# Q2 2019 Earnings Call

## Company Participants

- Andrea, Chief Financial and Investor Relations Officer
- Andrea Almeida, Chief Financial and Investor Relations Officer
- Anelise Quintao Lara, Chief Refining and Natural Gas Executive Officer
- Carlos Alberto Pereira de Oliveira, Chief Exploration and Production Executive Officer
- Roberto da Cunha Castello Branco, Chief Executive Officer

## Other Participants

- Bruno Amorim, Analyst
- Christian Audi, Analyst
- Frank McGann, Analyst
- Pedro Soares, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen. Welcome to Petrobras webcast conference call with analysts and investors concerning its Second 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) Present with us today are Mr. Roberto Castello Branco, Petrobras CEO; Mrs. Andrea Almeida, Chief Financial and Investor Relations Officer; Mrs. Anelise Lara, Chief Refining and Natural Gas Officer; Mr. Carlos Alberto de Oliveira, Chief Exploration and Production Officer; Mr. Eberaldo de Almeida, Chief Corporate Affairs Executive Officer; Mr. Roberto Ardenghy, Chief Institutional Relations Officer as well as other company's executives. We'll start by listening to Petrobras' CEO, Mr. Roberto Castello Branco, with the main highlights of the results.

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

Well. Good morning. It's a pleasure to present Petrobras performance, financial -- operational and financial performance in the second quarter of 2019. I would like to say that it was a very sound performance both on the operational and financial sides, but I am not going to delve into the numbers. I will let to the other Directors -- Executive Directors to comment specifically on the results. What I would like to focus in my brief presentation is the transformational agenda. We have put a lot of energy on the implementation of this agenda based on five strategic pillars. One is to maximize return on capital employed.

Second, reduce the cost of capital. Third, to pursue relentless low costs. Fourth, meritocracy. And fifth, safety and environment protection.

We, in these first seven months of the year, we think that our agenda made some advance in the field of maximization of return on capital employed. We divested several assets totaling $15 billion among then the gas pipeline, TAG. Our retail food distribution company, BR Distribuidora, BRDT, and mature onshore and shallow waters fields. The BRDT sale of shares was the first privatization in the Brazilian history made through capital markets, which is very good, more transparent and contributed to the development of Brazilian capital markets, which are still small and under-developed. Development of capital markets has a positive, a very positive contribution to economic development. We were very happy because it was a very successful transaction, with excess demand. The markets valued BRDT above BRL11 billion compared to the IPO.

So there was a significant gain in this transaction for Petrobras. We remain as a shareholder with 37.5% of BRDT capital and we expect that the new management will be able to deliver substantial value to our shareholders among ourselves. In the future, we plan to divest. We are not sure at this moment if totally or only partially, but we expect to obtain significant benefits from BRDT. The sale of mature fields is very important. It tends to generate a lot of value because these are oil fields that we are not the natural owners anymore. The natural owners are others. So there is an asymmetry of valuation for those who buy these fields. They put a lot more value than ourselves. For ourselves, they are high cost operations with low productivity. So the sale will improve our capital allocation, generate more funds to deleverage and these transactions will be very good for the buyers. And above all, it will generate new investments in Brazil, new jobs, and contributes to economic development.

We have a very large pipeline of projects, some are already being executed, and others are still being structured and prepared to be executed in the future. In terms of costs, we are pursuing a significant reduction. We are just starting, focusing first on the low-hanging fruits. They are not shown on our financial reports yet. We expect the initiatives we are putting in place will have very clear impacts from next year onwards. These includes the focus on digital transformation. We are creating a new area of digital transformation that with status to be of an Executive Manager that will coordinate and will deepen the efforts to use for instance Artificial Intelligence. We are training our people because it's a key priority to the future of this company. In terms of safety, we have good numbers. Our indicators, the rate of accidents came below one accident per 1 million of man-hours worked. So it's below the average for the global oil and gas industry. That's even below our target for 2019.

In terms of deleveraging, we are going ahead with our plans to take for instance, we are still highly leveraged, where we have still for what's recommended for a commodity producer that's exposed to high price and cash flow volatility, but we are taking all the measures to be able to regain in the future, the status of investment grade company. These are our goals in order to reduce the cost of capital. To give you an example, the ratio of net debt to enterprise value came from 60 [ph] -- 54% June last year to 46% in June 2019. So it was a good evolution. But we expect to accelerate this reduction with net debt being reducing its weight in our enterprise value. So having these -- said these initial words. I'll pass now to our Chief Financial Officer, Andrea Almeida for her comments on the financial performance.

## Andrea Almeida {BIO 19358739 <GO>}

Hi, good morning, everybody. Thanks Roberto for your highlights. I will quickly move through the main financial messages. We continue in our leverage reductions towards the goal of net debt to EBITDA of 1.5 times in 2020. And we can observe our evolution from 3.19x to 2.69x [ph] now in the quarter. Considering that in this amount, the total amount of that we are adding $25.5 billion that was the adjustments of the IFRS 16.

It's important to emphasize that due to the delay in the selling process of TAG. There was no real-time to buyback debt during the quarter with those resources. So in July -- but in July, we were able to do already a bond repurchase, and we repurchased from the market around $2.5 billion in the international capital markets, as already communicated to the market.

We had a good result impacted by the positive evolution of the brand and depreciation of the real. The increase of 19% of EBITDA from BRL27.5 billion to BRL32.7 billion was mainly influenced by the increase in the price of oil in the international market, that improved from $63 per barrel to $69 per barrel.

The depreciation of the real against the dollar and the result of the increased sales of diesel in the domestic market, combined with increased margins in gas naphtha and natural gas. In addition to the evolution of EBITDA, net income was 4.7 times higher than the net income of the first quarter of last year.

And the main reason for that was the capital gains that we got from the sale of TAG, that represented BRL21.4 billion. In all segments, we had EBITDA growth. In the E&P, due to the increased production higher oil margins, in refining, higher sales of diesel and larger margins of gas and naphtha. And in gas and energy, better margin in commercialization of the natural gas and energy.

As we can see in the cash generation chart, the divestment contributes with a significant portion of the cash flow. What is extremely important for the continuity of the debt reduction. We can see as well the IFRS impact moving from the operational cash flow to the financial ones. And with regard to the debt profile, we continue to focus on the reduction of the cash flow risk and increase the debt average life now more than 10 years.

We can also observe the relevance of the lease on annual payments that can reach up to $5 billion that is the case of 2020. The investment of the first semesters was $4.9 billion and remained focused on the exploration and production business representing 83%. In line with the commitment to transparency, we are also revising the goal of CapEx for the year from $60 billion to the range of $10 billion to $11 billion.

Important to explain why we did the review. Firstly, we are removing the value of equalization referring to the unitization of fields of this goal. This corresponds to $1 billion this year. We adjust for the exchange rate variation and we have a reduction of $900 million. We had as well in the first semester postponements of investments that amounted $1.7 billion. And those were related to activities of drilling completion and collection due to new technical specifications. Activities of the -- demobilization, inspection and re-interconnection of gas lines due to the reevaluations of the useful life of risers and flow-lines. And scheduled stops in refiners and platforms. We achieved optimizations of $200 million and we are also applying the goal from now on, a probabilistic approach that considers the history of executions from the past. And this change led us to an additional reduction of $1.3 billion. Reaching the range of $10 billion to $11 billion in CapEx for the year.

We achieved a historical net profit and we decided to anticipate the payment of interest on shareholders equity of additional $0.10 per share. We are evolving very well in the portfolio management. And we were able to close and receive partially $15.1 billion until now and the most important transactions were the sale of TAG and BR Distribuidora follow on.

We have closed two important agreements with CADE that will help us in the process of divestment of refineries as well as some assets from the gas division in line with the new natural gas market. I will transfer now the words to our Exploration and Production Director, Carlos Alberto de Oliveira.

## Carlos Alberto Pereira de Oliveira {BIO 3735081 <GO>}

Hello everybody. I'm talk about -- I will talk about the production and the status right now. From the last quarter to the second quarter, what we see now is that we increased the production by 3.8% and when we look at the increasing on the pre-salt production, what we see is that, we got a 13% growth and also, now what we can see is that pre-salt production it corresponds to 57% of our total production. So we are increasing production on the pre-salt as a result of the platforms that we have -- put on stream since 2018.

On the other slide, what I would like to point out is there, we have this increase in the production when you compare the second quarter to the first quarter. But the results were lower than we initially expected for this quarter. And, mainly due to some difficulties with the stabilization of the gas plants of the Buzios field.

So these difficulties are due to the fact that we have larger gas plants. Where we work with higher pressures and high volume for treatment. For the H2S and CO2 and also a great degree of automation we are working with like 2,000 control points on those platforms. So although, we have an increase in this prediction, but based on the fact that we faced some problems in the last June. We decided to change our production target for the year from 2,000 -- so from 2.8 million barrels of oil equivalent per day to 2.7 million barrels of oil equivalent per day up or down by 2 [ph] and 2.5%.

Going further, what do you see and talking earlier a bit about the last days of July, we are sustaining that we are going to be doing -- the revision of the goal -- the grow for the year was important. But on the same -- in the same place, we are -- we have to keep in mind that we are increasing our production on the pre-salt and we see this, looking at those figures at this slide. Where we reached a production record -- Petrobras production record of 3 million barrels of oil equivalent per day at July -- at July 28. In fact, it is a number of 3,048,000 barrels per day of oil equivalent and on the pre-salt where we are increasing the production. I don't know if you remember, but at the last quarter when we talked about the results of it we were producing daily 2 point -- our record was 2.207 and now we are producing 2.4 million barrels of oil equivalent per day. We have reached this record on the July 28. And on a monthly basis. What we see is that we were producing 1.94 million barrels of oil equivalent per day. When we talked about the results of the first quarter and now, we reached 2.1 million barrels of oil equivalent per day. On the July -- on July, we closed the month producing 2.76 million barrels of oil equivalent per day. We are producing 610,000 barrels per day from the seven new platforms that we put them on stream since 2018. And on the P-74, we faced some problems. On June, we have to stop the platform. We have made a stoppage and correct some equipment in it. And now, we have reached a production that is greater than the nominal production of the platform, 161,000 barrels per day.

And also on the P-75, we have this record of ramp up. Where we -- from the first oil to the maximum capacity of the P-75. We now are -- we have reached this ramp up in eight months -- in 8.6 month. So and we have three wells producing to the P-75 with -- which is also a record. So we faced with some problems, we have this production in June. We decided to change the production target for the year. We have been having good results on the last days of July and also now but we are -- the perspective is that we are increasing the production on the pre-salt in fact.

Going further to the next slide, what I would like to stress in the slide is that the green bar in the slide that shows the production that comes from the new platforms. Like 340,000 barrels per day. So it is compensating the production decline and the expectation is that to the end of the year, we are going to increase this bar.

A little bit further on the next slide is the first time that we open the -- our lifting costs like this, where we show the lifting cost in four categories, the shallow -- for shallow waters, the assets that we have in shallow waters for the onshore deepwater and also for the pre-salt and where we see that we reached this figure of $6 per barrel for the lifting cost. It is also important for us, this perspective that we show in this slide. It also -- it's good to know, that is good to see that what -- and it's -- we are able to see that when you look at those figures, we see that the higher cost of the shallow water in the onshore assets and that justify what we are doing regarding the management of our portfolio, where we are concentrating the -- our resource on the best assets that we have on the pre-salt and also on the deepwater of the Campos Basin.

Going to the next slide and talking a little bit about the revitalization of the Campos Basin. We are investing $21 billion from the -- from 2019 to 2023 and it's because we have lots of alternates here. We are producing like almost 1 billion -- 1 million barrels per day in the Campos Basin. So our intention is to maintain investments on this Basin. We have 70 projects for the complimentary development of the fields that we have already there -- and they are producing. We want to -- to obtain more value from the platforms and installations that we have there. And based on the fact that we have this -- some discoveries on the lower part of the fields. So then and on the pre-salt that we have discovered there and so we are going to produce those pre-salt areas using this -- the installations that we have already there. We established a strategic partnership with EQUINOR in order to increase our recovery factor. And we want to stress this and to apply the learning that we have on this field with in other fields of the Campos Basin and in the same way, we have also acquired some important exploratory blocks in this basin.

Just going to the right of the slide, we see the Marlim revitalization, that's what we are going to do with this field. It is an important project for the Campos Basin, where we are going to substitute nine platforms with two new platforms that we will be -- will fit better with the mature field that we have at the Marlim -- at right now.

And going to the next slide just some -- just to say that the bid from the perspective of the government, they are keeping the date for November 6, the bid for the Transfer of Rights surplus. We did -- from the perspective of the government and also from our perspective, we have already approved the Transfer of Rights Amendment. And now, what we are expecting is that the government -- so how they are going to pay Petrobras and they are in fact working on that and they have to pay us before the bid takes place and -- the November 6.

In the next slide, what we can see is that we are moving our position going more and more to deep and ultra deep waters that when you see our 2020 vision and compare it to the -- our current vision, what it sees that we are -- based on the fact that we are always -- also -- always working on the management of our portfolio. We are continuing to adapt our portfolio to generate more and more value to Petrobras and that's where we see more value that the areas that can have more potential and contributes more, so we are reducing the proportion that we have on the onshore and also the shallow waters.

And into [ph] 2020, based on -- in this fact, we are going to have more partnerships, just because we have more partners not only because we have more partners in the deep and ultra deep waters but because we have acquired more blocks, working in partnerships.

And finally, just having a look at the new systems that are going on stream in the next coming years. After we -- we have already put on stream seven platforms in the last two years -- 2018 since 2018. And now this year, we have also -- we have still new platforms to go on stream which is the P-68 at the BERBIGAO field. Over the next year, we are going to install the P-70 on the ATAPU field and we have also -- we have more nine platforms that we are going to put on stream from the 2021 and the next years of it.

So we have good perspectives regarding the future and also for this year based on the fact that we are -- those fields that have higher potential to produce and based on the fact that we have good opportunities to pull those platforms and we foresee a good future regarding the production.

Thank you. I will pass the floor to Anelise, our Chief of Refining.

## Anelise Quintao Lara {BIO 20915362 <GO>}

Good morning. Now, let's highlight the operating results of the refining downstream power areas. Our gross profit in the refining marketing area reached $1.6 billion, 26% higher than the previous quarter. This improvement was due to the realization of inventories formed at lower prices. EBITDA margin was 7% in line with the first quarter.

Regarding the production of oil products, we had an increase of 20,000 barrels of -- of barrels per day in the second quarter. In relation to the first quarter, pulled by the increase in diesel production. The growth on sales volume, whereas -- was also leveraged by higher domestic diesel sales due to agricultural harvest period.

The drop in gasoline sales is explained by the increase in total sales. The beginning of the harvest season in South Central [ph] of the country, lowered the price of ethanol in the second quarter. The share of National Oil decreased by 3% in this period due to the lower upstream oil production in the first quarter.

The operational availability remain the same level as the first quarter. During this period, we had maintenance shutdowns of the cracking units in five refineries and also one coke unit. The market share of diesel and gasoline remained at similar levels to the first quarter, the importers shares in our domestic market of diesel and gasoline is clear shown in this chart, which shows that our international parity price for these two products is in line with that of the market.

The refinery utilization factor was also in line with that of the first quarter, only 1% above. It depends on two main factors. Domestic demand of -- for oil products and also availability of conversion units, coke and cracking unit that produce higher crack spread products such as diesel, gasoline and jet fuel. The conversion capacity of a refinery depends on the presence of these units. That is, if this units are not available or if market limit is not increasing, it's not use for Petrobras to increase the refining utilization factor because in this case, it will be producing more low added value oil products such as fuel oil, asphalt and others that arrive to have a negative margin on oil.

The inventory replenishment movement reduced oil exports by 78,000 [ph] barrels of oil -- barrels per day. The drop in export volume was offset by higher sales margins mainly pre-salt oils, which are highly -- highly valued in foreign markets such as this Chinese market. Luna Oil is already well known and now (inaudible) oil is also becoming a star because it can match the IMO2020 specification for bunker without the need for additional components. We import more oil products in this quarter mainly LPG by increasing consumption, due to the colder season and we export more oil products in this period mainly high octane gasoline in bunker.

In the second quarter, gas and power profit -- gross profit was also increased by 73% [ph] over the first quarter mainly due to the barrel [ph] gas in LNG trading margins in this free contracting environment. EBITDA margin was 22%, 5% higher than the first quarter. This result was impacted by better LNG price conditions in the international market.

With these, we reduced importation from Bolivia and increased the volume of imported LNG. Domestic gas production was virtually constant nearly 49 -- 50 [ph] million cubic meters per day.

However, there was a reduction in gas demand in this period mainly impacted by the low thermal electric dispatch due to the better hydrological conditions of our reservoirs. In the third quarter should we -- we should have a higher thermal dispatch due to the decrease in rainfall in this period. We had also several highlights this quarter. In addition to the sale of TAG, the follow on of BR and the two term signed with CADE as pointed out by Andrea. On June 7, we had the launch of the pipeline product -- program aims to reduce the number of contesting derivations by at least 75% by 2021.

In this first semester, we already had 38% reduction compared to the first semester of 2018, after three years of growing, we are managing to reduce this upward movement. Thanks to the efforts of the civil and military police of the various states involved and the institutional support of the federal government.

We have already performed successful low-sulfur bunker production tests. According to the new IMO specification that will be effective from January 2020. The tests were done in six refineries and we already exported the first positive margin cargos compared to the convention bunker. Ship owners are anticipating and buying specified fuel for the entry of the New Year.

We also leased a 2 million cubic meters crude oil tanking at Qingdao Port in Shandong province in China. In this province, allocated more than 50 major and small independent refiners. Since 2015, the Chinese government has authorized independent refiners to import oil and not only these state-owned companies.

We have already entered into sales contracts for more than 20 refiners and this market is expected to grow significantly in the upcoming years. And at least -- at the end, we on June 27, we received the last PROMEF vessel from a fleet of 26 ships delivered. This ship is already in operation by Transpetro in the Campos Basin. Thank you.



# Questions And Answers

## Operator

The Q&A session will now get underway. (Operator Instructions) Our first question comes from Frank McGann, Bank of America.

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

Thank you very much and good day. Just to follow up a bit on your CapEx announcements. It was consistent with the moves that you've been making recently. And I was just wondering, how you're thinking about CapEx as you go forward. Obviously, we're in an environment where service costs and equipment costs have been under some pressure in availability because of weakness in the markets in general -- has been very helpful and perhaps -- help to keep costs down, but as you go forward here and as you begin to become to move to the list of projects that you have on one of the slides.

Do you see the potential for notable pickup in CapEx? Or do you think that a relatively low CapEx level is sustainable?

## A - Andrea {BIO 1941397 <GO>}

This is Andrea speaking. So regarding the CapEx again. Yeah, we are in line with the transparency that want to give to the market and that's why, we've revised. Moving forward, we have the five year plan that we released last year has $84 billion of CapEx on it. And so that brings us to around $50 billion a year.

And that is consistent with the systems that we need to put in place in the future as well. Definitely, we will be revising the numbers because we would be applying the same probabilistic approach that we did for 2019, but this will be done during -- actually we are doing right now. Whenever we are revising the five year plan. But we don't expect any big changes moving forward. So that the trend might be similar to what you saw, maybe applying just a little bit of the probabilistic approach, but that's going to come whenever we announce the five -- the new five year plan.

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

Hi Frank. Thank you for your question. I just would like to add to Andrea's response. On top of the CapEx, we have the investment with the block -- box acquisition of the auctions promoted by the Brazilian Oil and Gas Regulatory Agency ANP -- and they have -- ANP. They have a calendar for those auctions and for sure, we will be always interested.

So we have to consider that, but our main concern is not with the size of the CapEx, how many dollars or billions of dollars we are going to spend is much more on the effect in finesse of our investment expenditures. We would like to maximize each dollar invested to extract the maximum return possible.

This is consistent, is key to our strategy.

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

Okay, thank you. If I could follow up just on the refining business, just in terms of and downstream In general. You've had some new entrants come in on the distribution side, you're planning to sell stakes in -- important stakes in refineries, to open up the market. I mean, the market of course is opening up anyways with more imports coming in. Do you see that as affecting the -- over time the refining business more that you would have much more import competition or do you feel comfortable that the core that you are going to stay with will remain very, very competitive.

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

Hello, Frank. In fact we, what we see today with this import share is the level that we recognize as an optimum one. So when we receive only 98% of the refining market in

Brazil. We see that these import share will not grow a lot and will be kept around the same levels that we have today. When we are -- we are working for divesting part of our refinery park. As you know, we have nowadays 13 refineries and we are selling eight refineries. We are concentrated our refineries in the Rio de Janeiro and Sao Paulo states. Linked with this deep water fields -- production fields of Petrobras and when it will happen, we expected before 2021, but this is the deadline that we had with CADE. We expect to have more dynamic and competitive business in Brazil -- refining business in Brazil. And then the competition will be not only with importers but also with other players -- refining players in Brazil. And as we had in upstream, when we opened the upstream market to other players, we are sure that we will be able to compete in a very good basis with any other company and we will show our strengths in this market.

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

Okay, thank you very much.

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

Just to add to Anelise's response. Competition is always good for everybody. Among other benefits of -- of the sale of the refineries, is the fact that we will be compelled to be more efficient in order to survive in the market. We welcome more competition for imports for new players. So it will be beneficial to our shareholders. We will be forced to have lower costs, more efficiency, more productivity. So it will contribute to add value to our business.

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

Okay, great. Thank you.



## Operator

The next question comes from Christian Audi, Santander.

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

Thank you, Roberto, Andrea and team. By the way, thank you for the new level of granularity on the report. It's always welcome because it really helps us better understand the company. I had two questions, the first one on production, the second on return on capital employed. Starting with the first one, Carlos -- you were very clear in your explanation as to what happened in June and how those seemed to have been overcome in July production. What, I'm trying to understand is what are the implications of what happened in June, Carlos, for 2020 onwards.

In other words, should we be more conservative for example on the ramp-up periods for some of these Buzios platforms. So if before we expected them to take 12 months to ramp-up. Should we still stick to that number or should we be a bit more conservative, so in a simplified way. So if before we thought you were going to grow 10% this year and another 10% next year, but now, you're growing let's say 5% this year. Does that mean then you grow 15% next year? Is it that simple? Is it that simplistic or given the complexities of Buzios, the complexity of the new platforms and natural gas production.

It's not that straightforward. So if you could comment on that. That will be very helpful. Please.

## A - Carlos Alberto Pereira de Oliveira {BIO 3735081 <GO>}

Hello, Christian. Thank you for the question. I think it's not so simple, in fact when we decided to revise the goal for the year. The target for the year. What you see right now is that in the case of the P-75, we have ramp up in 18 [ph] months. Which is lower than the two months that we are working. So and in fact, we have three wells. The fact is that those platforms. They work with wells that have higher productivity than we have and in the Lula field. So it's not that simple. The fact is that we expected to increase the production on a higher level than it could and based on the fact that we have some operational difficulties that we faced on the platforms.

But once we conclude the problems that we had on the platforms. They can, they can ramp up very fast. And that's the case of the P-75. So I would not say that we could look at this and see that we are only going to increase 5% this year -- and 15% next year. It's not. It is not easy to look at this and to establish a solution based on numbers or figures like this. We

reduced the target for the year based on the problems that we faced in June and also -- own problems that we could face in the -- the rest of the year. But once we solve those problems what we can -- what we have been seeing is and the fact that looking at the P-75 is that we can reach the ramp up very fast as well so. I'm sorry that I cannot answer clearly your question.

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

No, I understood.

## A - Carlos Alberto Pereira de Oliveira {BIO 3735081 <GO>}

But it's difficult to put in the math, I think like this.

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

So should we, or maybe ask another way. Do you feel that we should be more conservative of the margin in terms of expected ramp up of for example, the other Buzios platforms or should we continue to expect the 12 month period ramp up.

## A - Carlos Alberto Pereira de Oliveira {BIO 3735081 <GO>}

No, 12 months is a good figure. Still a good figure. Based on the numbers that we have faced on the P-74, we reached the ramp up in 11.6 months. And then on the P-75, we ramp up in 18 months. So I think that's -- 12 months is a very good figure in -- on those perspective.

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

Okay, thank you. And my second question, Roberto, on the important topic of return on capital employed, which you have very clearly explained that, it's a big focus for the Company. Given that production in pre-salt is increasing. And this is very profitable productive production. And pre-salt and upstream is an increasing part of your CapEx. Should we expect the years progress for the -- your return on capital employed, even the one that you've targeted for 11% to really be even higher than that, particularly given that you are successfully divesting businesses where the return on capital employed, I would think was lower than what you were able to generate in -- in the upstream.

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

We are -- as I said, we are putting a lot of energy in the transformation agenda. In the -- particularly in the portfolio management, for instance, we sold TAG. TAG is a gas pipeline with an expected rate of return on capital employed of 6% to 7%. These funds will be reallocated to finance investments in the pre-salt with expected returns in excess of 10% at least. So and to contribute to higher return on capital employed. Other way to maximize return on capital employment is the management of the existing assets in a very efficient way, what Anelise is focusing on the refineries. The utilization factor is guided by these principles. We are not going to utilize -- to maximize the utilization of refinery in generating very low return. We are focusing on those products with higher crack spreads, not negative crack spreads. Just to maximize the utilization factor. So this is the way we are pursuing return on capital employed, improving capital allocation and being very disciplined on the allocation of capital to new products.

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

Okay, thank you.

## Operator

The next question comes from Bruno Amorim, Goldman Sachs.

## Q - Bruno Amorim {BIO 17243832 <GO>}

Hi, good morning. I have a couple of questions on the sale of refining assets. Firstly, what's the profile of potential buyer, so far, who have shown interest in the assets. Are they locals or foreign investors and operators. And also what's your view on the prospects for the sale of those assets at good prices. Petrobras has put several refining assets for sale at the same time and as Roberto mentioned in an earlier call today, the Company intends to sell those assets as soon as possible. Maybe even before the 2021 deadline agreed with CADE. So is pricing a concern for you or not given the level of interest you have been seeing for your refineries? Thank you.

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

Hello, Bruno. The price of course is an important variable in this equation. In fact, what we see today is the interest of in our refineries from trading companies, from our local distribution companies, from some oil and gas companies, international companies and we expect a very good -- dispute [ph] on these assets. You have to think that these assets are located in different regions of the country. Brazil is a very big country and also the refiners are different in terms of capacity of conversion unit is -- of oil products that they can be -- they can deliver.

So we think that each refinery will have some competitors that are focused on this specific refinery. So we expect good competition in the eight refineries. I don't see any problem considering the competition of all these refiners because they are independent and located in different areas and they are different focus.

Concerning the price as you mentioned, what we agreed with CADE is that we will sell the refineries considering some important, let's say, important variables. The first one is of course to have competitors, to have players' interest in these refiners. And the second one is the price. So we had our internal range of prices that we consider that are fair to the market and we will not sell below this prices. It's important to understand that and as you see in our divestment program, we have been very successful in the sales and I was Head of the M&A group since the beginning of this year. And I have to say that we almost sold all the assets that we put in the market and with very good competitiveness. So we are very optimistic that it will happen with the refinery also.

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

I'd like to add to Anelise's comments. First, that we were not forced to sell the refineries, it was voluntary decision, it was a strategic decision made by the Company. That's it. So price is important. Second, Brazil is a country where we see in the near future at least for the next 10 years to 20 years, demand for fuels [ph] growing at a stronger pace than in Europe, in US, where the replacement of fuels -- of fossil fuels is much by electric vehicles is much stronger than in Brazil. Brazil relies only -- is happy with alcohol, is not at least to -- up until now, we do not see any focus on electric vehicles. So it's a good place to be for a refinery.

## Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you. Thank you. Very clear.

## Operator

The next question comes from Pedro Soares, BTG Pactual.

## Q - Pedro Soares {BIO 20879952 <GO>}

Thanks very much and good morning, everyone. I have just one quick question, kind of a follow-up from the previous one. Regarding the reiteration of the leverage target of 1.5 times EBITDA by the end of 2020. In our understanding here for that to be achieved at least some part of the sale of refineries will have to be concluded by next year. And it probably make sense right as this divestments are among the most urgent -- anymore advanced stages of the Company's divestment plan, but it would be very interesting if you could provide us an idea of how much of the refineries divestments is expected to be raised up until next year, or maybe the percentage out of the total amount expected by you guys to be raised with the refiners that is implied into your calculation. So this 1.5 times target is reached? That's it, thanks.

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

So thank you for your question. Pedro, it's Andrea speaking. Actually, we don't expect to use the refineries money but definitely some of them might be done in this time frame. What we are doing -- we have a portfolio management right now that is something that we do every day. So it's not anymore an exercise of a year. It's an ongoing exercise. So if we need to sell all the assets if we need to add more to the portfolio to get to the leverage target, we will do. So one example that Roberto mentioned already is like BR Distribuidora shares. We do have more shares, for sure, it will take maybe one year more to be sold. But if we need, we can -- after we get the value from the divestment that we really believe this Company is going to be adding a lot of value then we can sell those shares. We have as well and we know this was something that we were counting on. That is Braskem. That unfortunately were -- it's going to take longer. But it can be done in this time frame. So the -- what I wanted to say is that we have other opportunities, in other assets that be brought to the market. And so maybe in a faster way to get to our target. We will get there.

## Q - Pedro Soares {BIO 20879952 <GO>}

Okay, it's very clear. Thanks.

## Operator

Thank you. At this time. The Q&A session of the Petrobras webcast conference call is over. Mr. Roberto Castello Branco now will make -- his final remarks. Please go ahead.

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

Well, thank you all for your interest in our call. And please trust us. The best days of Petrobras are still well ahead of us. We are extremely committed to generate a lot of value for our shareholders.

## Operator

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