

## Q1 2019 Earnings Call

### Company Participants

- Andrea Almeida, Chief Financial and Investor Relations Officer
- Carlos Alberto Pereira de Oliveira, Chief Exploration and Production Executive Officer
- Roberto da Cunha Castello Branco, Chief Executive Officer

### Other Participants

- Andre Hachem, Analyst
- Christian Audi, Analyst
- Frank McGann, Analyst
- Gabriel Fonseca, Analyst
- Regis Cardoso, Analyst
- Vicente Falanga, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to Petrobras Webcast Conference Call with Analysts and Investors concerning its First Quarter 2019 Results. We would like to inform you that participants will follow the transmission by Internet and telephone only as listeners. After an introduction, a Q&A session will begin and instructions on how to participate will be provided. (Operator Instructions)

We'll start by listening to Petrobras' CEO, Mr. Roberto Castello Branco, with the main highlights of the results. Afterwards, the participants questions will be answered. The presentation will remain available throughout the webcast, and on the Company's Investor Relations website.

Present with us today are Mr. Roberto Castello Branco, Petrobras' CEO; Ms. Andrea Almeida, Chief Financial and Investor Relations Officer; Ms. Anelise Quintao Lara, Chief Refining and Natural Gas Officer; Mr. Carlos Alberto Pereira de Oliveira, Chief Exploration and Production Officer; Mr. Eberaldo de Almeida Neto, Chief Corporate Affairs Executive Officer; Mr. Rafael Mendes Gomes, Chief Governance and Compliance Officer, as well as other Company's executives.

Please Mr. Roberto, go ahead.

**Roberto da Cunha Castello Branco** {BIO 3193867 <GO>}

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Good morning for those on the west side of the Atlantic. Good afternoon for those in the east side of Atlantic, and good night for those in Asia, Australia and Asia-Pacific region. We are pleased to present first quarter 2019 performance of Petrobras. It was not a brilliant quarter of course, but very good improvement on the side of that management and the deleveraging process continue. We lengthened the average maturity of the debt. We've reduced our cash availabilities in order to improve capital allocations and I'm going to speak for a few minutes and afterwards I will leave the stage to CAPO, our Chief Exploration and Production Officer, because he has good news for you in terms of production.

Well in the strategic front, we make several advancements on the execution of our five strategic pillars. In terms of portfolio management, we announced transactions involving \$11.3 billion among the sale of TAG, the gas pipeline and the sale of the closing of the transaction of the Pasadena refinery in Texas that's very symbolic, very important to us, given that it represents the linking to the past due to track [ph] capacity of Petrobras.

And in terms of the future where that several of the assets through our divestiture program, and I think that they will contribute to improve capital allocation in order to increase the impairment -- capital impaired. They will allow us to deleverage further and to in the case of the refineries to correct what we consider, and normally the fact that Petrobras, only Petrobras owned 98% of the refining capacity of Brazil. And for sure, it contribute to increase our return on capital impaired to stimulate increase in efficiency in our Company. We are starting a relentless search for lower cost. We are starting by focusing on the low hanging fruits. Several of them, we are very (inaudible) in this first four months of the year. In terms of the repocracy [ph], our Board of Directors approved variable compensation program in order to align the goals of the executives and shareholders to contribute to maximize value creation of the Company.

We started work on a engineering program. Our goal is to make every employee of this Company independent of his or her position in the Company to feel like an entrepreneur in order to generate value for its own business. It's like that everyone in this Company, each employee in this Company is the owner of a small growth and to expand his business, creating value for his or her little business.

We managed to put in place an administrative reform in order to gain more flexibility and speed of the decision process and to enhance accountability among our executives. Well, always my comments emphasizing our focus on safety of our operations, we will be starting a program involving the training of 180,000 people, including our own employees and employees of suppliers in order to maximize the safety of our operations.

We're also focusing on fighting crime that means the -- they still of our pipelines of our oil and fuel pipelines they have been increasing -- in our operations in Brazil, and we're using our intelligence teams in the close cooperation with the release of several states and the federal police of Brazil and the yields of the equipment such as sensors and drones [ph] and so on in order to be successful at fighting crime. We definitely is going to -- want to have a accident like happened in Mexico a few months.

I'll conclude my comments saying that our best ways are still ahead of us. We believe, we still believe we are in the right path to maximize value.

Well, having said these I will pass to CAPO for his comments on production and cost of production.

## **Carlos Alberto Pereira de Oliveira** {BIO 19164278 <GO>}

Well, good morning, good afternoon, good evening. I would say a few words about production, and but the first thing that I would like to say is that, we are maintaining a change in our target oil production forecast for 2019. I mean at 2.8 million barrels of equivalent per day. In the first quarter of 2019 we had a lower production comparing to the first and to the fourth quarters of 2018, and it was mainly due to the divestment that we had on the -- in the Roncador Field. And also the sale of 80% of our share in the United States operation, the Company that you have there, the Petrobras America and also we face some delays on the commissioning of our gas systems on new -- in the new platforms, new units that we have put on stream. And also we have some concentration in this quarter.

In this first quarter of 2019 for the maintenance stoppage. But if the startup of the seven new production units P-74, 75, 76, 77 of the Buzios field and P-67, 69 and also the FPSO Campos dos Goytacazes, seven units in the last 8, 11 months. We are in the ramp-up phase in these units, and this will assure -- can assure that we still can maintain our target oil production forecasts and change it for the 2019, the 2.8 million barrels of oil equivalent per day.

In April, we returned to the same level of production as the last quarter of 2018, when we consider the same asset base. I mean when we just don't consider their divestments that we made in 2018. And so, and it is also important to mention that in May -- on May 2nd, we -- after 12 months of the first oil, we completed the ramp up of P-74 platform. And this platform is now producing in its maximum capacity of 150,000 barrels of oil per day, reaching four wells on production.

And so based on this, based on the perspective we already have in April, we can -- we see that from the last 10 days after the entering of this new well. In the last 10 days, we are producing about 2.7 million barrels of oil equivalent per day. And in May, we are producing over 2.8 million barrels of oil equivalent per day. And with an upward trend production issue keeps growing, evolution keeps growing and we are in this path -- the space in order to keep our growth for the year, in our target of 2.8 million barrels of oil equivalent per day. That's what I wanted to say now.

## **Andrea Almeida** {BIO 19358739 <GO>}

I believe we can open for questions right now.

## **Questions And Answers**

## Operator

The Q&A session will now get underway. (Operator Instructions) Our first question comes from Andre Hachem, Itau BBA.

### Q - Andre Hachem {BIO 20209966 <GO>}

Good morning. Thank you for the questions. My first question is in regards to production. Hello?

## Operator

You may proceed.

### Q - Andre Hachem {BIO 20209966 <GO>}

Good morning. Can you hear me? Hello? Can you hear me?

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

Yes, Andre. Please proceed.

### Q - Andre Hachem {BIO 20209966 <GO>}

Yes, good morning. Thank you for the question. I have two questions. The first one is in regards to production. CAPO mentioned that the challenges relating to the ramp-up of the P-74 platform having now been overcome and the unit is now running at full capacity in only 12 months. I would like to understand if this would be reasonable, if we're really reasonable to assume that the same ramp-up rate for the new units or if this could be an even shorter ramp up rates for the new units given the learning curve of this first unit? I would also like to understand if in regards to the Campos Basin what could be done to reduce the depletion rates that we've been seeing over the past few months?

My second question is in regards to the compensation for the deferral of production the transfer of rights. In Petrobras' view will this be a cash payment and is this considered in the deleveraging target of 1.5 times net debt EBITDA? Thank you.

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

Hello, Andre. About production, yes, we -- our expectation now is that we have learned something about the P-74 and of course the first units that went on stream. And on commissioning of the gas systems, we are very complex different than the units that we have before on the result, even on the result and with this learning what we can say is that we are going to proceed now with the ramp up of those units and that will sustain the goal of the production for the year.

About the Campos Basin, we have a lot of efforts on the Campos Basin. In the last presentation of our results the fourth quarter of 2018, we mentioned that for the Campos Basin not only we are working with Equinor and other companies in the strategic partnerships in order to have more oil from those fields particularly in Roncador, but at

the same time we are working to have more oil from new wells that we are going to prevent sale in the old platforms that we have there. At the same time we are buying some territory areas, then with the -- a lot of sort of extras that we are maintaining in a program sustainability of the Campos Basin. Our intention is to keep production in the next two years at the same level that we have today.

About the compensation, could you ask again because I didn't get your question.

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

So in regards to transfer of rights production compensation in your view is this a cash, will this be a cash payment and are you considering this to reach the 1.5 times net debt EBITDA leverage target?

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

About the compensation, no we are not considering it in our target. About this compensation it's something that is going to be defined by the partners that are going to enter in the area. So there will be the bid in the end of this year and so the new owner of the concession, of the area we establish the negotiation in order to define what will be the composition. But the compensation is not something that's open. It's in fact, it's the definite, very well defined by the resolution of the (inaudible) and also another company that was made by the Minister of Energy in Brazil.

So the parameters of this compensation is the only thing that's not too defined. And that has to be negotiated is what would be the producing in the field in the next years, in each field next year after the bid.

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

This compensation be in cash or could it been for example in barrels we're not taking of the production?

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

No, it's part of the negotiation between the partners.

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

Okay, perfect. Thank you very much.

**Operator**

Our next question comes from Frank McGann, Bank of America.

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

Yes. Good day. Just in terms of your production goals longer-term. Clearly, as we look at the chart on page 30 on the side of the presentation, you've got a number of units that

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have been defined when you get past 2020, but a lot of those have not been contracted yet and it's less clear how you're thinking about long-term production growth.

You obviously have resources that are very, very large that could be developed over time and it raised production, but how are you thinking of the balance between your other goals of profitability and the balance sheet in longer term growth in production? How do you see that will be play and what will be the opportunities here that we could get for potentially substantial additional production growth?

And then secondly, in terms of the profitability of the upstream unit, the transfer of right areas have no special participation tab. So should we think of potentially a faster ramp up now in overall profitability as a result of that?

### **A - Roberto da Cunha Castello Branco** {BIO 3193867 <GO>}

Well Frank. About the long term expectations for the production, in fact we are keeping the same production levels that we announced when we made our business plan for the 2019 and 2023. So until we have another strategic plan, we have the same levels for the -- same targets for the production for those years, for the years to come. And in terms of profitability for the TOR, we for sure with this productivity and levels that we are having on those wells, we have good profitability but at the same time it's also planned in our business plan for the 2019-2023, the same way I could say that I gave you for the production for the next year.

So it's all included and we really have good profitability in this field, those fields that are related to the TOR contract, but we have already included this profitability in our futures perspective that we have for Petrobras.

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

Thank you.

### **Operator**

The next question comes from Regis Cardoso, Credit Suisse.

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

Good morning Roberto da Cunha for the reminder of the day directors also welcome Andrea, wish you the best of luck in this new entrepreneurship, in the new mission you have also Carla is also on the line also wanted to welcome her.

I have a few questions mostly follow-ups. I'll try to be brief. One of them in regards to production ramp up that's probably best for CAPO to answer. It seemed to have that 2.7 million barrels equivalent a day, you mentioned the release for the last week of April. Would probably relate to something around 2.1 million barrels a day of oil production in Brazil and that you would still have another 400,000 barrels a day to ramp up in the existing production that is already net of your divestment in Tartaruga.

So I wanted to know if you can comment on those numbers. If you believe them are correct. So 2.1 oil with a potential for the ramp up of another 0.4 in existing platforms and also what you believe to be the main risks to that ramp up if it's gas commissioning or is it something else? Also the second question would be to Anelise, it's in regards to the sale of refineries. If you already have a clear view of whether it's possible to sell individual refineries and whether you would sell the logistics associated together because that logistics is often shared between more than one refinery?

And just a few very quick follow-ups one of them in regards to the payment of IOC companies been very vocal about deleveraging. You were not, I mean why announce now these early distributions and then also follow-up question on the low execution of CapEx if you have any examples of why CapEx in the quarter was so much below what you had originally budgeted? Thank you.

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

Hi good morning. About the production ramp up, and also about the Tartaruga fuel divestment, we are going to keeping the goal, the target of 2.8 million barrels equivalent per day even with that divestment of the Tartaruga fuel that we are now said recently. And in Brazil we are producing over 2.1 million barrels per day and we are going to grow this prediction after the ramp up of their new units.

And the risks that we considered, the risks the necessary risk in our risk management of the production and we also included any risk that have the natural risks of our activities. So the gas commission is something that we learned a lot when we started the prediction of the P-74 and that we have already used as learning on the commissioning of the gas systems on the other platforms that are growing on stream. So based on that we keep their goal, the target of the oil production for the year based on this that I have mentioned now.

**A - Andrea Almeida {BIO 19358739 <GO>}**

Maybe I'll try to cover Anelise that had to leave. The idea, we all have a teaser that will be in the market in the end of June and we'll have the details on the sales of refineries. The idea is to say, to do the sales individually on and only attach the oil pipelines together that are really connected to the refinery. That's the idea but we have more details in June.

Incorporating the dividends or interest on capital, the idea is why we are deleveraging and I believe we still have a lot to do. We will be paid. The idea is to pay the minimum dividends that we are somehow abided by law and after we reach the goal then we believe we'll be able to pay more to the investors. That's the idea.

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

Again I'd like to point that point out that Brazil is one of the few countries in the world which has a minimum mandatory dividend. Of course, its distortion, we are not opportunity, we are all -- company that's subject to price and cash flow volatility. But we will comply with the law. We pay dividends. We create the minimum dividend standards

set by law. We believe strongly hope that in the future the law when capital marks in Brazil will be more the nicer.

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

Thanks. If you allow me just a few follow-ups in regards to the interest on capital. If I understand it correctly you continue to provide intermediate distributions of both dividends and interest on capital and then also in regards to the CapEx question if you have any examples of why execution was below budget? And finally to CAPO, it seems like you have an inventory yields of drilled wells that is well in advance of your first -- expected first oil date for the NPS rules. If you experience indeed the case and why is that? Thank you.

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

We have a long to do list. One item is to establish a very clear dividend policy and disclose it to the market. We are still in the process of making up.

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

And about to the CapEx question, as we had, we face this delay in the commission of systems of gas systems at the same time we postpone it as well the construction of some wells. So, for sure the interconnection of those wells to the platforms. So that's the reason why we have this reducing in the CapEx of the first quarter specifically for the piece of the P-70s, P-74, 75, 76, 77 and the same time now we are reassuming the drilling and completion of those wells, we will be ready to increase the setup in the next month that's why we -- and that's the reason where for sure that we are going to increase the production mainly in the venture to see higher productions in the next semester in order to keep the goal, the target for the 2.8 million barrels equivalent per day in 2019.

**Operator**

Our next question comes from Christian Audi, Santander.

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

Thank you, Alberto and welcome Andrea and Carlos, I had two questions. The first one on return on capital employed, the second one on cash flow generation. Alberto, on return on capital employed the company has already stated a target which I think is very positive in that no many oil companies do that in the world of 11% medium-term. My question is given your recent announcement of you trying to sell the eight refineries which I would think have a lower return on capital employed than the upstream assets. Do you feel that you could actually surpass that target in a shorter period of time than initially set in the plan or you feel that 11% is really the target that is ambitious enough for you at this point?

The second question has to do with cash flow generation. Even in this quarter it remains strong given what you and CAPO are seeing about production growth. We would expect this cash flow to continue growing. So can you talk a little bit about CapEx whether you feel current levels could actually increase or could decrease and therefore obviously impact the cash flow generation? Thank you.



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

Well I believe there are three questions. Thank you for asking Christian. First of all the return on capital employed of the target of 11% is for sure aggressive because we at least in the last few years we have been far away from it, but I believe it's feasible. It's not easy and it was not when it was announced, it was not supported by initiatives that will allow us, could allow us to meet this target. Now we are launching several initiatives in terms of divestitures, and cost cutting that we make it possible, but I still believe that it won't be easy. So we don't want to overpromise and delivering. That's 11% that's a good target and we go for it very strongly. Here the question was related to cash flow generation. Yes definitely, it's what we are laser focused on increasing cash flow generation to the acceleration of oil and gas output, CAPO has explained about that to cost cutting.

And the third question was about CapEx. We are going to review internally CapEx. It's likely to be overestimated for the year and we are going to analyze because why we are running low on CapEx, if it's a problem of over estimation of CapEx or it's a question that we are being slow in procurement in the internal process of making the disbursements or if how much of it is obtained through cost reductions in the procurement of equipment and parts.

So it's still a question to be analyzed. At the moment, I am not able to give you a good answer about that. We are going to review it and after this review I believe that we will be able to supply you with good answer on that subject.

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

And you plan announce strategic plan update I guess where you would address the CapEx only do you have already an idea of the timing of when you would do the next update for strategic plan or not yet?

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

We are making it gradually as you have seen, we launched resilience plan that add a several assets to our portfolio of divestitures. We are now cost reduction goal of \$8.1 billion over the next five years including more, including depending on our speed of implementation of the digital transformation program. When we review the CapEx budget for 2019, we are going to disclose it, if it be needed to reduce or to increase but any way the CapEx budget doesn't include our expenses with the auctions that will happen in the second half of this year.

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

Thank you.

**Operator**

The next question comes from Vicente Falanga, Bradesco BBI.

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

Thank you very much. First of all, congratulations for the company and ER department for the additional data disclosed in the press release. The data is really helpful for interpretation for modeling. I just had two questions here. First of all that it was announced at Petrobras pretends to substitute the participation of employees and earnings for a bonus compensation based on certain targets. We think obviously the idea is very positive to align the interests of shareholders with employees.

On the other hand based on what we have read in the media of some union representatives are obviously against it claiming that it will not be legally possible for the company to do that. My question is what is Petrobras's legal conviction that it could be able to implement this change? And then my second question, how long does Petrobras estimate that it could sell additional 10% stakes in NPN and NPS, could this happen any time soon? Thank you very much.

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

First of all regarding the compensation program it's implemented. Everybody knows the targets and everybody is aware of that our human resource department has been doing the job. And it's in place. For 2020, it would be modified to include EVA. The EVA program is being implemented. We are working hard on that. Few days ago we had the official start up of the EVA work. With a speech of Joel Stern, one of the founders of EVA jointly we had been -- he came to Brazil specifically for this event and our teams are working with Stern Value Management on the implementation of these important program. Your second question is about --

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

You mentioned Roberto in the press release that Petrobras could sell the additional 10% stacks at NPN and NPS?

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

Yes, we are going to sell as fast as we can. The 10%, the remaining 10% at NTS and target. First, we are going to close the deal with NG and the gas to depo and after that we will start the airports to say -- to sell those of our stakes in this two gas pipeline companies.

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

Perfect. Thank you very much.

**Operator**

The next question comes from Gabriel Fonseca, XP Investimentos.

**Q - Gabriel Fonseca**

Hello everyone. Thank you for taking my questions. My first one is regarding the refining results. Ever since the company has begun implementing hedges for stated purpose of amortizing the effects of volatility, the bottom-line effect is that refining margins haven't

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actually recover to the pre-hedging prices. They have a particularly underperform the previous results. I want to understand there what is going on in this front?

What are cost and tails to practice hedges because my understanding they intend to multi the effect of the oil price volatility as the company continues trials in its results that the refining was the refining margins were lower due to a higher stock effect of earning inventory sorry, earning inventories? That's my first question.

My second question refers to the segment. I want to understand the rationale of the deepwater investment in Sergipe, which is expected in the business plan. Given the company's rhetoric of focusing on the result I wanted to understand what are the particularities of this investment that justify investments? Thank you very much.

### **A - Andrea Almeida** {BIO 19358739 <GO>}

So I can start answering the question about the hedging and impact on the refineries results. Actually the hedging that we have been doing is really to cope with the import parity. So whenever we are setting a fixed price for the market, we are hedging to keep the import parity. So the volatility in the EBITDA that you see in the refining results actually there has more, the reason is more related to the cause of oil that they are using whenever processing.

So, we see the fourth quarter a drop in EBITDA generation and that's because they are using for sure oil from the previous quarters where the oil was much higher and in the next quarter like the first quarter of 2019, we see the un-improvement and there are still using higher cost oil for sure, but not as much impacted as the fourth quarter and they increase the volume sales so they had a better results. But I wouldn't say that there is a connection between the hedging because the hedging is just to keep the import parity. I believe the way the refiners work and when they are, the leg between the price of oil they use in their processing that's the most, the biggest impact.

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

Gabriel, thank you for the question about the rationale for the investment in Sergipe deepwaters. It's our strategic in NPS to work we are Deepwater company. And at the same time this is a new province where we want to -- we have the idea to invest, but at the same time we have to remember that we are on the -- Sergipe is also in our -- on our partnership program, we want to invest there as a new frontier and we always do that with a partner that we are this stage in this process.

So but there is -- for sure there is a rationale in this because we are the provider company and we work on the result, we work on Campos Basin. And the Campos Basin where we have almost 40% of our production, it's not pre-salt, that is also very important for our production and it's also important for the grooming of our production. Because the Basin -- Campos Basin for instance we have introduced this concept of -- to work in strategic partnership at the Roncador Field, for example with Equinor and also we are buying some areas for the company to explore the new -- the Campos Basin.

So the rationale is very clear. Our perspectives to work at Deepwater that's where we have the necessary capacity and the capabilities for so and also the same time as this is a new frontier area we are going to do this with a partner there.

## Q - Gabriel Fonseca

Okay. Thank you, Andrea and CAPO. It was very clear.

## Operator

Thank you, all. At this time the Q&A session of Petrobras webcast and conference call is over. Mr. Roberto Castello Branco will now make his final remarks. Please, sir.

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

I would like to thank you for participating in our conference call today. It was -- it's always a pleasure to talk to you and as I said, our best days are still ahead of us. We have world-class assets. We have a strong team, highly committed to the legal value and we have technology. These are the key points in our strategy. And we do that. Thank you.

## Operator

Thank you. Ladies and gentlemen, the audio of this conference call for replay will be available in Petrobras Investor Relations website at [www.petrobras.com.pr/ir](http://www.petrobras.com.pr/ir). Thank you very much for your participation and have a great day.

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