

# Q4 2018 Earnings Call

## Company Participants

- Carlos Alberto Pereira de Oliveira, Chief Exploration and Production Executive Officer
- Rafael Salvador Grisolia, Chief Financial Officer and Investor Relations Officer
- Roberto Castello Branco, Chief Executive Officer
- Rudimar Andreis Lorenzatto, Production and Technology Development Director

## Other Participants

- Anne Milne, Analyst
- Christian Audi, Analyst
- Frank McGann, Analyst
- Lilyanna Yang, Analyst
- Regis Cardoso, Analyst
- Vicente Falanga Neto, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen. Welcome to Petrobras Webcast and Conference Call with Analysts and Investors concerning its 2018 Annual 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, at which time instructions on how to participate will be provided.

We will start by listening to Petrobras CEO, Roberto Castello Branco, with the main highlights of the result. 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 da Cunha Castello Branco, Petrobras' CEO; Mr. Rafael Salvador Grisolia, Chief Financial and Investor Relations Officer; Mr. Carlos Alberto Pereira de Oliveira, Chief Exploration and Production Officer; Mr. Rudimar Andreis Lorenzatto, Chief Technology and Production Development Officer; Mr. Rafael Mendes Gomes, Chief Governance and Compliance Officer; Mr. Eberaldo de Almeida, Chief Corporate Affairs Executive Officer, as well as other company's executives.

Please, Mr. Roberto, you may now begin.

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

Thank you. Good morning to those in the east side of the Atlantic. Good afternoon to those on the east side of the Atlantic - the west side - east side of Atlantic, I'm right. After low light (1:57) this morning again in Petrobras, the performance of 2018 was very good. We managed to get some record figures in terms of free cash flow. It was the highest in our history. In terms of EBITDA, adjusted EBITDA was also a record figure. And in terms of accounting, net profits, we get back to the blue zone after four years of consecutive losses.

And our frequency rate of accidents came down from 1.08 in terms of million of accidents per man-hour both – pardon me, of accidents per million man-hour came down to 1.01 from 1.08 in 2017. This is very good, but we still had six fatalities, that's unacceptable. We can't have people working for Petrobras leaving home to work and not returning. Our goal is zero fatalities. Safety of our operations is a key priority in our company. We can't think about maximizing value to shareholders without having safety as a priority. We do not admit any underestimation of risks in our operations. We are acting to minimize accidents in our operation to enhance our response capacity to any accident and to investigate the cause of every incident in our operations.

While the inside view of our performance is very good, I mean, comparing 2018 with years in the past, but we have to focus on the external view to have a deeper understanding of our performance and compare ourselves to our peers in the global oil industry. We managed to reduce debt very significantly with total debt to US\$84.4 billion from US\$126.2 billion, and reduced our leverage, but it's still too high. We have to continue in this pace and fast. We had gouging (5:16) profits but we are not able yet to generate (5:21) profits. So it is our goal to improve the allocation of capital in order to really obtain an average return on capital employment higher than our weighted average cost of capital.

While we are implementing a goal for a relentless search for low costs, taking effective measures and having an aggressive plan for divestures and using more intensively digital transformation, it's the digitalization of the company with data analytics and artificial intelligence will give a very important contribution to cost reduction and to efficiency gains.

Our oil and gas production has been flat over the last five years due to several reasons. But, given the new prospects with the entry into operation of several platforms in production systems, six in all (6:53) in the past 10 months and the prospects for the entry of two new systems this year and the initiatives to reduce costs and to foster our capacity to deliver projects on budget, on time, we are confident again that our production will roll during the next five years as projected and we manage to reduce lifting costs significantly.

There are two components of this. First, our own efforts to reduce costs. Second, the composition effect. As the pre-salt output's gross increased its shared on our total production, naturally costs will go down. Now, the lifting costs in the pre-salt fields is about \$7 per barrel, which is very low and we are confident that it will be even lower in the future. So it will give a strong contribution to reduce our costs that in average are around US\$10 per barrel.

Having said that, I'll pass to my colleagues, to Rafael, our CFO, for his words.

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

Well, good morning, and good afternoon to everybody. So, thanks for the participation. I think this session we have before the Portuguese session. So I want to take a chance now to give some more space for questions now. So we are going direct to the Q&A section on this English session, please.

## Q&A

### Operator

Excuse me. The Q&A session will now get underway. Our first question comes from Regis Cardoso with Credit Suisse.

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

Good morning, everyone. Thanks for the questions. I'd like to take advantage of the presence of the new executive team. And first, I wish you the best of luck and all the success in this new task.

And then, I guess, the first question will be to both Roberto and Rafael. You've mentioned there is a very clear strategic norm for focus in India (10:02) that's where the company is the best owner possible where Petrobras can extract the most value. And in that sense, it sounds - it looks to us that, I mean, there are at least two specific assets in downstreams actually and...

## Operator

Mr. Cardoso, excuse me, I'm sorry to interrupt. Could you please repeat your first question?

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

Yes. So I was just wishing all of luck. And the first question is in regards to the sale of BR Distribuidora in refineries. Not specifically on whether you have advanced in that process because I know it's very early on in the process, but more in terms of what conditions you think are important. Is it important that Petrobras would retain a stake, is it important that Petrobras would give away control so the buyer can make the operating changes? So, I mean, if you can discuss a little more on that.

And then the second question would be to CAPO and Rudimar, which is if you believe we should expect any changes in strategic direction in the E&P segment? In terms of are you going to focus more on exploration? Do you have any preference for any given format of hiring the FPSOs, whether owned or leased? If you prefer to diversify risk or if you prefer to concentrate your efforts in specific assets where you have a 100% stake? That would be my two questions. Thank you.

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

Good morning, Regis. Responding to your first question, regarding BR Distribuidora, we are still studying the several options to divest partially our stake of the company, could be - as said, there are several options. So there's nothing I can tell you now because we do not have a decision.

Regarding the refineries, it is similar. What I can tell you at the moment is to say that we will further burn the previous plan announced by Petrobras. If we sell a refinery, we're going to sell 100%, not just some share of the asset. And second is our concern to not transfer monopoly of state-owned company to private sector companies. We'll be very careful to avoid that because our goal is to create a vibrant and competitive market in Brazil. We don't want to be in the very uncomfortable position to be setting price, even if you set according to the international price of gas or diesel or other fuel, but it's not a good position to own 98% of refining capacity in the country. We would like to have a much more competitive market and reallocate the funds to invest in our best business, in our core business, which is oil and gas exploration and production.

I'll pass to Rafael Grisolia to answer your second question.

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

Regis, thanks again for participation and your questions. I'll pass your questions regarding strategy on E&P and production to CAPO and then Rudimar can add some. And then you can see direct reviews from the new directors. I think that's basically your objective from the questions. Thank you.

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

Hey. Good morning, Regis. We are going to maintain our strategic exploration and production view. We are going to focus on the deepwater fields. That's what we have been doing for long years and we are going to continue with that strategy, and the divestment also on the shallow waters and the onshore fields. That's what we have planned on the strategic plan and that's what we are going to keep it.

It's important to mention about your point that you addressed. For an exploratory strategy, we are going to increase it. We put up – for a long time we have reduced the exploration investments, but now it's time to increase it. And also, about your question about having owned or sheltered FPSOs, we are driven by value. We don't simply love one or the other. The value is the most important, that's what drives us. So we're analyzing in each situation for each project which FPSO fits better and we will decide for one or the other the owned or sheltered, based on the value that it adds to the project.

And also about – if we are going to invest in – put our resource in, where we are going to put our resources if we are going to put the best resources in our own assets or on the assets of partnerships, we would use the best resource on the assets that have best value and that's what we have been doing so far and that's what we are going to do. And those assets are on the pre-salt areas and the pre-salt of the Santos Basin and also on the Campos Basin, because we want to increase the production of the Santos Basin but at the same time to keep the prediction of the Campos Basin.

I will pass the word to Mr. Rudimar to see if he has some complement to that.

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

Oh, I don't think I have to add anything. I think, Mr. Carlos Alberto answered all the questions, including if we will use owned or leasing units. I agree with you, Carlos. Thank you.

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

CAPO, if you allow me, just a quick follow up on last part of your answer. Is it something you feel comfortable about having a 100% stake in very large fields and developments, like you do in (17:36) or I mean is it something you see positively a potential bidding around in those areas so you could bring in partners to share the risk?

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

If I understood your question, you are referring to the transfer of rights where we have 100% share of the assets. And for the transfer of rights (18:11) we will for sure, in that process, we are going to share our participation with other companies that eventually will win the bid. And we don't foresee problems regarding that. For sure, we would like to have more participation on those fields because they are very profitable and that not only the profitability, but the productivity that we see on the wells are very good. But we don't see any problems if we have to work in partnerships with those companies. That's what we have been doing for the last 20 years, working in partnerships in E&P.

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

All right. Thanks, everyone, for the very complete answers. Have a nice day.

**Operator**

The next question comes from Christian Audi with Santander.

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

Thank you. Hello, Roberto, Rafael. Congratulations on the solid results, particularly the free cash flow generation, that was impressive. I had two questions, one on the very important topic of value creation, Roberto, that you've been touching on several times. When we look at your ROCE, you show that you expect it to go from these levels of 8.5% to around 11% in 2020. I think that's great that you've set up a target, because many global oil companies don't even go that far.

And my question is how do you see this number evolving? Is this going to be a linear progression? Is it going to be more back-ended in 2019? And in addition to upstream, what are the other main drivers that would allow you to increase this number?

My second question was on the refining sector. I'd like to hear from you how has the hedging of both gasoline and diesel been working? Have you been able to indeed maintain prices in line with the international prices, but more importantly maintain a positive refining margin now in January and February? Thank you.

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

Good morning, Christian. I'll respond to your first question and then pass the second to Rafael Grisolia. First one, we are working, we will be working on the two sides of the equation; on the one hand, developing initiatives to increase the return on capital employed; on the other hand, developing initiatives to reduce weighted average cost of capital, because the value creation depends on return on capital employed being higher than the cost of capital.

The one side of the equation on growth, we are confident that the divestiture of assets that do not generate good returns and the reallocation of capital to assets that are characterized by high return, we'll continue to do this process. At the same time, we would be engaged in a relentless search for low costs in order to increase our capacity to generate cash to increase our net operational profit after taxes, this is very important. So this is the game.

On the growth side - on the cost of capital side, divestitures will continue to reduce debt. And we believe that maximizing transparency and improving our relationship with global financial markets will contribute to a better risk perception of the company and, by the end of the day, to reduce our cost of capital. So, that's just that, it's very simple to speak, but it's a major challenge in order to accomplish with that goals. But we are laser-focused on reaching the goals. Yeah, I don't know if it would be a linear process or non-linear process, but we are confident that, at the end, we will reach the goal to start creating value for our shareholders.

I'll pass to Rafael Grisolia to answer your second question.

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

Christian, thanks for the participation. Thanks for the question. Regarding the hedging tools that we have been using in gasoline and then we started beginning of this year using for diesel as well on our realization price and price on our refineries, we feel very positive about that, it's working fine. We are managing to execute it and use that, as we announced to the market, as an option to our decision in terms of how to perform, how to manage our price to our customers in a way that we try to reduce the volatility that, specifically in this time of the year or that have been experience in the couple of last weeks and eventually even last months, that we can use that to help us to manage the price to our customers.

So we are using that. That is helping us to keeping our goals in terms of import parity price, plus our objectives in profitability on our realization price. So we are continuing and operation has been executable. We are using that as we intend to continue to use that as an option to our price to our customers. So, basically, that we are very positive and obviously we intend to continue use the same value mechanism that we use in the gasoline and on the diesel price system as well.

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

And just a quick follow-up. Obviously, with oil prices having come up significantly since December to now and you having this pricing mechanism that in theory would drive gasoline and diesel prices up, how do you think looking forward, if this oil price momentum were to continue, how do you protect yourself from avoiding situations like last year when diesel prices went up too much and

the market reacted negatively to that? How can you prepare or avoid that type of a situation again as we look forward?

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

Well, I will pass Roberto to complement the technical aspect of that. As we announced now, this option help us to manage the price adjustment up to 7 days in case of gasoline and up to 15 days in case - sorry, 7 days on diesel and 15 days on gasoline. So this is the maximum we can operationally execute that. But, again, we have lessons learned from the truck drivers that also we need to consider.

So I'll pass that to Roberto and he'll complement my answer.

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

Thanks.

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

Christian, I am very convinced that the reason for the truck drivers' strike was not the level of diesel price, although they have increased significantly during 2018, but it's the volatility, because even with the increase, diesel price were about the global average of diesel. And I estimated at that time that 92 countries have higher diesel price than here in Brazil in U.S. dollars per liter.

And the one decision we have made is exactly what Rafael said is to have to hedge against the volatility of fuel price in Brazilian reais and so to have adjustments for in longer intervals instead of daily fluctuation of price. In discussion with government authorities, we have given several suggestions in order to minimize volatility. One of them is a mechanism that has been adopted in the U.S. since the 1970s in reaction to the global oil shock of 1973, is to put in their contracts between the carriers and their clients of a clause for adjustment of the freight price according to the volatility of diesel price for troubles with longer duration. That has been worked very satisfactorily over many years. So it met the survivorship test. So we believe that it will be a good option for Brazil to adopt that because this is a reality.

Fuels our commodities and commodities are volatile. Sometimes they are less volatile, sometimes the volatility increase and returns to the average, but they are not stable price. It happens with fuels, with metals and minerals, it happens with food price. And so it's a reality of life. So the market designs several instruments to minimize the volatility and protect those who want to be hedged against these fluctuations that sometimes is right. So we think that the risks are now lower than in the past.

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

Very interesting. Very helpful. Thanks.

**Operator**

The next question comes from Vicente Falanga, Bradesco BBI.

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

Good morning, Roberto, Rafael, CAPO. Roberto, congratulations on the huge role. I had one question for each one of you, if I may. First of all, Roberto, regarding the transfer of rights, some government representatives have been very vocal about the process potentially being concluded by the end of March, with the Energy Council possibly setting the date for the auction today.

Now, from Petrobras' standpoint, I mean does the company see Bill 78 (31:04) in the Senate as a prerequisite to sign this contract or is it not really necessary? I mean, will the approval of the audit

course suffice? Because it seems to us that if the process has to be voted on the Senate meeting this deadline by the end of March, it seems fairly challenging.

My second question is to Rafael. Your cash flow in the quarter was pretty outstanding. But correct me if I'm wrong, it seems to us that there was some CapEx spilling over to 2019. If that is the case, I mean, what is the CapEx number do you think we should work with for this year?

And then, my last question goes to CAPO. CAPO, can you provide us an update on how are the studies to increase the diameter of the wells of the pre-salts to potentially raise production of some of these wells to 60,000 barrels a day? Have you guys started to actually conduct some tests and do you plan to release the results to the market? Thank you very much.

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

Vicente, regarding the TOR contract, this is a priority for the government and it's a priority for the oil industry. All of us want this auction to happen this year. We don't believe that the best way to make feasible the auction is through a law. We understand that it's a contract between two parts, and the Brazilian state and one company, Petrobras, and this has been to be dealt by these two parts. There is no need for a law.

For sure, if a law is the right way to make feasible the auction, given the discussion, given the two Houses of the Congress, it would take a long time. So it's very likely that if that's the way, we won't have an auction this year. But I am very confident that this issue will be solved fast as the Minister of Mines and Energy said it's very likely that all the details for the auction will be clarified during next month. We have been meeting with the Minister of Mines and Energy and the Minister of Economy to reach an agreement and to go ahead with the announcement of the auction with all details still agreed.

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

Great. Thank you.

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

Vicente, this is Rafael. Thanks for your participation and question. Well, the way I would like to frame here the issue of our free cash flow, I think we are still really strongly positive about that. Again, we are committed to making all the investments this company needs for the long-term and the mid-term and the short term requirements for this company to value creation. So, basically, there are some fluctuations from the CapEx we actually performed in 2018 to 2019. But the two systems that we just (35:01) just started operation now was a couple of weeks that we first considered in 2018 and in the end of 2018 and in beginning.

So, I think actually before talking about the numbers, I think what is the reality, say, that we are putting production in the system. So, everything is working. We are (35:24) really very careful about the safety. We need - our industry is - there's a risk component in the oil industry, we need to be very careful about that. So we are going to ensure all the safety and security standards are put in place. And then we are confident that the systems will be here for 2019 production, as CAPO also highlighted in the previous question.

But we are trying to avoid any guidance on the CapEx numbers. But you know from our planning that in the period from 2019 to 2023, we intend to - the entire CapEx will be \$84 billion. But since you have more system in the end of the five-year period, the simple average will not work for your consideration or models. But you will not be wrong if you view something around \$14 billion to \$15 billion this year, okay, as I referenced for your calculation. I think that comes also from what we indicate in our business plan as we announced in December.

I will pass your question to CAPO as he also highlight. Thanks, again, Vicente.

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

Thank you, Rafael. Very clear.

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

I would just comment that as we are having high productivity on the wells of the pre-salt layer at Santos Basin, we are looking for different solutions in order to take advantage of this productivity and also to have a better value on the fields that we are producing there.

But I'll pass the word to Mr. Rudimar. He'll comment about one of these possibilities, which is to increase the diameter of the flow lines from the wells, which for sure would help us on the ramp-up of the platforms.

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

Good morning, Vicente. First, I'd like to mention the answer from Rafael. If you see the slide 27, you can see our level of readiness for ramp-up acceleration in this 2019 and you can see how is our readiness considering drilling completion and to put the wells on stream.

Going to your question about the diameter of the wells from the pre-salt, it's a well-designed question, it's very technical, we are analysing. It depends on pressure, temperature, metallurgy and design process. Certainly, we are studying with our R&D center and with our wells engineers to find out better designs wells for bigger diameters, but we are still studying this.

Even though we are increasing our flexible lines as Carlos Alberto mentioned, we are changing some wells from 6-inch to 8-inch and we are getting good results considering traditional outputs. Thank you.

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

Great. Thank you. Thank you very much.

**Operator**

The next question comes from Frank McGann with Bank of America Merrill Lynch.

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

Okay. Thank you very much. Yeah, just two questions. One is, in terms of the refining sector, I was wondering if you thought about what - you will clearly want a more competitive refining system. What percentage would you be targeting for Petrobras to have when you've completed the process to sell assets and open up the system?

The second question would be, in terms of renewables, electricity, how do you see investments in those segments going forward to perhaps diversify and expand in areas that may be getting greater or seek greater growth potential longer-term?

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

Hi, Frank. Good morning. It's good to hear you. First question, we have no numbers, no target yet. But, in general terms, I would say that power goes (40:14) to less than 50% from the current 98%. I'm talking about Brazil's refining capacity. For sure, it depends on several conditions, on price. I would like to divest these operations and to create value. And, as in any transaction, everything depends on price.

With the relation to renewables, we will be more careful. We don't seem to have yet the competencies to drive in this kind of business. We are very focused on oil and gas. This has been



the company's history for the last 65 years. We're very good on exploration and production of oil and gas. We are still learning about this new business, the production of energy from renewable source. So we are still in the phase of investing in some research about the business, the operation of these kind of plants, solar power and wind power.

So it's not in our roadmap to create value yet, could be in the future. So we have in the short- and the medium-term focus on oil and gas. We expect gas to increase its importance in our portfolio in the medium-term and then, in the long-term, we probably will have renewable solar and wind power. Brazil has some competitive advantage in this kind of renewable source of energy and you can exploit then success. But at the moment, we do not believe that we have any advantage in investing funds in this type of business. For sure, we'll be running the risk of losing a lot of money and this is - definitely, we don't want to lose a dollar investing in anything.

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

Okay. Thank you very much.

## Operator

The next question comes from Lilyanna Yang with HSBC.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Hi. Thank you for taking my question. Congratulations on your position. My question was actually very similar to Frank's. It was about the format of sale of refineries. You stated plans to sell 100% of the control, but contingent on valuation. So, would you be considering to also divide the refineries into clusters and maybe starting with the sale of parts of them or maybe control of some of them, so that you can maybe grab a better valuation for the assets, or how is the studies about it? Thank you.

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

Hi, Lilyanna. Good morning. It's very important to say that we are not intending to sell 100% of our total capacity. We will still remain in the refining business, of course, with a much lower share than we have now, as I said to Frank. Currently, we have 98%. In the future, we'd like to have something less than 50%. But, regarding to individual refineries, if you sell them, we are going to sell 100% of that specific asset.

We are still designing our package. We don't know if they will be sold as a cluster or as individual refineries, separating the assets of refining and logistics, selling to different players. This is yet to be solved. We will make any decision with relation to the structure of the divestiture package. One of our concerns is to not create positions for the formation of regional monopolies in refining. We want to have an open market, very competitive one that will attract many players to Brazil and prepare ourselves to win in a competitive market as an efficient low-cost producer.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

So, just for clarification, so how can it differ substantially from the plan that was maybe released almost, what, in April of last year regarding dividing the refineries into clusters and selling control over a few clusters? Because you mentioned that, if I understood well, right, that if the asset is sold, 100% of a particular asset will be sold, right? And then, maybe Petrobras will retain still 100% of other refinery assets, is that right? Or maybe in the (46:43)

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

Lily, this is...

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

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

Sorry. Lily, this is Rafael. Let me help us here on some clarification, which is important. I think what we announced before and what is in the market, in fact, the project about our divestment of refineries, we are working here with the team and Roberto is conducting, that we are trying to redesign that in a way that for Petrobras this kind of attempt to divest be the most efficient and competitive, okay, in terms of how we can create value for Petrobras. And so, because what we learned so far that the current model is not really being effective in terms of attractiveness to the market and also for our current goals on profitably.

So, that's why we are trying to redesign and rethinking on how that we will come back to the market or inform the market on any other updation on that. What it means that that several options are being looked at. So, one could be, well, considering the current structure, but then by cluster and then introduce another cluster, but all give you options to individual sales of refineries. And that's the point that if we, in the future, adopt a combination of all these options, in the alternative that we select one refinery, that we then decide that the market will really comply for our value creation agenda, then that we are going to sell 100% of that specific refinery. But, again, we are redesigning, we are re-studying and then we will come back to the market to see what can be most effective for our goals in terms of value creation.

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

Lilyanna, if I may add one difference from the plan that was announced in the past that we will not exclude any potential investors. All of them will be able to buy the asset with no discrimination if it be an integrated oil company, or a private equity fund, or a trader, or a refining company, every player would be welcome.

**Q - Lilyanna Yang** {BIO 14003234 <GO>}

Perfect and very clear. Thank you both, Roberto and Rafael.

**Operator**

The next question comes from Anne Milne with Bank of America Merrill Lynch.

**Q - Anne Milne** {BIO 1757455 <GO>}

Thank you. Good morning and congratulations on the pretty impressive reduction in debt over the last couple years. Most of my questions have been answered. The last one does have to do with the debt profile that you currently have. It looks like it's roughly divided between bonds and bank loans, and that you don't have a lot due in 2019 or 2020.

Given the big free cash flow that you're having going forward, maybe you could give us an idea of how you're looking at your debt profile going forward? Will you push it out further? Will you favor more short-term bank loans or bonds? Just how you're thinking about this? Thank you very much.

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

Anne, this is Rafael. Thanks for your participation and question. Well, again, in our value creation agenda, as the company is generating more cash and as we continue to have still debt in a, let's say, higher leverage position that we'd like as our competitors, so as Roberto mentioned, I think I mentioned as well, that we need to continue to use this cash generation that we are taking in our accounts coming from the new systems, coming from the production specifically and the other results from the other phases of our business and other streams. And then we will continue to de-leverage the company.

But in the end of the day, obviously, with the efficient capital structure, we will continue to have 1 to 1.5 times net debt to EBITDA as a target as we have already announced. In terms of efficiency in the market, what we see the company, and Roberto is really teasing us to continue in that, as Roberto mentioned in his first statement. We are working hard with the rating agencies in terms of showing off this new moment for Petrobras, this new moment of profitability, this new moment of cash generation, a way that we continue. And then also considering that the new production cycle of this company, we put company more and more in the international market and the company need to play not only counting on Brazil and demand of fuels and oil, but also on international market as our production increase, not only oil and gas as well. So, which means that we think that to have a good agenda of the rating agencies to look for what just happened, which means that we can move initially a stand-alone rating for higher than the sovereign rating then we're working for the other agencies to move ahead with that as well, which means at the end of the day that we think, that is assumption, that we will be more and more, as Petrobras has been doing and the finance team has been working hard on that, that we are assessing the international market and the capital markets.

I think we really believe that it's a market that Petrobras has all the conditions and numbers and the governance and the structure to assess the capital markets, does not mean that we will continue to look for direct loans with banks as the opportunities appear. So it's really continue the combination, not forgetting that we are also looking to put in place more and more revolving credit facilities in place in a way that can reduce our need to carry cash. So, in the end, we are taking the opportunity how the markets are looking Brazil, looking the company, Petrobras itself, through extended terms as we can, with whatever is the remaining that in our capital structure.

**Q - Anne Milne** {BIO 1757455 <GO>}

Okay. Very clear. Thank you very much, Rafael.

## Operator

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

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

Well, thank you. I would like to thank all of you that had the patience and the interest to attend our conference call. All questions will be very welcomed. Our goals to be as transparent as we can be to maximize transparency and to increase your understanding of our company, the value drivers, and the IR team will be ready to respond any questions and ourselves as well. Every manager, myself and all the directors will be very happy to meet you and to discuss any issue regarding the company in the oil and gas business.

Thanks.

## 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.br/ir](http://www.petrobras.com.br/ir). Thank you very much for your participation and have a great day.

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