

# Q3 2016 Earnings Call

## Company Participants

- Isabela Mesquita Carneiro da Rocha, Investor Relations Executive Manager
- Ivan de Souza Monteiro, Chief Financial & Investor Relations Officer
- Jorge Celestino Ramos, Chief Refining & Natural Gas Officer
- Roberto Moro, Chief Technology & Production Development Officer
- Solange da Silva Guedes, Chief Exploration & Production Officer

## Other Participants

- Bruno Montanari, Analyst
- Caio Carvalhal, Analyst
- Christian Audi, Analyst
- Frank McGann, Analyst
- Luiz Felipe Guanais, Analyst
- Pedro Medeiros, Analyst
- Regis Cardoso, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good afternoon, ladies and gentlemen. Welcome to Petrobras Conference Call with Analysts and Investors for the Presentation Concerning the Third Quarter of 2016. We would like to inform you that the participants will only be listening to the conference call during the company's presentation, and it will be conducted in Portuguese with simultaneous translation. Following the presentation the presentation, the Q&A session will begin in Portuguese and in English.

Present with us today are Mr. Ivan de Souza Monteiro, Petrobras' Chief Financial and Investor Relations Officer; Mrs. Solange da Silva Guedes, Chief Exploration and Production Officer; Mr. Jorge Celestino Ramos, Chief Refining and Natural Gas Officer; Mr. Roberto Moro, Chief Technology and Production Development Officer; as well as other officers or executives from the company.

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

To begin, we will hear Mrs. Isabela Carneiro da Rocha, Executive Manager of Investor Relations, who will start with the presentation about the third quarter 2016 subsequently the questions from the participants will be answered. Please, Mrs. Isabela.

### Isabela Mesquita Carneiro da Rocha {BIO 19730664 <GO>}

Good afternoon, everyone. Thank you for joining us. I will start the presentation reminding that slide number two is quite important, but contains only something that we do expect that is what the macro view, the external view considering what happens the exchange and the appreciation of the Brazilian real against the dollar vis-à-vis the same period of last year and related to the second

quarter. In this slide, I would dare to draw your attention for the full semester of – last semester, the difference between the \$3.17 and \$3.55 will give another result for the company.

Going to the Brent, there was drop if compared to former or previous period, although it's flat the curve and stable, but at low level. If you compare even with 2014 that the Brent was in higher price per barrel and this will pressure the results of the company.

Going on, if we can see some results in positive free cash flow, the adjusted EBITDA had a better cash flow. This increase is due to the oil production and exports, and smaller expenses or lower expenses of LNG. If we compare with the same period of last year, we have more margins of the price spreads in Brazil and lower expenses with participation of the government due to the Brent price. This happened, besides we did not have a very big amount on sales considering oil products.

Considering the free cash flow, we have an increase of BRL 26.7 billion and in the year BRL 66.0 billion, a positive free cash flow and reduced or adjusted EBITDA BRL 10.3 billion (4:49) that will be the equivalent of BRL 12.3 billion and they accumulate around BRL 30 billion.

And with the adjusted EBITDA in the sum, we have cumulative adjustment and a positive free cash flow, BRL 16 million and BRL 29.6 billion. This cash flow is very positive for the sixth consecutive quarter in a row. We were able to maintain and to keep the positive free cash flow for the six months. We also have the results affected by other items. Around BRL 67.2 billion in the accumulated with the gross income with the reserves net financial results of last year-end operating income, less than BRL 10,000 billion, and non-recurring items, some assets that we have around BRL 3.15 billion, and a negative income because we have sales around BRL 3.6 billion.

The voluntary dismissal planning BRL 2.47 billion and losses that we had by the suppliers BRL 1.13 billion and expenses – operating expenses in New York, BRL 1.2 million. This non-recurring items explain this negative result. Considering the negative net income, we have BRL 3.16 billion, it's due to the depreciation of dollar vis-à-vis euro and libra. So we had a loss of BRL 17.3 billion by the year.

Basically, considering share of earning in equity accounted BRL 15.5 billion, this has impacted in a very big way the net liquid results. Petrobras would reach in this semester around BRL 10 billion, but the net income around BRL 7 million. Well, we have negative net income that we had already shown. Here's the results for you to have as a consultation paper.

Going to explain the non-recurring factors, I would like to start. For the last (8:01) quarter of 2015 and we have the approval this year for the business plan 2017-2021 that was approved in September this year. With the approval of this year, with the new portfolio for investments foreseen in the planning and the change – the discount factor and appreciation of real had improved in average one point showing the Brazil's risk.

The discount rate is considering the last 12 months. And in this sector, we captured 12,000 investment-grade with higher investments. The exchange rate that is more appreciated and going back to the first slide where we have an exchange of BRL 3.90 and now with BRL 3.25, so projects which – cash flow are in dollars. Whenever you use an exchange rate more appreciated, the resulting reals will be lower. And if it's controlled – if it's compared with the mobilized capital or the steady capital, the net present value will be smaller or lower.

Here we highlight for items for these non-recurring items or results, BRL 6.7 billion in the oil fields pressed (9:43) by the exchange rate plus deduction, appreciation of the dollar in some equipments and the delivery of hulls, for instance P-72, P-73, BRL 2.8 billion. And I would like to highlight that this does not impact the portfolio forecast at the PNG planning. Other assets in the second train that was postponed and the Suape Petrochemical Complex, because due to the forecast of our planning – a lower use of the refined oil products. These factors turn to this value of

BRL 15.7 billion. A sensitivity analysis was accomplished for the main assets responsible for BRL 10 million on thermal and the other figures that vary due to the exchange rate.

We could go on to the adjust. When we talked about PESA in July that we had alienation, we had sold BRL 1.7 million. But due to the accountability, whenever you have two currencies - two different currencies, we work in reals and PESA. It's using a negotiation in other currency. So during the transaction (11:39), the numbers that varied are considered into the net asset, but we call this - whenever we sell, we recognize in the results. That's why we have BRL 3.6 billion negative, considering PESA sale.

Individual shareholders' shares of stocks, we had a revision. We have four shares and we had revision at the - and the results, not only of this agreement, but with the revisions that we're still negotiating BRL 1.2 billion during the quarter. Well, collective action was not considered because the issues are still there with a degree of uncertainty and it's not possible to evaluate this.

At the moment, one non-recurring item that was positive, a kind of a reversal, it was the revision of the areas' abandonment, the commissioning costs, with high depreciation of the real, reduction in provision and net impact BRL 3.2 billion. As a result, these factors were the main non-recurrent that I (13:13) here explained throughout the slide.

Moving on, we would like to highlight another factor. It was the voluntary planning of (13:29) voluntary plan. You have on the right of the transparency and this will be positive for the future, because we are going to spend (13:39) less money with the personnel. We have (13:44) and we are going to have a reduction of 10%, around 8,506, but (13:53) considering those who are in the program wishing to go out of the company, we will have a 10% in the reduction of the expenses in the projection (14:09) of costs. As we are showing you in this slide, where we are showing you the expenditures with sales, general and administrative ones and although the wages that are going to be corrected, readjustment due to the Collective Bargaining Agreement, the reduction on refining, on lifting will be very reduced even with having new operation units entering and with new fields the cost of the companies are going to be better. We expect that.

We would like to highlight some operational area in E&P. We had two 2,857,000 barrels in the quarter. Even after selling barrels (15:10), we had some production record we would like to highlight that we surpassed 3 million barrels per day. If we consider all the production of Petrobras and all the others auditors (15:24) and even the partners' contribution, seven of the eight pre-salt platforms have reached the full capacity. We have only one in ramp-up and we are following the trend of its contribution for the goal on production.

Well, the lifting cost keeps the trend and dropped in 14%. We see an improve, which we (15:55) reduced around manageable operating costs, even when the production grew and pre-salt lifting cost. So it's very low, below \$8 per barrel. This is one of the - responsible for the low lifting cost.

And low expenses with transport offshore, Petrobras uses lease each time less vessels and less airplanes, air carriers. We would like to highlight the Campos Basin that currently we have an average decline rate of 6%. But this will represent (16:45) partnerships to reduce these decline rate with new technological issues.

And within Campos Basin, we would like to highlight Marlim field that produced since three year (17:03), 60% recovery capability and the reservoir here, because we have a better water injection and drilling new wells. We had reduced the decline of this 10% in 2010 and 3% in 2016, and in parallel to pre-salt, Campos Basin is quite important for us.

Going to refining and natural gas, we would like to highlight our pricing policy for diesel and gasoline that was announced at this year when (17:44) Petrobras considered this that competitiveness, we should bear a (17:53) margin, volatility of the market and we want to

accomplish our financial objectives. We are above the margin considering the margin (18:05), and this policy is being practiced.

We can watch a lower sales volume due to reduced oil product demand, only 2,282 (18:20) barrels per day, but this reduced demand is due to the domestic market and other factors in the market that imports diesel and these lower oil product output will decrease in sales volumes, and this factor will have an impact of the refinery, 80% of the third quarter, very good if compared to last year.

But this impacts our refineries due to the decrease in sales volumes and would like to highlight the increase in yield of our oil products imported in diesel, gasoline and gas fuel. 80% come by this oil products, around 80%, and our capability is around 100 barrels per day. So we can fit the production profile to the demand.

The domestic oil share in processed feedstock, we have reached 93% in the third quarter, and we consider in a mid crude oil in pre-salt, but we have reduced the imports of crude oil. This is a favorable impact, because we are optimizing the logistic assets in the refining plants of Petrobras. These factors, as we are going to see, an increase of our trade balance, we're exporting 210 kbpd in this third quarter, like a net export and an import country for oil products.

Going to natural gas supply and demand balance, considering the thermal electrical plants, the higher demand in (20:55) natural gas demand as well to substitute. So we have a better margin for Petrobras.

Some financial highlights (21:04). We have a partnership on investments where the transactions went to \$1 billion and here we can see some investments and that already were announced as the development plan with the partnerships that we are having with important partners on strategy and other ongoing divestments already announced to you.

In regard on the indebtedness of the company, it's lower considering reals. We are keeping it in U.S. dollars and we highlight the total debt and the net debt to extend (21:57) to elongate without increasing the cost of the debt. We have a good management and a critical one for keeping this figure.

Regarding the 2016 cash flow, we can notice that our forecast for this year, we expect \$26.5 billion associated with the debt management. As we've told, we have the investments. We expect to have more investments. This is a cash flow view. It's a cash view. And we consider \$6.5 billion divestment and closing the year with a balance of \$22.5 billion.

And talking about the company's value and the reduce of a five-year's bond issuance around R\$221 billion, and with our share of stocks more appreciated in the market.

And to conclude, I would like to go back to our metrics announced in the business plan when we were walking (23:31) through the convergence of the announced target. So we had a reduction. We have reached at 1.6 and the EBITDA adjusted is 4.1 (23:42) in this semester. I'm showing you the convergence (23:52) trends in our business plans. Thank you very much indeed.

Now we are going to have a Q&A session.

## Q&A

### Operator

Please, I would like you – each participant will be limited to utmost two questions. Questions should be made consecutively so that executives may answer them afterwards. We kindly ask you to use the speaker phone. If you speak in English, we are going to translate into Portuguese. If you speak in Portuguese into English. First question, Mr. Bruno Montanari.

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

Good afternoon. Thank you for taking my questions. My question is related to pricing policy. So now we have these two readjustments in a row and it shows very encouraging policy and it's important that it's a two way policy. So my question is when I look at the chart, and I see the dislocation in the rate exchange, even if it's flat it stabilizes towards a months. Is it to be expected there's an increase in the price of fuel?

And my second question is about the negotiation of the Transfer of Rights. The company is going to negotiate, discuss more. I know this is difficult to talk about evaluation, but I would like to know if you could talk in two points, the price of the oil and also the timing of the process so that we can do our math. And taking advantage of this, one of the things I'd like to talk about the Transfer of Rights is the potential reimbursement of Petrobras and if it's going to be transferred to the government, new taxes, for instance. I would like to know if it is funded in anything. And thank you so much.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Thank you. Ivan speaking. I'm going to pass it on to Celestino, the Director to talk about the Transfer of Rights and your next question I'll be answering.

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

Ivan, thank you. Concerning the expectation, actually you have other variables that influence the price of the commodity. If we look the seasonable thing, what we have to look at is not only the branch and the exchange rate but also the volatility of the press. Last year, for instance, in the winter, we had a hard winter in the U.S. and our diesel stocks, they went up and the spreads (27:07) did not open so much as in the previous year 2015. Of course, we are looking at these variables and we are seeking to reevaluate the margins of our business.

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Good afternoon, Bruno. Concerning, the first part of your question on the Transfer of Rights, we are right now in the same position, as of our last talk, there is nothing in underway negotiation. You are asking if it's ongoing. There have been talks about parameters, which are going to influence this evaluation and Petrobras since the beginning of 2015, have been discussing with the Brazilian Ministry and other areas about the processes (28:02).

I cannot say that there were convergency in the items, as you have mentioned. And much less I cannot mention it and say anything about the timing, because still the two parts have not reached an agreement and we don't have the documents, so that we formally begin the negotiations.

I don't know (28:28) if I understood it correctly, there are no older arguments of the divergencies in the companies. They have been taken care by a committee in the company. And we are about to see that there is adequate forecast. As for your question, as if there was an explicit thing about it as it was in the reports, in the media, the company doesn't know anything about linking the results of the trends of rights as Director, Jorge has (29:07) said. There are no parameters or nothing has started, nothing is ongoing. Much less was the tax related.

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

Thank you.

## Operator

Next question, Christian Audi, Santander.

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

Thank you, Ivan, Solange, Isabela and Petrobras Inc. My first question is related to the thermal (29:39). I know the historical you have a tendency of making more adjustments. So my question is related to impairments, but we had changes. So what happened that the level of adjustments of the quarter is going to be lower than in this third one? And since they have been adjusted because of the strategic plan, we can probably expect a lower level for next year. So I would like you to talk about that.

The second question is related to your continuous success with the CapEx, keeping it low. If you still view it's the same way, if it's going to be in the third quarter or is it going to be moving on.

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

Christian, thank you so much for your question. As we have already mentioned yesterday, the test is mandatory. The test is mandatory, as you said. So the company always discuss (30:51) in the fourth quarter, but with the approval of the new plan and the alteration of some important variables, long-term exchange Brent price, we decided to do this test in the third quarter and the results of the tests was taken to the balance statements of the country.

As I mentioned yesterday, the company with the - in data that we have today now, as I speak with you, there is no expectation that there are going to be imparities for the third quarter and not even for the next quarter. So with the data that the company has made available today, we do not have any indication that there are going to be anything happening of this magnitude.

As for your question related to Campos, I don't know which of the Directors are going to make any comment on that. So Christian said that the Campos has been behaving in the lower level, and the projection has been (31:51).

Well, Christian, along this trajectory of investment in these areas, these characteristics are very particular. These investments, they return and the mid-term and three years, four years ahead. So as we suffered an important impact of delay of some platforms we have today in our portfolio some anticipated investments.

So it is possible. Of course, we looked at that very attentively, because we are working emphatically looking for the good forecast of the production. This is very important for our financial management and we look at the forecast of mid-term and long-term. So it is as if we had an anticipated investment. It's possible to signal with this level of production, of course, there is a profit margin. This level of production with the investment finalized too, because parts of these investments were already anticipated.

An example of the dimension is that a practical example of what I'm saying is for the project of 2017 on, almost for all of them, we have the first well ready, finished. So this is already anticipation of investments that makes this relationship that we present. This was made in a very virtuous (33:35) way.

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

Thank you, Solange. Only a quick follow-up, Ivan. in the strategic plan, you mentioned in detail all the efforts related to cutting costs. Could you comment on that? How these new initiatives are going to develop that Nelson (33:59) has discussed?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

So since the beginning of the announcement of the plan, Christian, what we have done so far, we have been evolving (34:13) throughout the company of the plans and how these things are going to take place. We have several initiatives. Our Director, Solange, has already mentioned about that. We have a third wave of negotiations with suppliers and there are several initiatives by the (34:29) company and we're going to apply to these initiatives the methodologies accordingly.

We're going to enter the next year with all of us know exactly what our challenges are going to be related to the goals that the company has itself, both the finance, security and all the other goals. So I would like to insist that we are seeking to have a company that is resilient, even in a Brent environment lower, and Solange said that as the pre-salt production continues, so the high competitiveness is going to reflect in the indicators of the company in the next quarters.

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

Excellent. Last question, Ivan. Thank you so much. For the sales of assets explanation, which shows it a clear way where you're heading. In the topic of eventually if you are able to talk about refinery figures, would you be analyzing anything along the lines as you did with (35:53) potentially even selling a major part of refinery to a company, which is interested. Would it be something that you're looking at potentially as these processes develops?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Christian, we still don't have a definition of the final model that we are going to discuss with the market, because first of all we have to have an internal discussion led by Celestino, our Director, then after with the Executive Director, and with the Counsel of the company. We still don't have the definition, but I'd call your attention that the new pricing policy that was implemented and has been practiced opens the way to this process so that this process is better welcomed. In our view, this new policy brings great benefits to the company. People are going to know that there is predictability of the company, and this is going to have a positive impact. Thank you.

**Operator**

Next question, Caio Carvalhal, Banco Brasil.

**Q - Caio Carvalhal** {BIO 16605563 <GO>}

Good afternoon, everyone. Maybe it was already mentioned before, but I would to ask you in a different way. When I look at the charge impairments, I know that excluding the sales of our PESA, Argentina, I know that there were two major groups and they were related to assets that were already in the final chart, so the impairments which were related to the revision of new premises, exchange rates and oil prices. So, Ivan, you've already answered that, but I would like to confirm. Related to the first group of write-offs, which are related to assets that were tangible deals, we shouldn't rate anything else from this group. So this was a comprehensive answer or it was just about the two premises?

And also, the two groups of impairments, can we imagine that this could be in a positive way, the outcome would be positive, the situation of exchange, the oil prices improving, we could have a reversal of this loss or no, these were assets that were already depreciated and premises different from reality and that the company wouldn't get back to them in the mid-term?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Caio, you've quite - got it right, your question. Let's break it in two parts. So there is policies from outside the company we have no control, and they are acquired and we left, it's very clear since the asset (38:56) and the influence that they have, Isabella (39:03) brought data. If you say 80% of it is linked to rate exchanges, so specifically you mentioned refineries. I would like to remind you that we've already done that since February 2015. A revision of the plan, then a second revision

and now a completely new plan covering 2017-2021. Basically refineries compared to complex, when completely off the horizon of investment. The decision of the company was we are not going to do any investment in (39:42) because of the financial restrictions of the company. So you have to take this complex. So this is exactly what happens with the trains. They will protest for the next plans, 2021, but you have to realize the test and then you exclude this asset, because it's not in the horizon of the plan.

With relation to second part of your question, I'm going to pass it on to Solange Guedes.

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

Good afternoon, Caio. The second grid (40:20) that you mentioned of the impact that took place because of new branches, you are correct in your evaluation and I think that there is something, which is very positive about what you're mentioning and that we can talk about it. Obviously, we are working with premises that – and we are looking for premises for our business, which are strong premises. Petrobras has to be very wholesome in this new recovery process. So this brings consequences, but I would like to highlight an example that we report here in our IDF (41:04), which is of an action that is very important in the case of IT assets, which have this intensive work of the (41:12), all kind of work related to cost reduction and optimization reflects in all areas even if the premises are the same. So we intend to keep these premises.

So in the areas that in 2015, when we did all the adjustments of EBITDA with this drop of prices, we had several IT assets. And now in the year of 2016, we have a reversal of the provisioning, and this is very typical that there is a revision in these assets. So we can see all the opportunities of reductions of cost. This way in which we're going to work in a very intense way of generation the value of these assets, this is going to make these provisions – in some cases, there might be some reversal.

**Q - Caio Carvalho** {BIO 16605563 <GO>}

Thank you.

**A - Operator**

Next question?

I have three questions. First, with relation with the platform. It's assumed that you've raised (42:32) and when they were – the forecast of that coming into operation, what are you doing in relation to that, the potential delay and in the construction of these rigs, are they coming into operation? Also, the sales of assets, can we assume about the GAAP, the latest assets? What about the goals, or is there anything else that hasn't been disclosed? And last, tend to the stocks. You tend to tail that much, but I've heard some shareholders that has left that (43:24-43:32)...

Thank you very much. Now, I'll pass the floor to Moro.

**A - Roberto Moro** {BIO 19059346 <GO>}

Well, P-72, P-73, I don't know whether the Chief Executive Officer knows about this or he's going to talk about this. But divestment is something that you really point out.

**A - Operator**

Okay, Diego (43:57). Well, P-71, P-72 and P-73, it was in the horizon of the plan. It's still there, but we have reduced our expectations for 2001 (44:09) to receive the whole of the drilling rigs or the platform. But considering the lower situation and the reaction, because it was still for 2021.

So we have low accountancy and it's still in the plan with no impact for the outputs. Well, because we have a time for doing an alternative way of behaving. And in accordance to the other drilling



rigs, so in the platforms, they do not impact the plan and we simply lowered the costs in the outputs of these other platforms.

Well, Solange considers that it was already entered and the information we released, they are in a level that we have to reach the market, but some items we could not release, because it was not mature, but this is the goal of company, around BRL 15,000 million (45:28) till the end of the year, 2016, and we are preparing the company, we are discussing it, internal discussion of how to reach the goal of almost BRL 15,000 million (45:44). We don't know anything about individual behaviors from the United States.

Well, is there anyone at the (45:55) that migrated to the individual because of quicker agreement?

As I've told you, we didn't have any growth. So we can't have individual actions or individual behaviors.

Next question, please?

Regis Cardoso, Credit Suisse.

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

Good afternoon. Thank you for taking. I would like to tackle the way of management of the company in areas of crude oil. In accordance to the last results, generation of cash flow are positive cash flow. So there is a concern on cash flow generation in the future, for the future. As you have to low down your prices because the commodities in the external market is down, my question goes in the very sense that whether you have an expectation considering timing and figures that could implement the budget and how the markets could follow these downsizing or these lower prices that you are practicing or that the world is practicing?

Well, we know that we have a surplus volume. This is contractual. We understood that this is a review process and we can't have any referencing pool for that. But the idea is more strategical in the way that we have huge areas with very big reserves, obviously, in accordance to the industry in Brazil to develop or to have a development plan just taking into account one or two variables. Maybe we have to discuss with us the difficulties to invest in the same area and I don't want to enter in your regions, but I propose that maybe the government should tackle area per area, maybe in a different way of approaching it.

### **A - Operator**

Thank you, Regis. I will try to answer your question and then I'll give it to Solange. Well, the controlling plan or the management plan follows the methodology incorporated to the metrics that we had released in the business plan. Strong operating generation as a result of several initiatives within the company looking for better effectiveness, preparing the company to be resiliency in the results even in the non-favorable scenario as we have today. So our expectation is that we have gains for the next years, not only due to the implementing all the new tools, but everything we do in the best way of having good results. This is the way the board thinks. Now, Solange will answer here the next question.

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

Good afternoon (49:34). Well, okay. I do understand that this is a conceptual question, linked on how we explore in the outputs in existing volumes in any area, because we have a different operator. So, in accordance to each operator, the results are different. In a general way, in the oil industry as a whole, what we look for and the - there are equivalent processes that is, there are different processes that we have throughout the contracts' mitigation. We try to do that - useful life could be managed in agreement with the best practices.

We know that is non-renewable resource that we have to take very good care and agencies do it. So, it's a little bit complex to answer to the international practices without mentioning restrictions, theoretical (50:51) or legal restrictions to insert that environment in a second operator with different practices of the first. In operating the same way, I can't find the parallel of these in any other industries, so I can't find these as an alternative. I'm quite sure that your question is very well settled, but at the moment we are talking on re-dealing, renegotiation of contract.

So, my evaluation is that this new hiring, this new model will be dealt in a suitable way by the regulatory agencies, by the ministers that are - ministers involved because there is some things very, very rich or wealthy that could be changed or transformed into value - turned into value. So the contracts will be well dealt, well negotiated I guess. This will be the rational way of doing that.

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

It's quite clear. Thank you very much indeed.

**Operator**

Next question, Felipe Guanais, Bradesco.

**Q - Luiz Felipe Guanais** {BIO 19933939 <GO>}

Well, at first, which is the position of the company when we talk about the sales. By the end of the year, you're going to give an update on something, but volatility of the spread will affect these sales. Is there any possibility to have an increase in one month or you have to consider the term of 30 days? And what was proposed on the tender of 2014? We wanted to know how this - is this strategy going (52:59).

**A - Operator**

Yes. So, we couldn't listen because the audio didn't come in. Concerning (53:07) there is no update. The company has fulfilled all the conditions, but we have no new information or relevant one. Considering volatility of the spread, Celestino will answer you, but we had a lot of difficult to hear and to listen your third question. The audio was not good for your third question, so please repeat in a slow motion. Felipe?

**Q - Luiz Felipe Guanais** {BIO 19933939 <GO>}

What are you asking? We are asking the analysis and possibly - due to our engineering way, the policies foresee that at least once a month we could see it and discuss these items.

**A - Operator**

For sure, there is a management of the company that analyzes the performance of the waves, economical results - economic results and subsidize the executive group that was (54:26) in such a way that they can go one with their analysis. Volatility, yes, we may have it much more than reviewing the price within one month, within less than 30 days.

**Q - Luiz Felipe Guanais** {BIO 19933939 <GO>}

Well, the executive group has no linkage with the board, isn't that?

**A - Operator**

Well, the executive group or the officers group, it's composed by peer group chief officer, CFO, Ivan, Refining and Natural Gas Officer. These are the three elements that compose the pricing unit. The third question was not heard by the audio - a problem with the audio.

**Q - Luiz Felipe Guanais** {BIO 19933939 <GO>}

At Petrobras,...

## A - Operator

We can't hear, we can't hear.

## Q - Luiz Felipe Guanais {BIO 19933939 <GO>}

Just, is there any updating if it was signed? So please, we would like to know the position of the company considering transfer of rights?

## A - Operator

Well, this is a decision that was taken by CNPE, but there was no further development. There is no contracts, nothing's signed from that resolution of CNPE onwards.

## Q - Luiz Felipe Guanais {BIO 19933939 <GO>}

Thank you very much indeed.

## Operator

Next question, Pedro Medeiros, Citibank.

## Q - Pedro Medeiros {BIO 16187063 <GO>}

Good afternoon all of you. Thank you very much indeed for the questions. I have three questions, maybe they are more objectives because they have to feel with results. I would like to know the share participation, because in the third quarter we have a drop on figures. It's very relevant despite a gross on output. No maintenance on big systems during the quarter.

So, could you tell us what was the driver of this share participation or the drop, also lower on provisioning on diesel for the distributors, distributor companies. Why the lower volume of sales? They have to do with payment conditions. Can you talk to us about a better scenario? And it's of a guidance, if we have vision over the PDVs, the dismissal voluntary plan and the provisions that could impact those two quarters that reflected an impact at cash flow?

## A - Operator

Thank you, Pedro. I will answer your second question. Solange will - and I will talk about provisioning, and then (58:01) tell you about PDV.

Good afternoon, Pedro.

Please, dear participants, you have to wait a minute.

[Foreign Language] (58:24-58:33)

What happened with this credit? (58:38) concerning provisioning, what happens (58:45) in the commercial relations...

So, they started (58:50) with anticipated payments. So with anticipated, you can't have any kind of provision. So, I'm going have our Director to talk about more updated results.

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

Summing up the two PDVs 2014 and 2016, we already have 10,400 and so dismissals. So, PDV of 2014-2015 and 3,985. In 2014, 360% pending the business. And according to what I have mentioned, around 1,000 or 7,000 people or so, potential dismissals, also several more dismissals to go.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Thank you. I would like to ask a question, Ivan. As for your question, is it possible to say that the next quarter this kind of positioning is going to be the same?

**A - Ivan de Souza Monteiro** {BIO 16420543 <GO>}

I'm going to ask you to apologize. But I guess, this operator interrupted the answer of Solange, and I wasn't able to hear the answer. Pedro, as for provisioning, this kind of provisioning - commercial provisioning is going to continue. I don't know how to anticipate that. This is going to depend on the level of volume. This kind of commercial relations established that situations of delinquency, companies does all the provisioning, the changes and the changes to stay ahead. You have to expect that from (01:00:41) receive at the right schedule. I'm going to pass it on to Solange.

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

Pedro, what I was trying to clarify to you is that, yes, we had an interesting effect in our lifting costs, especially because of the drop of - what happened with the main result was the uses of some exploratory credits that we did encompass and they were highly relevant in our payment of special participation.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Thank you.

**Operator**

Next question, Frank McGann, Bank of America.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. Good afternoon. I've two questions, if I could. One just in terms of cost - the lifting cost side have come down very sharply and pretty much across the business. Just looking at future development costs, so I was wondering if you could comment perhaps the upstream business, and how you're seeing the per barrel costs for pre-salt for future developments as well as for non-pre-salt developments? In what range would those be now as you look out towards bringing new projects on stream in the future?

And then secondly, I was wondering if you could give us a quick update on how you're seeing the class action suit process and how you see the timetable in terms of, when we could see some movement on that over the next 6 months to 12 months?

**A - Operator**

Thank you. Thanks for your question. I'm going to pass it on to Director, Solange, and later on I'm going to make a comment on that.

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

Good afternoon. (01:02:42-01:03:13) opportunities are evident mostly in the construction of wells. And there is also a long way to go and we are very focused on that in the area of subsea costs (01:03:29) less internalized for the next project, the reduction of costs of the suppliers. And also there is addition of room to reducing unitary costs in the pre-salt. Applying technologies that are

going to be used for higher individual productivity per well. This is very clear. And this is a great and excellent opportunity that we have ahead.

## A - Operator

Well (01:04:13) what happened in the United States about class actions on November 2. The investors and the attorneys at laws that represented Petrobras (01:04:29-01:04:49) happen in September. After this, where we clarify both parties of the - whether they are favor of pro or not, for the certification of the class action, the court does not have a term defined. So we have to await. We don't know when, but we have to wait the decision - the court decision over the arguments that were stated by both parties, attorneys at law.

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

Thank you.

## Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thanks.

## Operator

Next question, (01:05:32-01:05:38)

Hi.

We can't hear.

Thank you very much. Hello, hi. My first question, please. Hello, can you hear me now?

(01:05:59-01:06:56) thank you for disclosing 6% decline rate. Is it possible if you could disclose any kind of level of investments that you're going to put into the basin to further reduce this decline rate? And lastly on Papa Terra, any update on the issues there and your production outlook for the next couple of years? Thank you.

The interpreters do not hear any words. Now you may go on, just a moment please. There is a problem in the communication, that's a telephonic problem.

Now, shall I repeat the question?

Not necessary. Now, I'll pass the floor to Jorge Celestino that will talk about Downstream, and then Solange Guedes will talk about the declining rates on Papa Terra and Campos Basin.

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

Good afternoon. Concerning Downstream, we have been operating with very consistent and sound margins, within our expectation on variation, watching the markets, the variables on spread and our prices policies. We understand that in the short term, these margins and EBITDA, they are very sound, very consistent ones.

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

Concerning the output declining on Campos Basin, we have a drop, but it's under control. Currently, it's around 6%. In our business plan, we are focusing to have an average on 9% decline per year for the next years, but it's not present in our business planning. We are looking for - intensively with a big effort on new technologies, looking for partnerships with operators or with

companies that have specific technologies to deliver a new field of - with a smaller drop then the difference there is 9% that is within our business plan.

Concerning Papa Terra, we are just concluding for groups that are working so intensively in the new modeling of the reservoirs of Papa Terra in new projects, new wells for Papa Terra, increasing effectiveness decisions on output, production or drilling. We're very optimistic because we guess that soon we are going to have a new project, to evaluate the new projections for Papa Terra.

## Operator

Thank you. We are closing this moment this Q&A questions. So, Ivan Souza Monteiro for his final remarks.

## A - Ivan de Souza Monteiro {BIO 16420543 <GO>}

I would like to thank the participation of all of you and thank you.

## Operator

Ladies and gentlemen, thank you. The audio of this conference for replay and presentation of the slides are going to be available at the site [www.petrobras.com.br](http://www.petrobras.com.br). So, this webcast is concluded and it will be all available at the website of the company. Thank you. Good morning.

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