

Q3 2020 Earnings Call

Company Participants

- Andrea Marques de Almeida, Chief Financial and Investor Relations Officer
- Anelise Quintao Lara, Chief Refining & Natural Gas Executive Officer
- Carla Albano Miller, Investor Relations
- Carlos Alberto Pereira de Oliveira, Chief Exploration and Production Executive Officer
- Roberto Castello Branco, Chief Executive Officer
- Rudimar Andreis Lorenzatto, Chief Technology & Production Development Executive Officer

Presentation

Operator

Good morning. Welcome to Petrobras Webcast with Analysts and Investors about the Third Quarter Results. I would like to inform you that all participants will follow the transmission by Internet as listeners. After introduction, a Q&A session will begin. You can send us questions by email, petroinvest@petrobras.com.br.

Today, we have with us Roberto Castello Branco, Petrobras CEO; Andrea Almeida, Chief Financial and Investor Relations Officer; Anelise Lara, Chief Refining and Natural Gas Officer; Andre Chiarini, Chief Trading & Logistics Officer; Carlos Alberto Pereira de Oliveira, Chief Exploration and Production Officer; Marcelo Zenkner, Chief Governance and Compliance Officer; Nicolas Simone, Chief Digital Transformation and Innovation Officer; Roberto Ardenghy, Chief Investor Relations and Sustainability Officer; Rudimar Lorenzatto, Chief Production Development Officer.

The presentation will be available throughout the webcast on our website. We will start by listening to Petrobras CEO, Roberto Castello Branco, with the main highlights of the results. So, please Roberto.

Roberto Castello Branco {BIO 3193867 <GO>}

Hi, good day. It's a pleasure to be here for -- to share with you our third quarter results. I believe that our rapid response to the outbreak of the crisis was fundamental, in order to survive and is starting to pay off. The quarterly results are very good, we had a very strong operational performance, I would highlight the increase in oil and gas production, in the first nine months of the year, compared to the same period of last year. So, about an increase of 9%. The pre-salt production increased by 32%, which is an excellent result, given that the pre-salt is the lowest cost producer, it is responsible now for 70% of our production. And our refineries performed very well, after low in utilization factor in April and they reached levels above 80% during the quarter. And continue on the same is best. It's important to comment that we are not operating with negative margins and neither increases inventories, on the contrary, inventories have been reduced, as part of a broader initiative to optimize the inventory management across the Board in the Company and to liberate working capital for more productive use.

The natural gas energy area also performed well and in terms of course, I would like to highlight, with very low cost of the pre-salt in the quarter, \$2.30 per barrel of equivalent oil. It's very good results. I believe that this suggests the low breakeven price of our world class assets in the pre-salt. Second, as an example of cost cutting, let me address the general and administrative expense.

In Brazilian real, in nominal Brazilian real, as they are fully denominated in Brazilian real, not in US dollars. The first nine months of this year, there were the lowest in 10 years, taking the time series, beginning in 2010, they are the lowest in Brazilian real, in normal terms, not in real terms corrected by inflation. So it's an excellent result and there is much more to come, more important than that. There's much more to come, given the several initiatives we are working on.

In terms of events, we signed a very important agreement with our partners, Shell, Repsol and Galp, in order to integrate the operation of the -- the Routes 1, 2, 3, the subsea gas pipelines that link the pre-salt to the processing plants in the coast of states of Sao Paulo and Rio de Janeiro. These increased flexibility, increased productivity and is a source of large value creation, as we can unlock these through they spin-off of these assets into one new Company into IPO with, to unlock value. Other important event in the quarter was the relocation of the Itapu -- of the P-71 platform, to start operations in Itapu. Itapu field was acquired by Petrobras in November 6, 2019. The auction for TOR, of excess TOR, Transfer of Rights and we will anticipate its first oil, in about a year and Itapu is smaller than Buzios of course, but is resilient at very low oil price, something below \$20 per barrel.

So it enhance our capacity to generate cash. Our financial numbers are very good, it reflect all these initiatives. We had free cash flow, reaching \$16.4 billion in the first nine months of the year and I would like to highlight that 64% of the free cash flow was generating during what I call, the pandemic quarters. The second, and the third quarter, not in the first quarter, not the pre-COVID-19 era. So, it reflects all the efforts of close integration in our teams that woke up agile teams to deliver on our promise and the acceleration of the execution of the strategy.

Our divestment program slowed to the COVID-19 prices of course, we delivered only \$1 billion in the first nine months of the year, lower than we expected at the beginning of this year. But we have it, our program is alive and well. We have 47 assets for sale in the market. We have some deals close to an end. I refer to relearn the refinery Abreu e Lima and other refinery leaky guys [ph], it's waiting only for the approval by the antitrust of ports by (inaudible), gas through and several others in the buying phase or a minority, only seven deals in the initial phase of the divestiture process. So we all, we can expect for the next few months this quarter in the first half of 2021, several deals being closed and improving capital allocation in generating gas to Petrobras.

We made an amendment to our dividend policy. It's very simple, I believe that some people didn't understand this. This was to clarify the fact that Petrobras can pay dividends, even with accounting losses. We are not driven by accounting results, we are driven by cash, cash is King, during the month of April, cash was even God. And so, that's it. And this is very clear in the Brazilian Corporate Law article 201, that allows companies to pay dividends, even if they do not have accounting profits, given that they have some accounting reserves and we do have. But, we are not declaring dividends, no decision was made about dividend payment.

The only decision was taken before in the aftermath of the start of the crisis, when we postponed the payment of the last tranche of the dividends of 2019 to December. They will be paid on December 15 of this year. And talk about dividends, I would like to make a comment about some malicious speculation there. Petrobras is changing the rules to help its parent Company, the Brazilian State, I do like to clarify this issue. I would like to show you that malicious comment and a false one, without any fundamental -- any fundamental -- any logical fundamental. First of all, the Brazilian state owns only 36% of the total capital of Petrobras. It owns 50.5% of the voting shares. But in total, it owns only 36%. Second, what's important for the government is the -- are the tax paid by Petrobras and all the players in the oil industry in Brazil. Last year, we paid to the government, BRL246 billion in taxes and several taxes in subscription bonus, to acquire the rights to explore and produce oil in some fields, including Buzios and Itapu.

At the same time, we paid dividends of BRL1.8 billion, a tiny fraction of the tax, bad debts and bonuses paid to the government, BRL246 billion against BRL1.8 billion. This year, the first nine months of the year, given the low oil price and no auctions, we paid only BRL91 billion, and as I said,

we are going to pay the last tranche of the 2009 dividends and the government will receive only BRL900 million. So, it's again out of question and not last but not least, our this quarter, our leveraging costs are the pre-salt, as I said, was \$2.30 and out of each barrel produced in the pre-salt, the government receives \$15 per, \$15. So, it's ridiculous to convey these malicious speculation, is really -- it makes no sense. It could be not intelligent to break some rule, to pay more dividends to the government. And Petrobras has no interference. The management of Petrobras has no interference from the government. We are free to design a strategy, to execute our strategy, to price our products without any intervention. The purpose of the amendment to the dividend policy, was to give more flexibility to the policy and are linked to cash flow, not, we pay dividends, we pay salaries, we pay taxes, we pay that, we distribute dividends, we invest with cash, not with accounting items.

Well, I would like to say that we may have won a battle. A very important battle, because the challenges in late March-April this year, where very huge, and we won. But, we continued in the same paths, accelerating our strategy execution, going ahead with digital transformation and cultural transformation, cutting costs in all fronts, we have several initiatives -- many initiatives to cut costs, to improve capital allocation, not only through divestments, but also through the approval of projects.

So we do expect the Company, in the future, to be much better that it's now. We are planting the seeds for a great Company. Our Petrobras is stronger, agile and able to be the best oil and gas Company in the world, in terms of value creation. Thank you for your attention.

I will pass to Carla Albano.

Carla Albano Miller {BIO 17540433 <GO>}

Thank you Roberto. So, now I will ask Andrea Almeida to start the presentation with the financial highlights.

Andrea Marques de Almeida {BIO 19358739 <GO>}

Hello everybody. Good morning. Very happy to be with you, presenting the third quarter results. And it's a good start, with the corporate governance evolution that we have been through. I'm very happy to announce that we launched the guide to ethical conduct for Petrobras suppliers, that is totally in line and in compliance with the highest standards of integrity social and environment responsibility and ethical conduct. This is in line and reinforce our zero tolerance for fraud and corruption and it is in line with the downturn sustainability Index (inaudible) between others, so we are very happy to announce that.

Entering to the financial highlights, the next slide, I believe Roberto already mentioned that maybe this quarter, the most important items that we delivered was a very strong cash flow generation, and this was a consequence of a strong recovery in price -- not as strong but a recovery in price and higher sales volumes. In the end, we had a free cash flow of \$7.5 billion. Another important highlight was the reduction of our gross debt by \$11.6 billion and now we are better than the goal we had for the year, that it was to finish the year at \$87 billion, we are at \$80 billion right now. In addition to that, we closed the quarter with a solid cash position after \$10.4 billion. And as a result of our excellent operating performance, we announced in our production reports the revision of the production target to 2.84 million barrels equivalents a day.

This week and Roberto already mentioned that we approved a change in the dividend policy and the main objective is really to give management more flexibility to propose payments, according to the cash generation of the company, even in years when -- where we won't have accounting profit. Important to note that we remain absolutely committed to the reduction of the gross debt and we expect to reach the level of \$16 billion in 2022. We will do everything we can and more to get there. But with more flexibility, we will be able to propose dividends when there is a reduction

of the net debt in the previous 12-month period, if we understand the company had strong cash generation and it is financially sustainable. So it's really a change to bring more flexibility, whenever we have retained earning and something that it's allowed by the law 6404. As briefly mentioned, we reduced our gross debt significantly this quarter to \$79.6 billion, and we were able to reach an average term of that off 11.19 years with an average cost of 5.8%. In that, the leverage measured by the net debt to EBITDA reached 2.33 times. As we mentioned already, we had a strong cash generation, if we measure that through EBITDA, this means \$6.9 billion and it was driven by higher Brent price that rolls around 47% in the quarter, higher sales revenues, lower costs, partially offset by lower crack spreads in our oil products. Specifically in the business areas, Brent price recovery reflected in the EBITDA and generated a positive effect on inventory turnover in refining.

If we look at our cash flow generation back again, we had an operating cash flow of \$8.6 billion, which was helped by the use of tax credits arising from the accelerated depreciation on the assets. The use of ICMS in fiscal themes started in October, so we will see that coming in the next quarters, and we should expect to use those credits in the next 12 months. If we look at reduction of investments, we reached after the investments, we reached a free cash flow of \$7.5 billion, as we mentioned already. And we had a net financing and interest of spend of \$13.3 billion that was what helped us get to a lower gross debt.

As we mentioned earlier, we are back to liability management exercise, and we are very proud of historic achievement in our last one issuance where we got the lowest level for a 10-year bond in Petrobras' history. Together with that, we did two traits, where we repurchased more than \$5 billion in bonds. We continue our divestment strategy and launch more ceases in the quarter, and we are advancing the negotiations for the sale of refineries.

So we had a very strong third quarter, and we are very happy to be here presenting and we will be very happy to answer all the questions you have. So I pass the word to Carla back again.

Questions And Answers

A - Carla Albano Miller {BIO 17540433 <GO>}

Andrea, So now we start our Q&A session. The first question comes from Regis Cardoso with Credit Suisse and it's for Roberto Branco. Can you comment on Petrobras' initiatives concerning ESG? Any particular the transition to a low-carbon economy?

A - Roberto Castello Branco {BIO 3193867 <GO>}

Hello Regis, thank you for the question. Yes, we are very focused on ESG right now, because this is the one area that we want not just to improve our process, but also to show to the market what we are doing. We are one of the companies that has the lowest initial per barrel that we are producing when we compare Petrobras with other companies. This is a benchmark we have in the market and we want to continue to improve these objectives with a series of the commitments we have already announced to the market such as to continue to lower our initiatives, to lower our use of fresh water and other objectives that are including, showing in our document that we have approved recently that is the climate change handbook.

In this area of cowboy mission, we want to also to take a look on our own process and see how we can improve the quality and how we can lower the emissions when you consider for instance the refining or the production of oil and gas in our installations. For reasons, the renewable diesel that we are establishing in the refining area is one of the initiatives that I could mention here as very important to this aim, but the ESG is not just environmental, it's also social, and it's also governance.

Andrea has already mentioned this in the presentation that we have launched recently ethical conduct guide book for our supply chain, in which we want to be very strict regarding any kind of corruption or -- and we want to fight this very stronger. In the governance area also, we are

launching other initiatives like human rights hand booking, which we also are showing how our policies regarding this area is also be implemented in the company.

And the least but not the last -- the last, but not the least is an area that we were also to continue to work is the environmental project. Petrobras has been working very strongly over the years in some flagship programs like the Tamar program in which we have been able to protect sea turtles in Brazil from the three most endangered species of sea turtle in Brazil, we have been able to increase the population of two of them through the TAMAR projects that has been supported by Petrobras for more than 40 years. We also are working other projects like the one that we have here in the Guanabara base in Rio de Janeiro to work in the remote areas of the base, collecting trash and trying to improve the quality of the wetlands and (inaudible) areas that are located in these remote areas of the Guanabara bay to improve the fishing area and to improve the quality of the fishing for the small village.

So, it's a very broad program. For this reason, we have decided also to create a specific department in Petrobras just to deal with climate change. And we are going to pursue those objectives but working as a whole and seeing maybe some progress for renewables in more long-term like the offshore, wind, hydrogen, we search that we have here in our facility -- research facility in Rio, but also looking for our own process and see -- while how we can improve also the process in terms of lowering then the issues. So those are the two areas that we are very concentrated now.

Operator

Thank you. The next question is from Regis for Andrea. Andrea, with Petrobras has been deleveraging incredibly fast, can you comment on what factors have allowed that efficiency, bandwidth deferrals, CapEx running below budget?

A - Andrea Marques de Almeida {BIO 19358739 <GO>}

Okay, that's -- thank you, Regis for the question, that's a very important question. I believe that deleveraging is a function and it has been this year a function of cash flow generation and now what we have been doing even to surpass this crisis, it was really impressive actions that the company took to generate more cash and so have -- I would say a better -- a more sustainable company. So starting with cost reduction, so I think (inaudible) chosen has in his presentation, the amazing evolution of lifting costs. So we present in Petrobras, they lifting cost of \$7.6 per barrel. And we are in this quarter with 4.5 in the overall. Portfolio management of assets, we have been looking which are the assets there are not economic and we stopped the production of those assets. Concentrating on layers that are lower costs, so 70% of our production in the pre-salt where we see the lifting costs of \$2.3 per barrel is a very important lever cash generation. Personnel, so if we look at cost reduction, you see it was an amazing year where we were able to implement lot of reductions in cost of personnel. We had a very important voluntary dismissal program where we got more than 10,000 people to this side, to leave the company in the program.

This will generate -- it's not generating the full BRL4 billion but it will through time generate BRL4 billion reduction whenever everybody left the company. We had a change in our structure, so we loose the number of managers in our structure and that generates a cost reductions related to personnel as well. Investments we did, of course, we are doing, so we finished at least, we are standby step but we did a portfolio review of projects. So we did for the year a very important reduction of CapEx from \$12 billion to \$8.5 billion and \$7 billion in cash, but we are looking at the portfolio of projects and seeing which ones are going to stay that have a breakeven below \$35 per barrel.

And that was the driver as well for -- even for the postponed -- back of those ballets and then very important again innovative thing we did with b721 that is going to generate, and get a value over the long run that it's going to somehow to bring more value to the acquisition of that in the -- how

can I say, the other size of the anticipation of production. So -- and that in line with that, we reduced the CapEx for the next five years from E&P to \$40 billion to \$50 billion. We have lots of other strategies. So let's talk about buildings, if we talk about building, the cost reduction we are having because we have so many buildings available for people and now we are streamlining the buildings and having only the ones that we need for our people and even for some, that we cannot leave the contract business it's a 20 year contract, we are at least cutting the maintenance expenses whenever we are shutting down the building. Guarantees, we are streamlining all the cash we have for a legal proceedings. So we have lots of cash deposits as guarantees in our legal proceeds. We are streaming line this process and really getting for sure a more -- trying to get as less as we can cash on those -- those legal proceedings as guarantees.

Tax spread, so you saw this quarter, \$900 million as tax credits impacting our cash flow generation. I would say there's lots, I can be speaking here half an hour or more about everything this company did through the crisis to surpass the crisis and to be more sustainable over time. I think that's why we are deleveraging so much.

Operator

Thank you, Andrea. Our next question comes from Luiz Carvalho with UBS. So it's for you as well. Just a follow-up on the divestment process. What is preventing Petrobras to move forward with (inaudible) share sale. Is it only the right price of the asset?

A - Andrea Marques de Almeida {BIO 19358739 <GO>}

So, thank you for the question. What we did, we asked the Board of Directors to approve the sale, so as we have more flexibility to decide the timing. The decision of the timing of asset sales that goes through capital markets definitely will be impacted by the window of opportunities and you know this window of opportunities linked to what is happening in the world and in Brazil, so the volatility of the markets do in that. And another thing that we have to take into consideration, definitely is the price, you know, Petrobras has strong guidelines according to TCU and went out -- and will be always looking at our internal valuation compared to what is the price of the stock in the market to decide when is the right time of the sale. But it's a combination of price and it's a combination of a very good window of time to execute the capital markets transaction.

Operator

Thank you, Andrea. The next question also from share Luiz (inaudible) and also on the leasing. So on the share price policy from company was a bit more active recently, but imports seems closed to private players. At the current moment, are you comfortable with the refineries' utilization rates and spreads.

A - Roberto Castello Branco {BIO 3193867 <GO>}

Thank you for your question, Luiz. I would like to start by saying that we are following international prices and imports are not close to anyone. Distributors, trading companies are still operating and this can be easily checked, our commitment is to have competitive prices. So compared to the importers, we'll always have their market share. As for the utilization rates of the refineries, it's also important to clarify that we don't see it as our goal, our target to be followed, it's a consequence basically result of our sales and operations planning, which takes into account local and international demands, current and projected current and projected crack spreads of each product among other variables. So I can say that we are comfortable that given the conditions of the market currently, we are running our overall production systems in a way that maximizes value for Petrobras. Crack spreads are very low nowadays, although still generating positive margins in the refineries. Anelise, why don't you comment further on that?

A - Anelise Quintao Lara {BIO 20915362 <GO>}

Yes, as Andreas said, we are monitoring the markets on a daily basis, adjusting our refineries' profile to maximize economic results. Utilization rate is a consequence of this optimization, but I have to say that being the Head of Refining, I am not comfortable at all with the crack spread margins of our oil products globally. The refining margins are at the lower level since the year 2000. This is a consequence of diesel inventories worldwide, that are -- is still very high in jet fuel demand that is still very low. But as you know, as Andrea said, in Brazil, we can see an import parity price that takes into account, not only the crack spread margins, but the exchange rates shipping and internal logistics costs to establish the price of our products. And also we are working very hard to reduce our refining costs. That's why we have been able to keep positive margins in our refinery part, even if internationally, it may not be case.

Thank you, Luiz.

Operator

Thank you, Chiarini. Thank you, Anelise. The next question comes from Pedro Medeiros and it's for Andrea. So Andrea, considering the changes in dividend policy announced, how is the company considering to distribute dividends once it reaches the \$60 billion gross debt target. Is it going to be on a quarterly basis?

A - Andrea Marques de Almeida {BIO 19358739 <GO>}

So thank you for the question. Nothing changed whenever we reach the \$60 billion. Whenever we reach the \$60 billion, we will pay the 60% of rating free cash flow, operating cash flow minus CapEx. At the -- if it is going to be quarterly or semi-annually, we have flexibility to do that, maybe we'll pay twice a year, but it's nothing that we can change now so we can pay twice or more, so that there is no fixed rule around that. In that, the difference is only that when we have negative earnings that we will be able to pay only when we have retained earnings and whenever we have a reduction of the net debt. So I think that's the change.

Operator

So the second question also from Pedro Medeiros is Roberto. So Roberto can you rank all of the major initiatives under implementation for the coming 12 months that can generate most gain for shareholders?

A - Roberto Castello Branco {BIO 3193867 <GO>}

Thank you for your question Pedro. There is a long list of initiatives in terms of cutting costs, in terms of gaining more efficiency that will come on stream the next few months. And others were already implemented, but (Technical Difficulty) will be shown only in 2021. One of them is the voluntary dismissal program. It's a program that has a pay back of 12 months. So it's for the future. The returns will come in large part in the second half of 2021, 2022. Several of the measures have been taken. I believe that Andrea mentioned several of them, is initiative to improve inventory management, to optimize, to liberate working capital, to cut personnel costs, to use digital transformation, to gain more efficiency across the board, not only in operational activities, but also in corporate activities, safety, environment. So it's impossible to list all the measures that we have on progress. And some of them we are planning to implement. You are going to see in the results. Andrea mentioned about the buildings. At the end of 2018, Petrobras occupied 23 administration buildings. We started this year with 17 buildings. For the -- at the end of the first quarter next year, we have only eight buildings. We already freed two buildings by the end of September, early October. And this is a trend.

At the same time, we are selling 550 buildings across the country. Petrobras is also a real estate company. I can say that Petrobras had 50,000 tonnes of scrap in storage. Now we are also in the scrap business. So there is a large room yet to reduce costs, to become more efficient. As in terms of growth, I would mark that eight platforms came on stream from 2018 to this year. Through

2025, we will have more 12 platforms coming on stream. This is more oil and oil at much lower cost, resilient to low price. We have the innovation projects focusing on exploration, production of oil and gas to reduce the breakeven price and to allow us to exploit it more successfully areas of the pre-salt with higher concentration of CO2, making our operating costs, both CapEx and operating costs, much lower than they are now. So there is a widespread effort on the same direction, become a low cost and much more efficient producer.

Operator

The next question comes from Bruno Montanari with Morgan Stanley. So it's for Andrea. Andrea, Petrobras faced the perfect storm in its free cash flow generation, leading to a very strong figure. Working capital account seems very benign while CapEx very low in the quarter. What can we expect for working capital and CapEx into the fourth quarter of 2020? Should there be a strong reversal of working capital and sharp increase in CapEx, assuming that COVID related restrictions seems to have been eased?

A - Andrea Marques de Almeida {BIO 19358739 <GO>}

Thank you for the question. So regarding investments or CapEx, we executed up to now \$5.4 billion out of the \$7 billion. So I don't expect -- I expect in the fourth quarter that we complete the \$7 billion cash for the year. That's what we expect. And if we need to say where it's going to be -- I believe it will be maybe down. Burgos I can -- at that point said that the Burgos is where we will have that CapEx been applied.

Regarding the working capital for the fourth quarter, we have been -- we don't see a lot. I think we are in the best quarter since 2019 of the inventories. So I believe the logistic team has been doing a great amount of job, a great job of reducing inventories and we have been reducing a lot. In terms of accounts receivable, it will depend on the fourth quarter if we have more sales in the local market or exports. So this quarter we have lots of -- we had -- the demand was up and we were able to have more sales done in the local market. And those get to revenues faster whenever we are exporting them, then it gets 45 days so as we get it to revenue. So it will depend on the mix. But I believe if everything keeps the same, we won't have any negative impact. We might expect to see the same trend we saw in the third quarter in working capital. So if we look at inventories and accounts receivables or revenues, I would say that will be the case. I don't know if Rudimar wants to say anything else about CapEx.

A - Rudimar Andreis Lorenzatto {BIO 20949096 <GO>}

No, Andrea, I think you are very complete. Thank you.

A - Andrea Marques de Almeida {BIO 19358739 <GO>}

Thank you.

Operator

Thank you. So the second question also from Bruno Montanari with Morgan Stanley's for capital. Regarding the production platforms that were mothballing during the crisis is the idea to keep them idle indefinitely or until some of those assets are sold, this would contribute to keep the lifting costs at low levels, is that a fair assumption?

A - Carlos Alberto Pereira de Oliveira {BIO 19164278 <GO>}

Hello, Bruno. What I can say about that is, so for there is not an economic reason to reopen those fields or to put on stream again the platforms and particularly, in this current scenario of oil prices where we see that they are very low and where we also see that there is a lot of volatility. It's important that we see that there are a lot of reasons that contributed for the total reduction of 43% that we saw on the lifting cost and the optimization of cost, increase of the production. For

sure, the mothballing of those platforms, they have contributed with something, but it was just a small amount of the 43% of the total reduction that we have. I could say that something like 5% of this 43% is due to this mothballing effect. Okay. I hope I have answered your question.

Operator

The next question comes from Andre Hachem with Itau BBA. When you are looking to Petrobras current roster of new platforms and the current capacity of pipelines, the routes, it seems that the bulk of the new projects will continue to use gas injection. Is there any outflow considering the units planned for the coming years? So this is to increase the capacity using this new projects of the offloading pipelines and thus monetizing the gas? So first, I think it's Capo and then Anelise, right?

A - Carlos Alberto Pereira de Oliveira {BIO 19164278 <GO>}

Okay. I will start with them. Well for the time being our installed capacity for the platforms that produce from the pre-salt comprised the Rota 1, 2 and next to route to the Rota 3, it will be available by 2022. So we think that the structure is sufficient to accumulate the projects that we have in the horizon of our strategic plan, but it's something that we have to continuously be evaluating as we also have some export productivity and also the development have other views that they are more gas prone. But I'd like to pass the word to Anelise and I think that she can complement us with some more aspects about this subject.

A - Anelise Quintao Lara {BIO 20915362 <GO>}

Thank you. As Capo said, considering the current projects under development, we don't foresee the necessity of a new gas route, but if you take into account the new projects that have already an exploratory success in pre-salt area like block BMC-33, Sugar Loaf, we foresee the necessity of a new gas route. This block is operated by Equinor, having Petrobras and Repsol as partners. Also, the signing of the integration of gas routes and processing gas plants, we think that this is also an important step for monetization of assets which are currently being studied by our team. Thank you.

A - Rudimar Andreis Lorenzatto {BIO 20949096 <GO>}

Anelise, let me compliment a little bit about the route 3. We still have a good expectation for starting up the route 3 at the end of this '21. Okay. 2021. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Capo. Thank you, Anelise. Thank you, Rudimar. So Andre also has another question and this one's for Capo. So why are the details of the new business plans yet to be released? Could you comment on your expectations for the Campos Basin recovery? While we understand there are a lot of promising opportunities there, amid capital restrictions, it doesn't seem less interesting than the Santos Basin. In this regard, could you expect more divestments in this region?

A - Carlos Alberto Pereira de Oliveira {BIO 19164278 <GO>}

Andre, well, the projects that we see for the -- in our plan, what we have in our plan for the renovation of Campos Basin, they are very resilient to low oil price. So therefore, Campos Basin remains for sure one important target for us, one important part in our exploration and production portfolio. Campos Basin is very well aligned and we have a strategy to invest in world-class assets that are located in deepwaters due to the fact that the prices are very resilient. They can be viable under oil price of \$35 target that we have established inside the Company. So we continue to pursue the same goal that we had on the strategic plan of the 2020, 2024, which is to produce in 2024 a similar volume that we have produced in 2019.

We are going to show more details about this when we disclose the strategic plan 2021 to 2025. But I can anticipate that we are still keeping the path to put the investments on this basin and

where we see a lot of potential. Yes. Okay. Thank you. I don't know if I have answered your question. Thank you very much.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Capo. The next question comes from Christian Audi. He just sent some questions. So it's for Roberto. Roberto, you have a solid liquid position. Thus there is no urgency to sell assets. That said, how do you balance this with the fact that you want to divest assets to help in the deleveraging process.

A - Roberto Castello Branco {BIO 3193867 <GO>}

Thank you for the question Christian. First of all, divestments are not driven by liquidity, by the surge of liquidity. The Company has a solid liquid position. There is no need for -- by this reason, there is no need to sell assets, not need to urgency in selling assets. But asset sales, asset divestment is guided by strategic rules. First of all, as we have declared many times, our focus is on assets in which we are the natural owners, assets in which we can extract the maximum return. So we are passionate for world-class assets in order to increase return of capital employed in the future above our cost of capital and generate positive EVA to our shareholders. Delivering value to our shareholders is one important reason for divestitures.

Second, is to deleverage. Although we have paid in the last 21 months \$31.5 billion of debt, we are still over leveraged, net debt to EBITDA, as shown by Andrea, is 2.3 times. We need to deleverage the Company to derisk its balance sheet, to reduce our expenses with interest, to free cash to invest in our world-class assets. We ended the quarter with gross debt of \$79.6 billion. So we were still well above our target of \$60 billion. \$19.6 billion of debt we should eliminate.

And in the case of refineries, there is a third factor, the risk to the Company, because Petrobras is the only player in the Brazilian refining market with 98% of installed capacity, it will always be exposed to the risk of government intervention, if you are the only player. Although it hasn't been true, we are over the last -- at least the last couple of years, we are seen as the monopolist. And then when fuel price rise, there are political pressures to government intervention in the fuel price. As we have seen in the past several times, although the Brazilian law established that fuel price are free. This was set by law since 2002. In a market, there are several players. We understand these risks, we will minimize it.

And regarding our refineries, we have plans to improve the efficiency of our refiners, reduce costs. One major focus is energy efficiency as it meets dual goals. One is to reduce costs and second to reduce greenhouse gases emission. It's one of our goals as in our ESG agenda. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Roberto. Christian Audi also has another question for you. So the questions is about Braskem, Braskem continues to improve on several fronts, which is positive for the potential sale of your stake. What else do you think it's important to take place to accelerate this divestiture?

A - Roberto Castello Branco {BIO 3193867 <GO>}

So, good question. Another good question Christian. Braskem has improved, but it has to improve much more in terms of solving all the environmental liabilities and to improve significantly the governance. We have discussions with the controlling shareholder, that's Odebrecht, in order to reach an agreement that will allow us to list Braskem shares in the Novo Mercado in order to increase the -- to improve significant devaluation of the company, to be able to sell our stake. We don't want -- we have no intention to continue as a minority shareholder in a petrochemical company. We would like to sell our stake in order to use cash to invest in our world-class assets, to reduce debt and to pay dividends to our shareholders. To submit this to the capital management process.

A - Carla Albano Miller {BIO 17540433 <GO>}

Roberto, the next question is from Bruno Amorim with Goldman Sachs and it's for Andrea. Andrea, what's the sustainable level of cash under normal circumstance? And so how much more debt can be paid only by using current cash balance as opposed to asset sale or free cash flow generation?

A - Andrea Marques de Almeida {BIO 19358739 <GO>}

Okay. Thank you for the question. I believe before the crisis, we were trying to reach the level of \$6 billion -- \$5.5 billion to \$6 billion. That is still the case. That is still the operational minimum cash that the Company can, how can I say, leave. But we still believe we need to see how the crisis is going to be from now on. We are seeing the second wave in some countries. So we believe we will still need to keep maybe a higher cash while we see higher volatility and then go back to the \$6 billion. So if you look at our cash balance, right now, it's around \$13.4 billion, but you have to take into account that we -- and it's important to mention that we have back our insurance that is our committed bank facilities. So we have back this \$17.6 billion of committed bank facility. So after volatility is gone we can work with the cash of \$6 billion. But we still don't know when it's going to be the case.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank You, Andrea. There is one more question for you as well. So could you please update us on the asset sale program? What's the status of the sale of the refineries, your stake on the (inaudible) and also on the assets related to gas?

A - Andrea Marques de Almeida {BIO 19358739 <GO>}

Okay. So I believe Roberto already gave an update on refineries. So we are negotiating with the buyer for (inaudible). We are analyzing the proposals received. In (inaudible) we might see proposals in the end of the year. At TBG that is the one related to gas is one that we are awaiting ANP to define new tariffs. So we are waiting some -- the regulator to do their parts so as we can go on. At Gaspetro, we received proposals and we are right now evaluating the proposals. We talked already today about the offshore gas pipelines that we are discussing with the other players if we are going to go for a new entity as Roberto mentioned. So put all those pipelines into a company and then do an IPO, where we can get the future investments into this company. So that's one option. But we are still discussing this option or an M&A option with the other partners. So it's still under discussion to come. I believe those are the most important ones to update you all I believe so.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Andrea. The next question from Thiago Duarte with BTG Pactual. So it's for Capo. Capo it's interesting to see that 60% of the year-on-year lifting cost reduction is explained by factors that are under Company's control, such as efficiency gains, for example. Considering the prospects for increased production in pre-salt areas, how much was the Company say is still possible to deliver on cost reduction in the next year?

A - Carlos Alberto Pereira de Oliveira {BIO 19164278 <GO>}

Well, we have made an important effort in order to reduce costs, and part of the cost reduction is due to the reductions also in the activities that we have. So the COVID is something that was atypical and impacts on cost and production for sure, we've made a lot of effort. But our goal is to continue to work with low cost and to continue to pursue cost reduction. And as I mentioned, for the next quarter, we expect to have an increase on the lifting costs as we will have some reduction on the production due to the stoppage that we have postponed from the beginning to the end of this year. But for the years to come, we particularly for the 2021, as I also mentioned, the intention is still to continue to pursue a reduction in cost and to keep the same perspective, and the same good performance that we have seen in the 2020. But for the years to come, we will our guidance when we open our strategic plan.

Operator

And we have time for one last question and the last question comes from Liana Yang from HSBC. And it's for Roberto. Roberto, can you please comment on the rationale of changing the dividend policy to allow management to pay a dividend even when reporting accounting losses? This goes against the prior message of leverage first, dividend later, variable compensation even later. Is this change to cater for a larger shareholder base, namely the retail investors or to allow your cash strapped parents to get some extra funds?

A - Roberto Castello Branco {BIO 3193867 <GO>}

Lilyanna, I do believe that this question was already addressed by Andrea and myself, particularly on the malicious speculation on benefiting our cash strapped parent company that owns 36% of the total capital, it is totally false. I have given numbers to that. I've given arguments. There is no reason for that. It's a drop in the ocean. Dividends paid by Petrobras are drop in the ocean against the total taxes paid by Petrobras. I will repeat these. In 2019, we delivered to the government BRL246 billion in taxes and subscription bonus, and only BRL1.8 billion in dividends. This year till September 30, we paid BRL91 billion in taxes. In December, as part of the last tranche of the dividend payment referred to 2019, we're are going to pay BRL900 million to the government, look BRL246 billion against BRL1.8 billion, BRL91 billion against BRL0.9 billion.

Ad out of we -- our lifting costs at the pre-salt in this quarter was \$2.30 per barrel, each barrel of oil paid \$15 to the Brazilian government. So this makes no sense. Please, you are a serious analyst. This is totally out of question. As managers of the Company, we're committed to deliver value to shareholders. We are not going to put our credibility at risk with such irresponsible decision. Neither ourselves nor our Board of Directors. And the capital management remains the same. We have to allocate funds to finance our investments in world-class asset or to provide funds for sustaining capital, to pay back the debt, to have -- bring down debt and we are laser focused on reducing debt and leverage. There is no doubt about that. YOu are going to see in the future.

And third, to distribute dividends to our shareholders. It's normal. We didn't break any rule. We did make any movement -- strange movement. We have accounting profits. We are not driven by accounting. We're driven by cash. We have examples of peers that in 2015, 2016, even driving accounting losses, they distributed dividends to the shareholders. We are not a new inventor. In the end it's legal. It's provided by again Article 201 of our corporate law. That's it. So nothing changed. We took this step only to clarify a situation that was not clear. As Petrobras said in the past, that it will not pay dividends if they had accounting loss. At that time, Petrobras has a very weak cash flow and we put a condition, Petrobras may distribute dividends even with accounting loss, if net debt has been reduced over the last 12 months. That's it. No change. Please capital management remains the same just as Andrea highlighted, to give more flexibility to our policy. That's it.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Roberto. So at this time, the Q&A session is over. If you have any further questions you can sent to our Investor Relations team. So now Roberto will make his final remarks. Please Roberto.

A - Roberto Castello Branco {BIO 3193867 <GO>}

Well, I'd like to thank you for participating in this video conference. I'll take the opportunity to invite you for the analysts and investors 2020 this year, of course, on November 12. This will be a virtual tour that's being allowed by our progress in digital transformation that is to be very important for Petrobras becoming a better Company. The fundamentals remain the same, our strategy remains the same, it's intact, it remains intact and we are day by day pursuing our purpose, which is to become the best oil and gas company in the world in value creation. Thank you and stay healthy and safe. Bye. Take care.

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