we are actively seeking is the acquisition of new producing fields with a potential to grow the recovery factoring that can bring us a diversification of portfolio, risk reduction to the company, and particular value generation in our portfolio.

On slide 6 I'll speak a little about our liquidity and why we believe that we are in a very privileged position to enjoy consolidation opportunities in the oil and gas market in Brazil, and this has to do with our business expansion strategy, our debt amounts to R$217 million, it was reduced in 2020 because of the amortisation of loans according to the terms of the contracts. Our leverage is still very low, we have a lot of room in our balance sheet to take on new debt, to optimise our capital structure, and this can be another opportunity to create value for our shareholders.

Our estimated Capex for the next 2 years at US$145 million and if we consider the financial position of the company today, it is fully equated with the funds that we already own.

Now I'm going to give the floor to Décio, he's going to conclude our presentation and then I come back for the question-and-answer session.

Décio, over to you.

**Décio Oddone:** Good morning everyone, it's a pleasure to be here with you today at this conference call.

Paula already reported the major events of this quarter and for the full year, so now I'm just going to add a couple of data before we move into the Q&A session of our conference call.

From 2020 and early 2021, we had a very intense discussion at Enauta about strategy and based on the sale of Manati and the decision made on Atlanta we are revisiting our strategy. That's nothing new about it, we already mentioned this in our latest conference call, which was the first one that I was involved.

We believe that a company of exploration and production of oil and gas like Enauta, an independent company, has greater chances of generating value when the portfolio is diversified and encompassing not only geographically speaking but also in terms of the opportunities provided.

Enauta had Manati, which was a producing asset for a long-time generating cash and also Atlanta asset in development installing an Early Production System, so we could move into the Full Development System with consolidated information, and finally a portfolio, an exploration portfolio that is second to none in Brazil as the first asset to be mature soon, which is Sergipe-Alagoas to be drilled soon.

With the sale of Manati we need to work again on our portfolio of producing assets and that's a favourable time, never did we have in Brazil this market of producing assets that is so active as we do today. At the same time, it is favourable because we managed to overcome challenges that we identified in Atlanta.

From the moment our partner decided to leave, at that time we assessed the field, we worked on a project, a more robust and resilient development project, we talked about it before, we were pursuing a project with lower oil prices to be robust and that's very positive. This allowed us to make a decision to take those 50% working interest from our partner who is about to leave, we are just waiting for ANP final approval to complete the transfer, and now we moved into a bidding process of the platform FPSO, technically speaking, of the Full Development System at Atlanta, which happened recently. We're also working with FPSO 50,000 barrels of oil per day, 6 to 8 connected wells, we already have 3 wells and a lot of equipment already purchased, and we also have an exclusivity contract for 12 months of an existing FPSO OSX-2, which never operated before and we expect to conclude the bidding process from 10 to 12 months. And we're also about to start a process to go for new partners for Atlanta because we like to diversify our opportunities.

We firmly believe and bet on this project, but we want to have a more diversified portfolio.

Another interesting part of Atlanta is that we faced these challenges and I know you followed it up last year with the heaters of heavy oil in Atlanta and we tried to have this well open and running, it was back in February and Paula already talked about it so we can have the 3 wells operating and we'll do everything we can in order to minimise this timeline between the end of the Full Development System and the arrival of a final development system in 2024.

So, Atlanta today is a project that we want to, well, we want to resume the full capacity in the Full Development System, it will be completed in the following months and we are also moving forward into the Full Development System by taking into account every piece of information and all the lessons learned in the Early Production System and that was the purpose so we can now optimise our operations, improve efficiency, costs, logistics both now in the Early Production System based on information we mentioned before and also in the Full Development System.

So, in the coming months we expect to increase our efficiency in Atlanta, which will also have a positive impact on the Full Development System down the road.

Exploration assets now. They are becoming more mature, our forecast is to drill a well in Sergipe-Alagoas basin expected to happen in the second half of this year, we're partnering with Exxon and Murphy Oil, we'll have high prospects in these assets, they are very close to significant discoveries already happening in the region. Environmental licence request was already submitted to the regulator and we have an agreement which brings a cash call for us, we don't have to pay the full cost, our estimate is that our cost in the first well will be US$8 million and the rest stems from the agreement we have with our partners in terms of having our share in the drilling process of this well, and we expect that upon discovery this will open more room for us to continue exploring another 8 blocks we have in that region.

We already mentioned as well that by the end of last year in the second round of the permanent ANP round we had a 30% working interest focusing on gas in Paraná basin located close to market and if there is a discovery, we have good prospects of commercialisation.

So, just to conclude, I'd like to remind you that Enauta is a company under transformation, we resumed our operating capacity of the Early Production System at Atlanta, now we're optimising the efficiency and the results of the project until the end of its life cycle, we already started the process to hire the Full Development System, we are looking for a partner on a structured basis and we see the market with plenty of opportunities to work on our portfolio again once we sell Manati, and even if we don't sell it, Enauta has enough funds to think about acquisitions.

Today, the Brazilian market brings these opportunities for us as never before, so it's a good time for us to add to this strategy, which is a strategy to build a more powerful portfolio of all companies that are operating in Brazil today considering cash generation as the major pillar, and also the development of Atlanta, and selective exploration with another 2 to add more value to our shareholders.

So, consolidating the company's culture which is based on financial discipline, adequate risk, management, and when it comes to operating efficiency, we respect the environment, governance rules, compliance, and giving room to more diversity.

So, with that, I conclude this presentation and I ask the operator to move into the Q&A session.

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## Question & Answer Session

**Operator:** Thank you. We are beginning now the Q&A session. If you want to ask questions, please press star 1. If you want to remove your question from the queue, please press start 2.

Our first question comes from Bruno Montanari, with Morgan Stanley.

**Bruno Montanari:** Good morning, thank you for the opportunity. I have a couple of questions. First, speaking about dividends, we saw the announcement of much lower dividend payout this year, and I would like to know whether there is a door still open for additional supplementary dividend payout along 2021 or whether the company will really embark on a more aggressive investment programme with the Capex that you disclosed in the release.

My second question, Décio, is that you mentioned – and we agreed – the market is over heated regarding Petrobras divestment programme, several players have positioned themselves in some offshore assets, and I'd like to know: where does Enauta fit? Are you potentially considering acquiring one of these assets? What attracts Enauta in terms of category of asset?

And a third accounting question, I'd like to confirm that positive cost that we saw at Atlanta in the fourth quarter. Does that include the R$56 million that we saw on slide 4 of the presentation? All of that in the fourth quarter, and was that the cause of the distortion?

**Décio Oddone:** Hello Bruno, thank you for the questions and for joining us.

First, regarding dividends, well, we consider all possibilities and circumstances of the company, so the dividend payout is what we thought was adequate, and it was the opinion of our Board of Directors as well for this moment of the company.

Second question regarding assets, Enauta is looking into the opportunities out there in the Brazilian market, we are actively considering this. We don't comment on the opportunities that are underway, what I can tell you is: we don't have restrictions to the environment, we're looking at potentially shallow water, deep water, on shore assets. The focus is not on the type of asset, but on value creation. If it's oil and natural gas producing assets, we will consider those and we will look for the opportunities that we think can bring value generation, that can create value to our shareholders.

For the third question, I will turn the forward to Paula.

**Paula Côrte-Real:** Hello, this is Paula. Thank you, Bruno. As regards Atlanta costs in the fourth quarter, I think it is important to mention that we had an impact on the operating cost related to the performance of the FPSO, which impacts the cost of the FPSO and has an impact on the accounting. And yes, the Atlanta cost, the IFRS impact and going back to the exchange variation, the exchange variation went in the opposite direction in the fourth quarter of last year. So, yes, that also includes the impact of the reversal of the positive exchange variation that happened because of

IFRS 16 and of the dollar-denominated contracts, as I mentioned, as a result of the restatement.

**Bruno Montanari:** Okay, so it's all limited to the fourth quarter?

**Paula Côrte-Real:** No, no, it is not. I'm sorry, we will restate the 9 months results and we will allocate that along the 9 months, it was positive in the fourth quarter and exchange variation had its biggest effect in the first quarter. It was a negative exchange variation in the first quarter, that's when we had a higher exchange fluctuation.

**Bruno Montanari:** Okay, understood. Thank you, Paula.

**Paula Côrte-Real:** Alright, you're welcome.

**Operator:** Our next question comes from Mr. Gabriel Barra, with UBS.

**Gabriel Barra:** Hello, Décio, Paula, thank you. I have a couple of points. One has to do with the reserves, I would like to understand: what are you thinking looking forward, because there was a significant reduction in the reserves? So, what can we expect?

And another point: could you give us some colour on the impact of other problems in the release on the reserves?

And as regard Atlanta, I think you talked about this in other conference calls: could you give us an update regarding capital allocation? The company has 1.7 billion in cash plus receivables, and it would be investing almost 1 billion at the field. So, I would like to understand, because you said you have a lot of room for taking on debt to improve your capital structure, I'd like to know what you're expecting regarding funding and where would that funding come from as regards oil price looking forward.

What is the expected oil price that you were considering for the future and considering not the Full Development System? If you could give us an update on all of that it would be very useful. Thank you.

**Décio Oddone:** thank you, Gabriel, for joining us. As regards our reserves, I will turn the floor later to Mastrangelo to complete the answer, but we use a long-term Brent in the long term of US$50 per barrel, that's what we're considering for the approval of projects in normal conditions, in normal temperature and pressure conditions.

So, we are monitoring this all the time, but this is not written on stone, it is subject to case-by-case evaluation, and evaluation of what's happening in the oil market.

And as regards our capital structure, Enauta clearly has funds to invest and it also has the possibility to change its capital structure, we have a lot of room to take on more debt, and Paula can add to the answer there.

And as regards your third question, the Full Development, our goal was to have a very robust and resilient project in which we would have no doubts regarding project resilience. It means an oil price way below the range that I mentioned. Initially, we're thinking about US$40 or under that, and we were able to get a better number, particularly because of operating improvements and optimising the project, optimising Capex, the Capex dropped significantly because we reassessed the project and reduced the number of wells.

A good part of the equipment has been acquired, we have the Christmas tree, we have made a lot of investments and contracting for the wells. In accounting terms, they have not been allocated, but they have been acquired, and since we're talking only about 3 wells with an option of drilling 2 more, the Capex was way reduced and the project became a lot more robust.

So, now I will turn the floor to Mastrangelo to make some comments regarding the reserves, and I'd like to take this opportunity to introduce Mastrangelo. Carlos Mastrangelo is our Production Director, and we will start calling that Operations Office if the Board of Directors approve a change in our bylaws, he has a vast experience and is helping us a lot in Atlanta. We also have a very experienced Project Manager to help Mastrangelo, he has worked in practically all of the big FPSO companies of the world, he was involved in many many projects.

So, I'll turn the floor to Mastrangelo now that you know a little bit of him to add more comments to your question.

**Carlos Mastrangelo:** Thank you, Décio. Hello, Gabriel. Let me try to put things into context regarding water.

The pilot system, the main objective of the pilot well was to get to know the reservoir, to learn about its characteristics, so there was a positive side to show that the water there is active, so we don't need to add pressure during production. But, indeed, there is a drawback because we're extracting more water than we had initially thought and the consequence of that is that the Full Development System will need to consider a greater water production, which is what we are considering now.

So, yes, there has been an impact because at the end of the lifetime or the lifetime will end a little earlier because of the water impact on the oil. So, there has been a little impact, but an impact, nonetheless.

**Décio Oddone:** And your second question was related to our ability to take on more debt in capital structure. So, Paula?

**Paula Côrte-Real:** Alright, Gabriel, good morning. Regarding your question related to the company's leverage, I think it is important to highlight a couple of points: number one, when we speak about Capex for Atlanta development, we are talking about a producing asset, so a good part of that Capex is funded, especially if we're going to drill the last 2 wells will be funded by money that comes from the project itself, so that helps the Capex; and if you think about the main acquisitions that we are considering to increment and expand our portfolio, one of our main objectives is to diversify assets and revenue sources, and because they are producing projects, once again these projects will generate cash and that will help the necessary Capex to increase production, and these are leverageable projects I should call them; the final structure will depend on what our portfolio will be like by the end of the expansion programme, our portfolio in the middle term.

So, I cannot really tell what the final equation will look like, but we'll probably take on debt by project until we have a final defined portfolio. Once we have a diversified portfolio, diversification itself will reduce risk, increase cash generation, and that will optimise the cost of debt, the cost of corporate debt, and I think this is the right combination, I mean, there are a number of ways of taking on funding: can be based on reserves, we can use reserves as a guarantee, as a collateral, it could be a project finance, it could be a corporate debt.

So, as we have diversification of our portfolio, more revenue, and if we reduce the corporate risk, by diversifying the portfolio we can optimise the company's leverage.

So, this will be to have analysed case by case. I believe that overtime we will mature towards more efficient instruments that will benefit the company and we can build on the diversification of our portfolio.

So, this is still a moving target for us, it's something that we will plan overtime, obviously analysing the several possibilities, opportunities, and considering the most efficient for this kind of leverage.

**Gabriel Barra:** Thank you, very clear.

**Operator:** Our next question is from Rodrigo Almeida, with Santander.

**Rodrigo Almeida:** Good morning, Décio, Paula. Thank you for the presentation.

The first question is about drilling the fourth well in Atlanta. What is the rational and the impact this year? What is the level of comfort when it comes to the capacity of Atlanta's FPSO processing more water? What about the additional well and a little bit more about the Capex behind this operation?

The second question still about Atlanta's well, could you tell us more about the pumps and also the supply? And another point about Atlanta's Full Development System, what about the exclusivity agreement, Enauta's right to buy this platform, for instance, and perhaps later on the purchase option would you move to a third one?

So, I'd like to better understand the exclusivity agreement, the purchase option, and maybe the total Capex of the project. I know you don't have so many signs right now, but just to know if it's under 1 billion or around this range.

And the third point is about Sergipe-Alagoas, if I understood you correctly about Exxon, you might have drilling another 2 additional wells, so I'd like to better understand from you how you see that and Capex for 2021 and the drilling of additional wells in Sergipe-Alagoas.

Basically, these are my questions. Thank you.

**Décio Oddone:** Good morning, Rodrigo, today go thank you for following us up. I'll move straight into the questions and then I'll turn it over to Mastrangelo to talk about the fourth well in Atlanta and the exclusivity agreement.

When it comes to Capex at Atlanta, we are working with a figure that is around 50 and 70% of the numbers that you mentioned around 1 billion, it will all depend on the number of wells, these are still preliminary numbers that we're working on, and therefore, they're subject to revision as we work on bidding processes, and we have an effective contract of these services, but that's precisely one of the goals: to lower the Capex of the project. Mastrangelo can give you more colour as well.

With regards to Sergipe, if we are successful drilling the first well in the basing, possibly we're going to assess the results before we go back to another drill in the basin, possibly we're going to run a test, the drilling process is not fully defined yet, we haven't talked about it to the operator, but I don't expect to see another drilling in Sergipe-Alagoas this year. According to our current timeline, we expect to have just one well.

And now I turn the floor to Mastrangelo to talk about the fourth well in Atlanta and also the exclusivity agreement.

**Carlos Mastrangelo:** Rodrigo, the fourth well in Atlanta, we are still analysing it, we haven't decided anything yet. And why is that? It will all depend on the volume of changes that we might have to work on on this unit in order to adapt it to a higher water production, so it will all depend on a trade-off, we'll have to analyse what is most helpful, for instance, to debottleneck the unit and its capacity to separate water from oil so that in the future we can extend the life of the unit with these 3 wells, and we also need to debottleneck the treatment capacity of the water that will be separated and compared to the alternative of having a fourth well earlier on.

So, we haven't made a decision yet. So, to put it simply, that's what we're doing right now.

And I think you had another question about the pumps if they were already purchased. No, we have the pumps for the 3 wells, they are already producing, and they will be reused in the Full Development System, and right after that we're going to start a bidding process in order to work on the remaining part of next 3 wells. Part of the Capex that Décio talked about and then later on another possible 2 wells.

OSX-2, what we have is an exclusivity agreement for the purchase of the FPSO, we can buy it or transfer it to a third party to buy it, so that's the agreement: a one-year contract, it was signed and right after that we started the bidding process for the Full Development System considering the use of OSX-2.

**Rodrigo Almeida:** Perfect, it's clear. Thank you very much.

**Operator:** The next question is from Leonardo Marcondes, with Itaú BBA,

**Leonardo Marcondes:** Good morning everyone, thank you for taking my questions.

My first question is about a potential partner for Atlanta. Just to have a better understanding, I'd like to know if you already have anyone interested. Are you looking for a more financial area or different areas, and if the sale is related to the 50% stake that you just got, is it around 50%?

The second question is a follow-up question about Barra. You mentioned that you redesigned the project of the Full Development System in order to be more resilient Capex and Opex wise. For Capex, I think this is mostly related to drilling fewer wells, but also, I'd like to know if you could share a little bit more about what you envisage for cost reduction in Opex. These are my questions, thank you.

**Décio Oddone:** Good morning, Leonardo, thank you. About the partnership in Atlanta, we will be working on a structured basis, we're going to hire and contract an adviser so we can have a structured process. This project turned out to be very good, we're very happy with the results achieved by optimising the project as a whole. Enauta is a company that needs to diversify its portfolio, we like Atlanta's portfolio, a Capex project for hundreds of millions of dollars it would be interesting to have different partners depending on how the process evolves, and also, the offers we'll have in the future.

Our goal is to move forward with this project preferably with partners, so let us see how the process of pursuing partners will evolve, but if the project is good for us, it might also be good for others. That's our perception right now.

With regards to the resiliency of the project, it was not only Capex. Capex, but also approach, approach of the project, consolidation of the lessons learned, and experiences with the Early Production System, they are very important, and one of the goals, like Mastrangelo said, one of the goals of the EPS was precisely this: allowing the Full Development System to be developed based on the lessons we learned before, and that's what we're doing right now, and these lessons also entail improvements to logistics, operations including the FPSO project, and optimization of the whole contracting process.

And now I turn it over to Mastrangelo so he can tell you more about the operations.

**Carlos Mastrangelo:** Thank you, Décio. Leonardo, like I said before, I think we can consider it to be an evolution, a continuation. The Early Production System at that time we had the development of the Atlanta field and it was in the midst of uncertainties and in order to cover uncertainties we pursued resources and items and funds should we need them because at that time we didn't know exactly how some pieces of equipment might perform, so now after 3 years of operation we have a better knowledge of the reservoir the features and characteristic soft productions fluid composition the separation, the features and characteristics of productions, fluid composition, the separation of the mixture of oil, gas, and water. So, we got into a phase in which it is possible to take from the project… to take out of the project unnecessary items and have it customized to what we really need.

At the end of the day, this was the function of the Early Production System and now planning for the future into the Full Development System we want to use as a reference our vision of the operational cost based on the experience from the Early Production System, and this leads to optimise Opex and adjustments to what we really need just getting rid of the excess. So, that's what we mean by “optimization”; it is an adjustment to what we really need.

We don't need to cope with the same level of uncertainty we had before.

**Leonardo Marcondes:** Got it, perfect! Thank you very much.

**Operator:** Our next question comes from Anderson Barreto, Mapfre Investimentos.

**Anderson Barreto:** Hello everyone. You spoke a lot about diversification of the company’s pipeline, you made it very clear that you have no preference for asset category, but there is also an expectation by the company that perhaps you have more attractive projects in the first or second half of the year.

We just want to understand what kind of path the company will be taking looking forward. That's my first question.

My second question is I would like to have a better sense of the need to restate some line items of prior quarters, if you could comment on that very quickly it would be very helpful and thank you very much for taking my questions.

**Décio Oddone:** Hello, Anderson, thank you for joining us. Regarding diversification, again, we have been insisting that our main goal now is to rebuild our portfolio with producing assets, to have cash generation, and to have a more rebalanced portfolio. I talked about that, Paula talked about that, and Mastrangelo as well. So, we don't comment on opportunities that are underway, okay? And what I can tell you is that we are actively scouting for opportunities and we expect that along 2021 some of these opportunities will come to fruition. This is the current situation right now.

Regarding the financial statements and restatements, I’ll turn the floor back to Paula.

**Paula Côrte-Real:** Hi, Anderson, hello. Well, as regards the restatement, like I said, we had 2 effects: one was effect of the IFRS 16 standard; and the other one was related to the accounting of stock option plans.

The biggest effect came from IFRS 16, no doubt about it, that was the first discussion we had, and it was material enough for us to reopen 2019 prior quarters and restate everything. I'd like to remind you that IFRS 16 standard rules are oftentimes subject to interpretation, they are not as clear and specific, oftentimes is subject to interpretation, internal discussions, discussion with auditors. It's a standard, the IFRS 16 standard is relatively new, it is the second year that we've been implementing it, and I think that along the last 2 years a jurisprudence has been created, a case law has been created in terms of how to interpret the standard, how the company, the auditors and the others interpret this standard.

So, we are maturing in that. But looking at the standard and the way in which it was being treated by the market and with the discussions on going, we understood that it would be correct to revisit the way the accounting was being done, so instead of capitalising the exchange variation and recognising it on the result itself, we took this to the auditors, we discussed with the auditors, they agreed with our understanding, and we thought it would be more transparent and more correct to spontaneously and voluntarily restate these line items and reinterpret the standard.

With that, we had the biggest impact of exchange variation to this year when we had an important depreciation of the Brazilian real, so an important exchange impact. On the other hand, since we're not capitalising this value on the asset, the impact of that exchange variation will be lower in the coming years because the 2020 exchange variation is limited to 2020 fiscal year, it will not be carried forward via capitalization of the asset to the following years, so instead of impacting the following years, we thought it would be more correct to have that reflected on the 2020 result.

That was our discussion internally and with external auditors, so that's why we restated the financial statements because 2020 was the year where we had the biggest impact and we wanted to have a more transparent and adequate financial statement, and that's why we chose to have this voluntary restatement.

**Leonardo Marcondes:** Perfect, thank you very much.

**Operator:** As a reminder if you have a question, please dial star 1.

We will now answer questions via webcast by Mr. Geraldo Silva. The question is: “Sale of Carcará, as informed the last instalment of 144 million depends on the unitization of production areas. How is the process with Equinor? Any expected time for completion of the deal? Does the SPA include any fines or value updates?”

**Décio Oddone:** Well, thank you for all of you following us over the webcast.

Paula, you can answer that one, please.

**Paula Côrte-Real:** Regarding the first instalment by Equinor, 144 million, indeed, as the question said, it depends on the unitization of the areas and this process is conducted by the consortium, so we follow public information. As regards the amount, it is a fixed amount, it is dollar-denominated with US$144 million, and it is a fixed amount.

**Operator:** Please hold while we take questions.

Our next question is from Lucas Ganso: “Good afternoon. Mr. Oddone, could you tell us more about production assets that Enauta is considering, Carmópolis, Golfinho and Albacora. Is Enauta interested in these assets?”

**Décio Oddone:** Good afternoon, thank you for your question. I think I already answered this, actually, during this conference call. Enauta cannot make comments on specific opportunities, so I'll repeat what I said before: we are actively searching for existing opportunities and we hope we can find opportunities that will bring or generate the expected value, justify an acquisition by the company.

**Operator:** The next question is from Lucídio, with LP SAT: “Good morning, congratulations on the accounting restatements and corrections in the standards. For new acquisitions, are you going to use cash or make use of funding with low interest rates? The current cash seems to be too high and if the money is not used it will be depreciated owing to high inflation rates. Wouldn't it be better to have dividend payout? Thank you.”

**Décio Oddone:** Thank you for your question, good afternoon. I agree with you, if the company does not use cash to work on projects that will bring value to shareholders above the cost of capital the best thing is to give it back for shareholders to use it properly. Our plan, like we said before, is to use these funds or part of the funds depending on the opportunity to work on the portfolio of the company's production assets, that's the goal.

And I turn it over to Paula to add more colour to comments on interest rates and contracts.

**Paula Côrte-Real:** Like Décio said, he put it well, the company cash makes sense to be invested in activities. Actually, we have a very robust cash position, we've been doing that for a while. On the other hand, we are going through a moment that is very peculiar in this area in Brazil, we've seen several opportunities to allocate funds in this activity.

In the past, in the track record of the company, we have this policy of dividend payout by the way of 0.15 per share, which is total R$40 million, and in the past, we noticed this excess cash and we understood precisely what you said that it would make more sense or it would be more efficient to have this cash paid out to shareholders rather than keeping it at the company.

Like I said before, this is a very special moment in the industry, and we understand this additional cash position is a uniqueness at Enauta and it might be a tool in order to bring new opportunities into the company and generate more value. So, I think I couldn't agree with you more in terms of it makes sense for this cash to be invested in the activity.

As for leverage, I believe it has to be on a project-by-project basis. Like I said, the projects that we pursue they are already production projects and therefore they can leverage within the same project. However, overtime, the idea is that the growth and diversification of revenues and portfolio bring something that will also bring benefits to leverage as a Corporation, clearly reducing the company risk owing to the diversification of the revenue source, so the financial strategy is about this.

**Operator:** Please hold as we collect more questions.

Our next question comes from Carlos Herrera, Condor Insider: “Hello everyone, hope you're well. Thank you for the opportunity. I have 2 questions. Since the first quarter of 2021 is practically ended, I would like to know what trends can be expected for this first quarter. And we're getting started on second quarter 2021, it's very much worse than last year in terms of restrictions. How can the 2 quarter 2021 results be affected in comparison with the second quarter 2020?”

**Décio Oddone:** Thank you for the question. Paula, can you answer that, please?

**Paula Côrte-Real:** Well, as regards the first quarter 2021, Q1, in terms of the company's results what we have seen is production resumption at Atlanta field, so resumption of production at Atlanta and another well restarting production in February. So, when we look at the whole quarter, we still have the effect of the stoppage that happened in the end of last year and that was prolonged until February. For the second quarter, we expect that this well will continue to produce, a second well will start production again, and then we'll have all 3 wells in production in the middle of the year.

So, the trend is that the Atlanta results will only improve as we include production of each one of the wells.

As for Manati, it is one of the company’s assets, but as we said recently, in August of 2020 we signed a sales contract with Gas Bridge and if this comes to fruition the results of Manati as of January 1st will be in the accounting of the buyer, but the field is operating very well the results of the first quarter.

I guess we have to wait to know whether this will be incorporated in the company's results in the end of the year or whether it will be the sales price that will be decided later, but Manati is doing really well, it is producing really well.

And looking for the second quarter, your question was related to pandemic restrictions. So, I think that our company is affected by the pandemic of COVID-19 because it impacts ultimately the commodity price, so we start seeing now that we're going to have the vaccines and we’re very confident that the economic recovery will come as we progress in the vaccination process of our population, and of course, this will end up positively influence oil price and our future results as a consequence of that because the oil in the industry sector is very global, so when we talk about restrictions and the pandemic, this has an impact on the global economy and that directly impacts our result given the Atlanta oil price.

On the other hand, given the volatility of the commodity price, we also have a hedging policy, so even if we live through volatility periods, that can be expected until we have vaccination of most of our population, which will allow a more consistent economic recovery. Until then we try to hedge our oil offtakes so that we can ensure the necessary revenue so that we can continue operating the field and generating results for the company.

So, I think it's a combination of all of these factors.

**Décio Oddone:** And let me add to that. The beginning of 2021, considering the stoppage of Petrojarl 1 in the end of 2020, saw a resumption of the operating conditions of the vessel and the wells will start production again, as Paula said. So, I think that Mastrangelo can shed some light on the operating aspects.

**Carlos Mastrangelo:** Thank you, Décio. I think it's worthwhile understanding why it's taking so long to repair 3 pieces of equipment which are fundamental to process the oil because it's a heavy oil, a viscous oil, we need to heated up, and the equipment that failed and stopped operation last year, you know, the schedule we could have repaired first if we simply changed the pipeline as the way that it was initially expected, but because of greater corrosion that we found, the decision was made to have a definitive repair already considering corrosion characteristics.

So, we needed to have a special pipe that will allow us to restart operation definitively, and we will be able to be on that location for much longer with that. So, that took longer, and it impacted the first quarter, and it will partially impact the second quarter. The next well will start operating again in April, this month, and the third well will start operating again in the middle of the year.

So, it's all part of the operation this characteristic, well, it has to do with inspections that we do frequently and routinely, and occasionally we might find an issue when operating problem in a certain piece of equipment. If it is possible to live with the problem considering safety, integrity of the operation, it will be monitored more frequently while we continue operating.

In the case of the switches, the decision was to stop production in November of last year and the decision was to repair them to include more adequate material that fit the characteristics of the operation. If other issues come up and they don't impact the operation directly, we'll monitor these issues. This is part of our day-to-day operation. And thank you for the question.

**Operator:** Next question coming from the webcast: “The headcount of the company is aligned with producing assets, but it seems reduced for the assessment and prospecting of new fields, even if they are mature fields. How is the company dealing with Human Resources? Is the company developing new employees in areas related to geology, geophysics, or is the company resorting to third party auditors?”

**Décio Oddone:** Thank you for the question. Well, the company is constantly training people, particularly in our technical positions, we have a process of transferring knowledge from senior to junior employees, and Enauta is well-known for a strong technical team.

But specifically for the assessment of the assets that we are looking into, for this specific project we're working with outside consultants and they're supporting us in this endeavour, and in an acute moment of considering many opportunities, we do resort to third-party consultants, and it is the case now in addition to having the input from all our technical team.

**Operator:** As a reminder, if you want to ask questions, please press star 1. Please hold while we take questions.

Once again, as a reminder if you want to ask questions, please press star 1.

This concludes the question answer session. We would like to turn the floor back to Mr. Décio Oddone for the final remarks. Over to you Mr. Oddone.

**Décio Oddone:** Thank you very much for being with us at this conference call, it was a pleasure to be here with you discussing and talking about Enauta's performance and the company's plans and the new strategy of the company. We will be following that up over the year and if there is any piece of news, we will let you know.

And in the time frame, between the earnings conference calls, our investor relations area is permanently here for you for any questions you may have and if you're interested to talk to Enauta about information on the company. Thank you very much and this concludes our meeting.

**Operator:** Thank you. This concludes Enauta's earnings conference call. Thank you all for joining us today, have a great day.