

# Q3 2018 Earnings Call

## Company Participants

- Hugo Repsold Júnior, Chief Technology & Production Development Officer
- Isabela Mesquita Carneiro da Rocha, Executive Manager-Investor Relations
- Jorge Celestino Ramos, Chief Refining & Natural Gas Officer
- Nelson Luiz Costa Silva, Chief Strategy, Organization & Management System Officer
- Rafael Salvador Grisolia, Chief Financial Officer
- Solange da Silva Guedes, Chief Exploration & Production Executive Officer

## Other Participants

- Andre Saleme Hachem, Analyst
- Bruno Montanari, Analyst
- Fernanda Perez da Cunha, Analyst
- Gabriel Barra, Analyst
- Gustavo Allevato, Analyst
- Regis Cardoso, Analyst
- Vicente Falanga Neto, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good day, ladies and gentlemen. Welcome to Petrobras Conference Call with Analysts and Investors for the Presentation concerning its Third Quarter of 2018 Results.

I would like to inform you that participants will be in listen-only mode during the company's presentation, which will be conducted in Portuguese with simultaneous translation into English. Following the presentation, a Q&A session will begin and further instructions will be provided.

Present with us today are Mr. Rafael Salvador Grisolia, Petrobras' Chief Financial and Investor Relations Officer; Miss Solange da Silva Guedes, Chief Exploration and Production Officer; Mr. Jorge Celestino Ramos, Chief Refining and Natural Gas Officer; Mr. Nelson Luiz Costa Silva, Chief Strategy and Performance Officer; Mr. Hugo Repsold, Jr., Chief Technology and Production Development Officer; Mr. Rafael Mendes Gomes, Chief Governance and Compliance Officer; Mr. Eberaldo de Almeida, Chief Human Resources HSE (00:01:26) Services Officer; as well as other company officers.

I would like to remind you that this meeting is being recorded and please be mindful of slide 2, which contains a notice to shareholders and investors. The words believe, expect and similar ones related to projections and targets of the company are mere forecasts based on the expectations of Petrobras' executives regarding the future of the company.

To begin, we will hear Ms. Isabela Carneiro da Rocha, Executive Manager of Investor Relations, who will start with the presentation about the third quarter 2018 results. Subsequently, the questions from participants will be answered.

Please, Ms. Rocha, you may begin.

Good day, everyone. I would like to thank all of you for joining us in this webcast to discuss third quarter 2018 results of Petrobras. After notice to shareholders on slide 2 about forward-looking statements, we'll now begin presenting our results with our top metrics.

We are on slide 3, we can our safety indicator measured by TRI, total recordable injuries, we calculate per million man-hours. The rate remained at the same level of the prior quarter at 1.06. After any dramatic reduction since 2015, TRI has been maintained in a range between 0.95 and 1.09 in the last 12 months. And the company remains committed to safety and is implementing efforts to comply always with the warning limit of 1.0. These efforts include continuous improvement in our safety conditions, adoption of practices of international benchmarks, in addition to offering programs, seminars and training sessions both for our workforce and our suppliers.

On slide 4, we have our second top metric, our leverage metric measured by net debt over adjusted EBITDA. We noticed a dramatic reduction since 2015. And we achieved the value of 2.96 in the end of the third quarter 2018, excluding the effect of the Class Action settlement because this is how we'll be by year-end. When this effect will no longer impact our EBITDA, we would have reached a ratio of 2.66. And in order to achieve our target of 2.5 times net debt to EBITDA ratio.

Moving on, we've entered the main highlight in 2018. Solid results and lower debt level and shareholders remuneration that is paid one more time. Regarding the constant increase of our financial results, I would like to highlight a net income of BRL 24 billion, up 371% compared to the same period of 2017 and the best result since 2011. Adjusted EBITDA was a historic record mark reaching BRL 86 billion, 35% up compared to nine months of 2017 and our EBITDA margin was 33%.

Reduced uncertainties was an important point with DOJ/SEC settlement to end the investigations of the company by U.S. authorities. The settlement amounted to BRL 3.5 billion with the largest portion of this amount, 80% staying with Brazilian authorities, (00:05:10) to be signed with the Federal Public Prosecutor's Office.

Net of the effects of the Class Action settlement and of the DOJ/SEC settlement, the net income would have been BRL 10.3 billion in the quarter and BRL 28 billion year-to-date. Also excluding this effect, adjusted EBITDA will be BRL 33 billion in the quarter and BRL 89 billion year-to-date.

If we adjust for all of these special items that are in table 18, our net income would be in line or even above market expectations. In terms of net debt reduction, I'd like to point to a reduction of gross debt and net debt; \$88 billion of gross debt and \$72.9 billion.

Net debt in active liability managed enabled extension of average debt maturity to nine years with an average interest rate of borrowings of 6.2%. As mentioned, net debt over last 12 months EBITDA adjusted EBITDA was 2.96 in September, considering net income year-to-date, the reduction of uncertainties to the supplements that we've mentioned.

And our financial leverage target our Board of Directors approved an advance of payment on - payment of interest on equity of BRL 0.10 per share equally preferred and common shares totaling BRL 1.304 billion as advance payment of interest on equity.

Moving to the next slide, we begin with (00:07:02) other highlights. The start-up of three new systems this year and we have a fourth one to about to begin operating. So we had FPSOs Cidade de Campos dos Goytacazes, Tartaruga Verde (00:07:15). And in terms of exploration portfolio in the latest shared production round at AMP we acquired the south west block of Tartaruga Verde

that adds to the blocks we achieved in the 11th bidding round in March and the other one in June in the total of warrant bonuses, heading BRL 3.2 billion.

We would also like to highlight there we signed. In renewables we've signed with Equinor to work in the segment of offshore wind power with Total for renewable power, particularly solar. And so our solar and wind partnership with the CNPC for the Comperj project and Marlim cluster and the partnership with Murphy to operate in the Gulf of Mexico.

In addition we highlight the receipt of BRL 1.6 billion referring to the second phase of the diesel subsidy program. In addition to BRL 1.6 billion received, there's BRL 2.2 billion (00:08:27) already recognized in the balance sheet of the third quarter to be received referring to the third phase of the program.

Regarding gasoline, the price of gasoline we adopted a complementary hedge mechanism for gasoline allowing for less frequent price adjustments. And we were reimbursed. The company was reimbursed BRL 1.7 billion of resources recovered from Operation CarWash (00:08:54). Total amount recovered totals BRL 3.2 billion.

Detailing our results, we start with our external variables on slide 7, showing the behavior, performance of Brent oil price aligned with the prior quarter, totalling \$75 per barrel, 39% up compared to the nine months of 2017. However, the Brazilian real depreciated a lot in the third quarter with exchange rate increasing 9% compared on quarter-on-quarter and 13% year-on-year.

And here, we have a summary of our results on slide 8. We'll show you sales revenues totaling BRL 257 billion, up 24% compared to nine months of 2017. Gross profit increased 40% to totaling BRL 93 billion. Adjusted EBITDA grew 35% to BRL 85.7 billion and net income increased to 4.7 times to BRL 23.7 billion. Free cash flow remains positive for the 13th consecutive quarter, which is BRL 37.5 billion in the nine months of 2018 which is the same level of the prior year.

Moving on, we will detail further each one of these variables. So let's start with adjusted EBITDA. As a result of increase in Brent oil price and the higher margin of sales of oil products in the domestic market (00:10:27). This is a historical record mark. It is observed that it is superior. Even the value that we had in the period of 2011 to 2014 when the Brent oil price was much higher than it is currently. This is the result of not only external variables but also of cost discipline and financial management and efficiency which has been implemented in the company.

Looking to slide 10, the business segment in E&P, the higher Brent oil price and Brazilian real depreciation helped reach a 63% increase, but also the lifting cost which was under control played a role in refining.

Transportation and commercialization downstream, we had the lowest price differential for diesel and gasoline compared to Brent oil price. However refining margins increased because of inventories that we formed at lower prices. This is coming in the market when we (00:11:34) oil price will appreciate despite the lower total sales volume that we had because of the loss of market share for gasoline to ethanol and the lower sale of naphtha to Braskem.

The sales volume of diesel increased, the increase also is volume and the market share for diesel. In addition, there was a reduction in refining costs all of these factors were responsible for an 8% increase in the adjusted EBITDA of the segment. In terms of our trade bonds, there was a reduction in the net exports of oil because of lower production and an increase in the net exports of oil product given the lower sales volume in the domestic market.

Moving on (00:12:17) diesel pricing will explain a little, the diesel subsidy program which was created in June. So the chart shows in blue the price of diesel in the Gulf, the full line commercialization price of diesel before the diesel subsidy program and after. And in yellow, we

have the reference price, diesel price added to the amount of subsidy. What we can see is that the price of diesel after subsidy is following the price for U.S. Gulf to reference prices in Brazil, not following the variation of international prices of diesel.

Reference price is determined by (00:13:07) based on international price and exchange rate variation and we recognized a revenue of subsidy as diesel is sold and delivered to distribution companies. And the right (00:13:23) recognized in our line item accounts receivable. The company recognized in the third quarter a total of BRL 3.8 billion referring to the program. Of this BRL 3.8 billion we have received BRL 1.6 billion referring to the second phase. We still have BRL 2.2 billion to be received referring to the third phase.

Moving to slide 12, we'll give you more color on the increase of our operating income which was a record. In addition to the variables that we have highlighted, it is important to mention that we had a reduction in G&A expenses. We have the lowest ever G&A expenses. We would also like to highlight cost control discipline, lower spending with interest rates given our lower debt level. Our financial expenses decreasing BRL 2 billion compared to nine months of 2017.

On the other hand, the higher oil price led to high expenses with (00:14:22). And we had the supplement with DOJ, as you see, as previously mentioned. And as previously mentioned (00:14:32) net income in the quarter would have been BRL 10.2 billion in the third quarter. If we exclude all special items, it would be BRL 11.5 billion. Year-to-date it would have been BRL 28 billion.

Moving to slide 13, we bring you our free cash flow and its performance. It was BRL 8.1 billion, lower than the second quarter of 2018, reflecting lower cash generation because of the payments of the second portion of the class action settlement coupled with a greater realization of investments in the period. As for investments, it's important to highlight that we've invested nearly BRL 2.2 billion in the first nine months of the year representing a 10% increase.

Year-on-year and in this quarter, investments was 50% higher than the second quarter and this was a planned increase because we had indicated realization of investments. Actually, we were realizing last in the first half of the year. So these factors, operating generation led to a positive free cash flow for the 14th consecutive quarter as you see on the slide.

Moving to the next slide, slide 14. Here we bring the reduction of our debt level from January to September. Actually, our gross debt at the end of the third quarter was \$88.1 billion. It's (00:16:09) by the way, and net debt \$72.9 billion. And as we get to the end of the year, under \$70 billion and the customer value of \$69 billion of net debt. From January to September, the company continued with an active liability management. We raised \$30.6 billion and we paid a number of borrowings and loans, highlighted to \$43.3 billion in securities in the international capital market in the prepayment of \$41.8 billion of loans in the banking market both in Brazil and abroad in addition to BRL 2.4 billion loans with the (00:16:53) extend the average maturity to 9.1 years in the third quarter. (00:17:02) the average interest rate of loan, 6.2%.

On slide 15, please, here we bring you the profile of our debt as a result of liability management as we mentioned in here, draw your attention to our cash position on October 31, the \$13.9 billion. This is a significant reduction. It was \$20 billion in the end of 2017. In observing the methodology to establish a minimum level of cash and considering that we have the access to \$5.9 billion in revolving credits facilities. It is possible to have a cash position that is sufficient to cope with the next four years of amortizations after that.

On slide 16, we bring you the statistics of our partnerships and divestment plan. We highlight cash of \$5 billion and slowing in the total of signatures in 2017-2018 of \$7.5 billion of contracts signed. This is compared to the target that we have established of \$71 billion in the two years of 2017-2018.

We have some interesting projects that have been suspended for legal reasons. One of them is TAG, the pipeline network and others, our refining partnerships, Araucária Nitrogenados and UFN-III. But our partnerships and divestment program continues. We have a number of projects at an advanced stage. Many of them already signed, some in the binding phase, and some that we launched (00:18:44) that are nonbinding. And it's important to highlight the divestment realization as the low point because of this legal ruling that I mentioned, but the program is progressing and we intend to continue with this program as part of the integrated management of the company's portfolio.

On slide 17, we highlight some partnerships. Partnerships as I mentioned in the beginning with Equinor for offshore wind power; with Total for solar, onshore solar and wind power; with CNPC, we disclosed to the market (00:19:22) July of this year. And an agreement regarding the business model (00:19:26) 20% share of (00:19:30) this year 80% (00:19:34).

We continue to negotiate this partnership. In addition, the partnership with Murphy to operate in the U.S. Gulf of Mexico.

In slide 18 we continue with cost control discipline. This led to a reduction in general and administrative expenses by 6%, BRL 6.6 billion of G&A expenses reflecting a lower spending with consulting, IT, administrative services to third parties. Lifting cost in dollars was reduced with lower workovers in wells, in addition to depreciation of the dollar, most of this cost is in dollars. On the other hand, there was higher government participation given the higher oil price. Refining cost dropped 4% in reals and 15% in dollars because measures to implement an optimization of our spending.

And we have on slide 19 greater expectations for 2018. We're working with an estimate of \$30 billion of operating cash generation by year-end, BRL 7 billion of cash coming from divestments and we have received BRL 5 billion of this BRL 7 billion. In addition, we are reviewing our investments for this year in spite the higher realization of investments in the third quarter, we are reviewing this value to \$30 billion when it was previously \$15 billion and \$6 billion of payment of interest and this is our best estimate until the end of the year.

Speaking about some operating highlights, I would like to explain the situation of production. We are reducing 6% production compared to the same period of last year. And you can see the number of barrels of oil equivalent a day. The explanation is a decline, we have mature offshore fields where we have new wells planned.

To manage natural production decline and we are making adjustments and in the process of (00:21:48) platforms. So we have to reconcile the setup of new wells with these improvements that have been made in the platforms.

Another factor that explains this is divestments. Divestments occurred for Iara, Roncador. Explaining part of this we had announced this in the beginning of the year, when we spoke about the production goal of this year. Another important factor was a concentration of stoppages in the third quarter. We had the end of early production system of Tartaruga Verde in Itapu. And we had works on Route 1 that caused the stoppage of (00:22:27) platform that impacted production in the third quarter.

In this quarter we had double stoppages regarding the third quarter and this explains in part the results. On the other hand, as a positive, we expect the ramp up of new platforms that have started up or are about to the ramp up phase of FPSOs Cidade de Campos dos Goytacazes and Tartaruga P-69, P-74 and P-75, that is about to start operating today or tomorrow. And these platforms at ramp up phase will offset this decline in the fact of these stoppages and divestments as mentioned.

On slide 22, I'd like to highlight the high productivity of the pre-salt wells. Here we're bringing the average production per well. This is August 2018 average. So Sapinhoá, three new wells with an average production between 27 and 30 barrels of oil per day. Lula, six wells, average production 32,000 and 38,000 barrels a day. And Mero, 39,000 barrels a day. That's the highlight.

This high productivity results from the design of wells for higher flow rates. So, we use flow lines with a larger diameter gauge. Also we use alternate water gas injection, so since the very beginning we started with a producing well and an injection well. And a greater reservoir characterization, which points to an optimal location of each one of the wells. All of these factors added together combined lead to a higher productivity in the pre-salt. We show here Búzios on the right where we expect high productivity.

Here on the following slide, we'll talk about Mero productivity. In October we finished the extended well testing, the area using FPSO Pioneiro de Libra. This was the first vessel that is able to re-inject the whole gas produced. This was the extended well test and we achieved a high productivity confirmed for the field. We expect four platforms with the total production of 180,000 barrels a day for the definitive system for Mero.

On slide 24, we highlight our exploration effort. We will illustrate with Peroba. Peroba is an area acquired in a shared production agreement in January of this year in nine months after signing we started drilling the first well using this drilling Rig NS-42 and just for comparison sake, we compared it with Lula which was Tupi in the beginning. It took 60 months to start drilling. In Peroba though, in just nine months showing a significant exploration effort by the company.

Here on slide 25, we highlight the three new operational systems and the fourth that is about to start up. And we have FPSO P-74 at Búzios, Campos dos Goytacazes at Tartaruga Verde, FPSO P-69 at Lula, these are operational and at a ramp up phase. And FPSO P-75, they should start operating today or tomorrow.

It's important to highlight that, three in three WJ systems, Petrobras has 100% working interest and this is going to benefit the solely the company with ramp up of the systems.

On slide 26. In addition to these four systems we have, the new systems P-67, that is on the storage yard location, in 30 days this should arrive at location, it should start producing by year-end. P-76 at Búzios 3, it should arrive at location in December of this year with production starting at the beginning of next year in January. Búzios 4 with FPSO P-77 and FPSO P-68 at the Berbigão and Sururu, and these two platforms should start producing in the first half of next year.

In addition to these four, there are three others under execution, ATAPU 1, SÉPIA, and MERO 1. Another five in the phase of contracting, and two projects at the planning stage, it's all included in our business and management plan.

On slide 27, we talk about the ramp up process as mentioned. We've celebrated the installation of the 100th subsea manifold. It is the 16th in the pre-salt area. And this chart, we show the number of wells already completed or all wells that should start operating 2018 are completed. For 2019, most of them are completed, there is small part still to be completed. We are counting not only on these wells, but on all the flexible flow lines and umbilicals and support vessels to enable the ramp up of the platforms as soon as they start up operations.

Next, talking about refining operations, talking about the downstream segment. Here we highlight a reduction in the refining costs. As mentioned a 4% reduction in BRL and 15% reduction in dollars. And it's important to mention that Petrobras refining park is today at the same level of the best refiners worldwide in terms of cost. This is confirmed by Solomon an international benchmark consulting they put us in the first quartile among the 25 top refiners in terms of costs according to their benchmark study.

Moving on, we highlight higher efficiency in logistics operations. Higher integration between E&P and downstream. In terms of ships to offload oil from the platforms we have been handling these operations at lower costs and with lower risk as well. So we've reduced the risk of stopping production, we are working with a higher reliability - operational reliability greater than 90% which translates into higher efficiency of our logistics operations.

Regarding our sales volume, we had a reduction in total volume, but we draw your attention to the increase in the sale of diesel, we increased it from 661,000 to 714,000 barrels a day compared to last year. This is offset by a loss of market of gasoline to ethanol. This means the lower sales of gasoline to ethanol. This means lower sales of gasoline and lower sales of naphtha to Braskem and their production of oil products, of (00:29:41) reduction of sales volume, so to say that our share of national oil in the throughput, it continues at a higher level. We had a reduction in the third quarter because of the loss that we had at REPLAN, but operational availability of the refineries in the nine months of the year continues at a high value (00:29:59).

We talk about market share, in September, our market share was greater than 90% for diesel, oil, gasoline. And the utilization factor of our refineries at (00:30:15) 75% in September (00:30:18) level, because of the accident we had at REPLAN, as mentioned. We had a recovery, a significant market share recovery in the third quarter.

Finally, I would like to highlight our trade balance in terms of exports. This was very much in keeping with last year. In term of exports, it (00:30:37) was a reduction in oil product exports because of the lower production. It (00:30:43) was a reduction of oil exports, but increasing oil products exports because of lower sale of oil products in the domestic market. Will remain as a - net balance of 272,000 barrels per day will remain as a net export.

In terms of natural gas, we also see stability, about 80 million cubic meters a day. What (00:31:05) we had in last year was a change in the profile with greater input of LNG because of higher (00:31:12) availability of gas. Also, impacted by the (00:31:17) downtime and in terms of natural gas demand, there was an increase in the non-thermoelectric sector.

The result of the Natural Gas segment was impacted by the loss of credits expected related to the electric system that (00:31:33) has to do with the supply of gas to the north region. This was responsible for the operating loss in the segment of Gas and Energy.

And finally, we would like to highlight the position of our refining business regarding the IMO, International Monetary Organization, talks about the sulfur limits for bunker. According to these rules, we have (00:31:59) to achieve 0.5% of sulfur by 2020. And here, we highlight (00:32:05) the pre-salt oil profile in a sample from FPSO Angra dos Reis. Our crude oil has a sulfur content of 0.3%. Direct distillation residue has 0.5% sulfur. So today, our direct distillation residue is already adapted to the IMO 2020 rule.

In addition, companies that do not have their residue adapted, they need to mix with average distillates. And Petrobras is well positioned to capture middle distillates because we have been investing in recent years (00:32:42) in many coking units. Each of our 13 (00:32:45) refineries have coking units in these units that convert residue into middle distillates. So with this, Petrobras is very well positioned in 2018 to comply with the IMO rules that will be enforced in 2020. And with this, we complete the presentation. We end the presentation. Thank you very much.

## Q&A

### Operator

The Q&A session will now get underway. First question, Bruno Montanari, Morgan Stanley.

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

Good afternoon. My first question is for Solange. As a follow-up from the press conference, I found it very interesting and the comments that some units are being tested to support a flow rate of up to 58,000 barrels per day. And seeing the numbers that you presented for Lula and other fields, should we expect for the (00:34:18) the 69,000, 75,006 (00:34:22) if we can see a flow rate more between 40,000 to 50,000 barrels per day?

And the second question is about the hedge policy, if you can tell us a little bit how you're experiencing (00:34:34) so far and if we could maybe see the company broadening the horizon of the hedge from 15 days to maybe 30 days and also increase that for diesel maybe as a solution for the end of the year?

And very quickly the third question about CapEx, compared to the original budget of \$13 billion (00:34:56) this new value should be for 2019? Or is it due to the efficiency or (00:35:01) relocation of some projects? Thank you.

**A - Rafael Salvador Grisolia** {BIO 16673583 <GO>}

Bruno this is Grisolia. Thank you for your question. Let me answer the two last questions and then I'll turn it over to Solange. About the gasoline hedge, we're going through a learning curve. Our first experience with hedging in gasoline and what we can (00:35:29) (00:35:30) consumers to our clients (00:35:32) was adequate. We can - we are able to do what we (00:35:35) proposed for ourselves. So we are quite happy with the use of this option for the company of using the hedge.

From everything we've seen until now, the maximum term in terms of the gasoline for 15 days, this has not changed. We had - we do not see technical conditions to extend this term and we're still analyzing possibly for oil products or diesel.

Your third question about the CapEx for this year. The question of cash generation for this year \$13 billion (00:36:16). One, we're talking about the PNG (00:36:19). The plan for the next five years in (00:36:23) the beginning of December, we will talk more about this, but say, it's not CapEx that will not (00:36:29) be invested. There's relocations to be done, but we will give you more details when we present next year's plan.

I'll turn over to Solange.

**A - Solange da Silva Guedes** {BIO 16088234 <GO>}

Good afternoon, Bruno. Regarding your question about the productivity of wells that I talked about this morning, our history shows that we are making advances in engineering new flows at those projects.

What we do is, sometimes we have leads. We're going out on the construction where the diameters of common wells is six inches and now is (00:37:10) moving to an 8-inch construction. The projects have (00:37:15) this design in some wells and we'll be testing that as the projects are implemented. The solution needs to be tested, some measurements need to be taken as regards how the units and our equipment behave with such high flow rates. And from there, we will extend it to entire project with these designs and in the future, we will certainly seek to maintain whole projects with this new rate.

This was tested in Libra, as I mentioned, in the extended test that was concluded in October and we have the beginning of the application...

**Operator**



The sound of the speaker has run off. One moment please. Excuse me, ladies and gentlemen, please hold. (00:39:20) continue. Thank you.

I apologize for this issue, let's continue. We can move on to the next question, please. Gustavo Allevato from Santander.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Good afternoon. I think that the call was cut off for everybody. Just to try and understand the costs, I wanted to understand from Solange if there's a target for cost reductions to 2019 considering the startup of these offers (00:40:17) with a higher productivity as you were explaining in the previous question, and if you could repeat your answer, I think it was - it dropped for everyone?

And the second about divestments, Ivan talked about it in the press conference this morning that considering the suspension of the processes that won't be for this year, but will this be taken to 2019 forward, or is it on hold? I wanted to understand a little bit better.

**A - Rafael Salvador Grisolia** {BIO 16673583 <GO>}

Gustavo, it's Rafael Grisolia again. Thank you for your question. I'll turn over to Solange and give it some time for everybody to reconnect about the divestment. It's a little bit of what we've been talking about considering the projects that have been announced, they remain. The projects that have been suspended as we have already communicated with this review that we're doing, those with the Supreme Court's decision, all these projects continue, both suspended and we're working on the legal aspects, as well as the others that we have announced at the different phases. Again, we'll be discussing it with KPMG (00:41:39) about the timing and how do we foresee this under the cash inflow. But none of them will be (00:41:50) portfolios and their management and - active management.

**A - Solange da Silva Guedes** {BIO 16088234 <GO>}

Gustavo, good afternoon. Let's see if I can give my answer until the end this time. You referred to the costs and the expectation for 2019. What we're seeing in a larger scale in the second half of 2018 that will also occur in 2019 in the first half are the entry of many units. And when they start up, until the end of the ramp up, we don't see a significant cost reduction because they come in at full costs and the revenue is progressive. So, yes, we will try what you talked about as a significant reduction in our lifting costs, but at the end of the ramp-up for these units that I think it will be more towards the end of 2019 and more completely in 2020. This is our expectation.

I'll repeat a little bit of the rationale, but I will start (00:42:54) answering to Bruno before when the line cut. I think the listeners didn't hear all my comments about what we're engineering and better characterizing our reservoirs and our conception of wells and subsea system so that we'll have the productivity of the pre-salt. We have a new generation of wells now in 2018, which are a result of these new equipment that have been qualified and we're testing them and some projects monitoring their performance so that later we can expand them to the large scale and new projects and, of course, we'll continue to seek this effectiveness of maximizing productivity of those pre-salt wells in future projects.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

It was very clear, Solange. If I can just add a follow up to Director (00:44:00) Celestino, I'd like to understand about the stoppage at REPLAN. Can you quantify how much Petrobras had to spent in imports and how much of these additional costs can be carried to the fourth quarter? Thank you.

**A - Jorge Celestino Ramos** {BIO 19059339 <GO>}

Gustavo, about the downtime at REPLAN, at REPLAN, we have two sets of units, the catalytic cracking unit and the atmospheric units, each one with a capacity of 33,000 cubic meters per day.

These units – one of these factories what (00:44:59) suffered the damage from the accident was distilling and cracking (00:45:05) unit that produces gasoline will be up again until the end of November, and the distilling will be by the end of January. That's our best expectation. For the (00:45:21) next quarter, considering that the market is close to 1.8 million barrels at the peak in November, what we did was to rearrange the other refineries and the feedstock of the other refineries, especially in São Paulo using (00:45:45) REPLAN in order to try to minimize the impact of imports. And we did that especially in October, which is the peak month for imports, and we'll see that the market starts to decrease in the import numbers, or the need for imports already starts to decrease and with that we've been able to mitigate import costs.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

That is clear. Thank you.

## Operator

Next question from Regis Cardoso with Credit Suisse.

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

Good day, everyone. Thank you very much for taking my question. Will the (00:46:39) new management to take over Petrobras Brasileiro (00:46:42) of Operation Car Wash, a balance sheet that's not published, you face the liquidity issue. And among the several (00:46:52) corporate governance, there is one in particular that drew my attention, which is (00:46:57-00:47:06) liquidity of the company. So, the question is, do you see any risk – an opportunity maybe to substantially increase your CapEx level in the future? In order to extract accurate numbers are not very important (00:47:20). We're going to discuss this in the Business and Management Plan. But I would like to (00:47:27) know about investing and allocating capital in refining (00:47:36) and NGL projects. So this is my first question about CapEx.

And my second question has to do with the pricing policy. I'd like to understand (00:47:51) prior question (00:47:53) you are happy with the gasoline hedge policy. This would rise. For a long time stayed above the import parity price. (00:48:06) a hedge policy. Aren't you afraid that perhaps if you will apply this in a recurring, repeated fashion if this could be used in an opportunistic way even though we do transfer this beyond refiners and importers? Thank you.

**A - Rafael Salvador Grisolia** {BIO 16673583 <GO>}

(00:48:38) thank you for the question. Your first question – this is Rafael Grisolia. And then afterwards Jorge will complement regarding the pricing policy.

**A - Nelson Luiz Costa Silva** {BIO 15817718 <GO>}

Hello, Regis, this is Nelson. Thank you for the question. Regarding the plan that we are finalizing soon although we'll disclose it in November (00:49:08) cash availability as Isabela mentioned in the introductory remarks, we have an ascending trend in our cash generation in the declining cost trajectory. So, we can expect greater availability to invest in the future, but I cannot give you any more details on that for now. And this is the theme across the oil and gas industry. That is restructuring itself, after the dramatic reduction in oil prices, we are showing very good and positive financial discipline in this restructuring effort. Petrobras is not an exemption in the industry.

So, in the future, yes, the point will be our choices and how we can make our choices maintaining our capital discipline and of course our economic rationale. I will quickly comment on natural gas that you referred to and then Jorge Celestino will speak about refining.

One of the themes (00:50:14) in our strategic plan is the company increasing its share of natural gas in our portfolio. We know it doesn't have limitations in Brazil because of the geology. And we will probably have to look into other alternatives, not exclusively in Brazil in terms of the integrated

gas chain, but, yes, this is in our radar, hence will be addressed (00:50:44) in the new strategic plan and in the 2019-2020 period - 2020-2023 (00:50:49) Business and Management Plan.

I will turn the floor to Jorge Celestino.

**A - Jorge Celestino Ramos** {BIO 19059339 <GO>}

Regis, hello. Regarding divestment in refining, in the prior Business Management Plan, we have said that investments in refining - because of (00:51:09) partnerships. So, yes, we are seeking partners.

Two (00:51:21), for the investments in refining, we recently signed a partnership with CNPC for the Comperj project, also considering the demand curve for oil products in Brazil (00:51:38) project. So, we're looking into this and it will be finalized in this along the 2019-2023 Business and Management Plan.

Regarding our pricing policy and our hedge policy, I think Rafael addressed the big question of fixing the hedge period for too (00:52:06) longer period. You have stability and then you can have arbitration. So, this is something that we have been taking into account in our commercial policy mechanisms, so that our prices will always be competitive and to bring the best result for the company.

So, (00:52:30) hedging duration and how to deal with these instruments to reduce volatility. Everything is taken into account considering the possibility of arbitration.

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

Thank you, Celestino. If I may, want like to ask a follow-up question regarding Comperj. Is it possible that Petrobras will allocate more capital as part of this partnership with CNPC? And the reason I ask is because the percentage in the material fact that you disclosed of

20%, I think it sounded very little.

**A - Rafael Salvador Grisolia** {BIO 16673583 <GO>}

Hello, Regis. This is Rafael Grisolia speaking. Again, it's a joint project. The CNPC project involves CNPC participating its share in our Marlim area and consequently in parallel to that, concomitantly their share at Comperj. So, the problem there is none (00:53:41), most likely we will have an inflow of capital to Petrobras with that arrangement.

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

Thank you.

**Operator**

Next question with Andre Hachem with Itaú BBA.

**Q - Andre Saleme Hachem** {BIO 20209966 <GO>}

Thank you for taking my question. My first question has to do with P-74. It had its first oil in April and until now, you're running with two interconnected wells in a production (00:54:10) 35 barrels. Could you speak about the dynamic of ramp-up of this platform? Why is it taking longer than expected? I remember that you discussed that the average ramp-up time was 12 months. So why are you falling a little below the expectation?

My second question has to do with the subsidy program. It is expected to end on December 31 and as of January 1, given the current situation, this would mean a relevant increase in the diesel price. How are you dealing with this? What are you thinking about this? Are you going to adjust these prices gradually, because I mentioned that the government have a say on this? Are you disclosing that the government the end of the subsidy program? Thank you very much.

**A - Rafael Salvador Grisolia** {BIO 16673583 <GO>}

Andre, this is Rafael Grisolia again. Thank you very much for your questions. I'll start with the last one and then I'll turn the floor to Hugo who will speak about the ramp-up. Regarding the subsidy program, I'd like to stress that Petrobras continues its pricing policy that Petrobras (00:55:23) will maintain competitive prices for all of our products, vis-à-vis exported products.

This remains our primary goal. And this is what drives the profitability of the company and that is dictating the company's profitability as it has been in recent times. At Petrobras, we understand that the subsidy translates exactly that. It translates into profitability in terms of exports parity. So, we will continue as we have done.

Once the subsidy ends, again we will have to look for those parity and we have to look for the right margins and we will be managing our pricing policy accordingly even when the subsidies are not there anymore. Of course, Petrobras is participating in the discussion regarding imports and mentioning our experience regarding the management of that topic.

We were collaborating with the government, before we were collaborating with the transition team of the government to see how we can address other components in fuel prices, which is not generated by Petrobras, which is driven by all of the taxes on fuels. So, we are (00:56:53) contributing to this discussion. And we expect that we are going to have more information before the end of the subsidy program.

I will turn the floor to Hugo who will address your first question regarding P-74 ramp-up curve.

**A - Hugo Repsold Júnior**

Hello, Andre. Your question was actually very good, because if we analyze the start-up of production, the start-up - the ramp-up curve is the most delicate period.

For us to go through the full ramp-up, the first stage before we even connect first oil is to have a gas injection well and to have the whole gas system for the platform commissioned, so that we can inject gas, then we start (00:57:41) burning and we can proceed with the ramp-up connecting all of the other wells, the oil wells and perhaps another gas injection well at P-74 in particular. During the commissioning of the gas system, which is not an uncertainty related to this project, during the operation, we had to carry a little bit of liquid to the gas system. So, we needed to clean it all up, so that we could again inject gas.

And resuming - when we resume the gas injection, we will resume interconnecting all of the wells. So, this was a delay because of an operational issue, but it didn't interfere with the ramp-up as a whole. We expect to catch up. But this is part of this process of commissioning. In a pre-operation, we have to test all of the possibilities and we can only do things when everything is 100% perfect, which is the case of P-74.

**Q - Andre Saleme Hachem** {BIO 20209966 <GO>}

Perfect. Thank you very much.

**Operator**

Next question, Vincent Falanga, Bradesco.

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

Good afternoon. I had two questions. Is it possible to see (00:59:04) for Petrobras to be able to move on with E&P and fail (00:59:11)? We saw there was a (00:59:13) of a sale of a majority stake of Petrobras. I would like to know if there is any detail about that. And a second question in sale of assets. Can you give us any idea of any process of the sale of other large assets? Any expectations for concluding those processes?

**A - Operator**

(00:59:42). Thank you for your question. There is a whole legal strategy about the processes that are suspended involving TAG and our complex of refineries which we are following. There has been a public hearing and the Minister that made that decision on that. There is a legal strategy. There's a step-by-step ritual that we are following that I think we will soon have a position on that. So, that's why definitely the processes are suspended.

We'll bring this subject also when we come to the announcement of our business management plan in the beginning of December and we'll be able to give you more details with the new information we'll have by then. But, as soon as we have more information and more definition in our legal strategy, we will communicate the market.

About the other processes that are not suspended. (01:01:00) continue on the regular stages of negotiation. So, we have important phases for the shallow-water and offshore fields that we are in different stages of negotiation. We may have some development soon. There's the aspects of the negotiation (01:01:25) offered to other branch about this stake at Braskem.

But as we said this morning, we are waiting for the official determination (01:01:36) conclusion of the negotiation between the parties so that we can communicate this to make a decision and then an analysis of what the (01:01:46) position will be. So, we're on hold and expecting definitions, we understand that all these issues will develop soon in the next weeks. Maybe even before the end of the year, some of the projects we'll may be able to have some announcements to make before year end.

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

Excellent. Thank you.

**Operator**

Next question, Gabriel Barra, UBS.

**Q - Gabriel Barra**

Thank you. The first question is about one of the top metrics. One is about indebtedness and the other is about the accident rate. I wanted to know if we can expect for the next business plan a target about profitability return (01:02:45). And the second, a follow-up on André's question. The diesel subsidy will in theory end in December and we don't know how this transition period will unfold. So, my question would be, how is Petrobras looking at that, and if there's any possibility of replicating the hedge for gasoline in the diesel policy? Thank you.

**A - Rafael Salvador Grisolia** {BIO 16673583 <GO>}

Gabriel, this is Rafael Grisolia again. Thank you for your questions. As we have informed in the Investor Day, the top metrics of the company, certainly TRI is a metric, it's a value for the company and this (01:03:36) remains we are working very strongly on this since we close to the threshold and we will maintain this metric in our plan.

Definitely the net debt-to-adjusted EBITDA ratio is an important metric that will remain. The company needs to seek the optimization of its capital structure and when we compare with our global direct competitors, so the size of the company also needs to have a lighter capital structure.

And we will probably add a third metric, a top metric that would be the return on capital invested. So, that will help us manage our discipline and investment decision. And as we've talked about this morning, we have an active portfolio management and we'll continue with investment management with investments that are not necessarily connected to our strategy and have a lower return on capital invested.

About the subsidy, I don't know if I'm being repetitive but again we're working on this topic. We're learning from the option that we chose to use at specific points, for that hedge policy or hedge and derivative instruments for oil products to extend the stability to our clients. We're always depending on products and they have different applicabilities and they may not be viable for some products and there's another parallel discussion (01:05:29) end of subsidy which is to have a clear open agenda with communication that may contribute to a possible government policy if the government determines that they want to maintain a policy in this sense.

There may be a possibility of continuing with the subsidy, but it's more likely that it will not continue. So, within the fuel price structure, the Petrobras share is smaller and - regarding the price, depending on the type of fuel and there's an important share that is the tax adjustment and we'll see how we can contribute to an analysis if the government wants to develop a government policy for that. So, we will contribute to these discussions.

### Q - Gabriel Barra

Thank you.

### Operator

Next question Fernanda Cunha, Citi.

### Q - Fernanda Perez da Cunha {BIO 20784520 <GO>}

Good afternoon. I lost my connection with the call a few times, so, I maybe repeating someone else's question. But my first question about this agreement with CNPC and (01:06:46) does it expect any type of relevant cash or is that just waiting for it to be carried?

And is there room for other types of transactions with upstream and midstream in other assets? So, that would be my first question and the second is about the transfer of rights. I wanted to know if in the event that it is approved in the Senate (01:07:20) that proposal about the transfer of rights, what would be the next steps? Would it be the resolution of the renegotiation of the contract? If you can explain to us a little bit about the timing just to give us some idea of the next steps in that area. Thank you.

### A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Fernanda, it's Rafael Grisolia. Thank you for your question. About your question and the partnership with CNPC, as we announced, it involves two joint ventures, one traditional in the Marlim area and the other is a specific for the investment at Comperj. We also announced that we will validate with (01:08:13) to validate the numbers behind the partnership but the indications of - the share of each one will always be in that range that we announced 80% of the money investment...

### Operator

Excuse me; it seems that the sound of the speaker has been cut off again. Please hold.

So, 80% for Petrobras and 20% for CNPC. And within those numbers, if we put the figures behind it to validate, there will be an adjustment of contribution and rates and the likely indication is that in time, the capital allocation is for cash inflow to Petrobras considering the dimensions of 80/20 for each one of these two large projects, Marlim and Comperj. For the transfer price, I'll pass on to Solange.

**A - Solange da Silva Guedes** {BIO 16088234 <GO>}

Good afternoon, Fernanda. Regarding the renegotiation of the transfer price contract and the bill that you mentioned, there's another factors occurring simultaneously. The CNP (01:09:31) in a resolution issued - a Resolution 12 of 2018 recommended that the minutes of this contract that this amendment, the draft of this contract to the CGU and then- so in order to continue receiving the approvals of this document, we need to wait for the PCUs pronouncement about the drafts that have been submitted to that agency.

**Q - Fernanda Perez da Cunha** {BIO 20784520 <GO>}

But do we have any idea of a timeline for that?

**A - Solange da Silva Guedes** {BIO 16088234 <GO>}

No we don't have a timeline for this.

**Q - Fernanda Perez da Cunha** {BIO 20784520 <GO>}

Thank you.

**Operator**

Thank you very much. We are now ending the question-and-answer session of this conference call. I turn the floor to officer Rafael Grisolia for his final statements. Mr. Grisolia, please go ahead.

**A - Rafael Salvador Grisolia** {BIO 16673583 <GO>}

Before anything on my own behalf, on behalf of (01:10:54) and the whole management, I would like to thank the participation of all you. We have to particularly apologize for the technical problem that some of you faced when trying to connect via webcast. We promise to improve the technical aspects for the next conference call. This was a significant issue, we apologize.

As always, the presentation will be available at our website as well as the audio of this conference call in Portuguese and English. So if you need further clarification, I will be available at the IR office and the whole IR team will be available to address any further questions you might have. Again I would like to thank all of you for participating. We are very happy with results achieved. The company remains on the right track. And in our next meeting, we will announce our five-year business and management plans.

So thank you very much for joining us.

**Operator**

Thank you ladies and gentlemen. The audio of this conference call for replay and slides presentation will be available at Petrobras IR website at [www.petrobras.com.br/ir](http://www.petrobras.com.br/ir).

This concludes today's conference call. Thank you very much for your participation. Please hang up your telephones and have a great day.

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