Q4 2017 Earnings Call

Company Participants

- Isabela Mesquita Carneiro da Rocha, Investor Relations Executive Manager
- Ivan de Souza Monteiro, Chief Financial & Investor Relations Executive Officer
- Jorge Celestino Ramos, Chief Refining & Natural Gas Executive Officer
- Nelson Luiz Costa Silva, Chief Strategy, Organization and Management System Executive Officer
- Solange da Silva Guedes, Chief Exploration & Production Executive Officer

Other Participants

- André Hachem, Analyst
- Bruno Montanari, Analyst
- Fernanda Perez da Cunha, Analyst
- Luiz Felipe Carvalho, Analyst
- Regis Cardoso, Analyst
- Vicente Falanga Neto, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen. Welcome to Petrobras Conference Call with Analysts and Investors for the presentation of information referring to the results of the year of 2017.

We would like to inform you that participants will be accompanying the presentation on the Internet and also on the telephone, and they will only be listening during the company's presentation which will be conducted in Portuguese with simultaneous translation into English. Following the presentation, a Q&A session will begin in Portuguese and in English, at which time instructions on how to participate will be provided.

Today with us we have Mr. Ivan de Souza Monteiro, Petrobras' Chief Financial and Investor Relations Officer; Mrs. Solange da Silva Guedes, Chief Exploration and Production Officer; Mr. Jorge Celestino Ramos, Chief Refining and Natural Gas Officer; Mr. Nelson Luiz Costa Silva, Chief Strategy and Performance Officer; Mr. Hugo Repsold, Jr., Chief Technology and Production Development Officer; Mr. Eberaldo de Almeida, Chief Human Resources, HSE and Services Officer, and other company executives.

I would like to remind you that this meeting is being recorded. And please be mindful of slide number 2, which contains a notice to shareholders and investors. The words believe, expect and similar ones related to projections and targets are mere forecasts based on the expectations of the company's management regarding the future of Petrobras.

To begin, we will hear the Executive Manager of Investor Relations, Mrs. Isabela Carneiro da Rocha, who will start with the presentation about the results of the full year of 2017. Subsequently, questions from the participants will be answered.

Mrs. Rocha, you may proceed.

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

Good afternoon, everybody. I thank you very much for your attention. Let's start our presentation of our annual results. You can see our agenda about main deliveries and then our integrated reported results highlights the outlook for 2018, and also some operational highlights.

Starting with our main delivery, the top metrics. (03:02) recordable injuries, we were able to reduce this very much, vis-à-vis 2015 and we reached 1.08, so this metric was fully complied with. And I would like to remind you that we had planned for 1.4 at the end of 2018, so we made great strides in this metrics and we will continue to follow this stat, and our target will be 1 by the end of 2018.

The other top metric is net debt/adjusted EBITDA ratio, you can see it's constant during 2017, and in the fourth quarter, there is an increase to 3.67, because of the class action settlement, and we would like to mention that without this agreement or settlement, we would have reached 3.2. And it is also important to mention that the agreement was considered as extremely important to eliminate uncertainties and also make it possible for us to have more flexibility in our results. So we have the specific effect of the class action.

On the next slide we talk about our main deliveries overall besides the top metrics, starting with the announcement that we made this morning about studies that were determined by our board of directors regarding quarterly payment of dividend to our shareholders and interest on equity and after approval by the board and by the shareholders' meeting would need a change in our bylaws and in our dividend policy. And the approval by the board gives us more predictability regarding our results, having eliminated this major uncertainty, which is the class action by means of the settlement that we have just referred to. Our net results was BRL 446 million last year, but net of this settlement, we would had over BRL 7 billion for this year.

In terms of production, we had record production in Brazil for the fourth consecutive year, and the third year in which we reached the target in a row. In terms of operating cost, we were able to reduce by 10% our manageable operating expenses and we had already reduced that since 2015, 6%, and now an additional 10% vis-à-vis last year.

In free cash flow, free cash flow was positive, the 11th consecutive quarter, so we have a positive free cash flow which we have been achieving since 2015 and reaching BRL 44 billion, 6% higher than the previous year. Our program for partnerships and divestments $6.4 billion in cash inflow last year coming from this program.

Internal controls. It is also important for us to say that we were able to eliminate by means of compliance, et cetera, and all our initiatives we were able to eliminate the four material weaknesses that we mentioned in our last quarter. And also, we eliminated all significant control deficiencies, and this is evidence of the great strides that we have been having.

And lastly, the integrated report, which is the service report of Petrobras, including the annual reports, sustainability, financial statements, and it is a different way of showing the company, talking about it in an integrated fashion, integrating all the information about the company and also our financial statement. The objective here was to improve the quality of information made available to our investors and other stakeholders.

On the next slide, we show the best moments of this integrated report materiality, 22 theme that we consider as material, and we went in that in the 22 themes in a totally connected fashion. These are items that impact the results of the company. On the right we have our business model that shows how the company generates value by means of its import, its products and how this value is distributed to all stakeholders, investors and all the other stakeholders. So I would like to invite you to read this, and it is already on our website in Portuguese, and in English it will be made available very soon.

So starting with our results last year, we've seen higher Brent prices, 24% vis-à-vis 2016, $54 per barrel on average and this was very important. And we will see later on in our results the increase in imports before (08:26) appreciation of the real during the year, average exchange rate BRL 3.19 per $1.

In the summary of our results on slide number 8, I have already talked about the BRL 446 million of result that we presented and the impact of the class action that would be BRL 7 billion. Adjusted EBITDA was BRL 76.6 billion, and without the class action, it would have been BRL 87.8 billion, very much in line with the previous year. Free cash flow, BRL 44 billion.

The main non-recurring items in the next slide that account for the negative result of BRL 446 million, and these items very important to reduce because of the risk perception of the company. The first one is the class action agreement, and by means of this agreement, we will be paying BRL 11.2 billion overall in three installments over the year, tax is included and the company also considers it would be important to take advantage of the Brazilian federal settlement programs in order to settle the debt of BRL 47 billion, so the company will be paying BRL 10.4 billion in order to close that, BRL 38 billion already materialized in our balance sheet, and now BRL 9 billion that still have to be materialized. So these are the main non-recurring items that account for our results for the bottom-line.

Operating income, a very big increase during the year, BRL 35.6 billion. Basically, due to the lower impairment of assets, BRL 16.3 million less in impairment vis-à-vis 2016, and important cost reduction as well, lower costs were personnel and dry holes and equipment item has been higher. Crude exports at higher prices. So these were the fundamental part that explains the operating income, 108% increase in operating income, and it exceeds the maximum expenses that were BRL 31.6 billion in 2017. And they were impacted by the settlement programs and also exchange rate variations, dollar in pounds and in euros.

On the next slide, we have the adjusted EBITDA, BRL 3.6 billion, that we have in 2017. You can see how much that would be without the transaction, and on right, E&P, downstream, increase in exports at higher prices that offsets the drop in margins and in volume that we had in diesel and gasoline in the domestic market service or an increase in the Brent prices and maintenance of the realization prices of all of the others. So the margin of downstream went down, which explains the lower EBITDA downstream, and as a consequence the higher export of crude at higher prices, which explains the increase in the results of E&P. This, I think, (12:09) we had lower expenses, as I said before, with write-off of wells and equipment. And we should mention that gas and energy that are not included here. There was an increase in sales at a higher price with domestic gas produced here increasing volume and was able to cater to the demand, and also more electric generation to the higher selling price.

Positive free cash flow was the BRL 44.1 billion, a 6% increase vis-à-vis the previous year, more than enough to cover interest expenses. As you can see, a reduction in interest expenses equal to BRL 1 billion, and this is due to the reduction of our debt that we will be seeing later on.

CapEx reported BRL 13.3 billion last year, 2017. 84% of these investments concentered in E&P and we know that this amount is lower than the one that we estimated before and that we had disclosed, and here we mentioned the reasons why this amount was lower. Efficiency gains and scheduled stoppages and well construction will continue in a learning curve and improving the results in the construction of wells, re-planning investments in wells and platforms with no impact on projected production. And also, this amount of CapEx includes the payment of the signing bonus of the areas that we acquired, BRL 2.9 billion.

And on the next slide, we have evolution of our operating expenses, and major reduction here as well, 10% of the manageable operating costs and selling expenses. There was an increase of 5% due to the payment of the (14:16) tariff after the divestments in NPL. G&A, a reduction of 19% vis-à-vis 2016, and very much because of the reduction in the workforce and the number of workforce now 62,700 at the end of 2017, which is the result of our program that we carried out, a voluntary separation in incentive program over 18,000 employees from Petrobras in the end.

Debt deduction on slide 15. We see a consistent reduction in our debt, $84.9 billion, that was at the end of last year. And we intend to reach $77 billion as we announced for the end of 2018 or by the end of 2018 the average term of our (15:16) went from 7.66 (sic) [7.61], 8.6 and with a slight reduction in the average rate of financing and reduction in leverage as well. Now we have our public institutions exposure, and what we see here is a drop in this exposure the BNDES, Banco de Brazil, the Caixa Savings Bank, with amortizations last year that exceeded our funding and changed our debt profile. And today, we have an exposure of 51% to capital markets and 39% in banking markets. And this illustrates the reduction vis-à-vis the three banks or public institutions.

Liability management. We have this new amortization schedule because of the measures taken, $2.6 billion now in 2018, and the current cash position at the end of last year is enough to cover the next four years without having to go to the market. I'm not saying this is not going to happen, but we have a much more comfortable position as far as cash and liquidity are concerned. And I would like to mention the credit line here, the revolving credit facilities. As you can see here, that was the biggest facility ever contracted and reserved, $4.35 billion.

Partnerships and divestments in process, we see the cash in profile. We have already received $0.6 billion for sales in 2015 including NPLs and distribution in Chile, the IPO of BR, the sales revenues and the assets that are part of our partnership with Total. And we have other competitive processes that are under way that are mentioned here and that follow our strategic plan, and also based on the portfolio management that we have, and we have strategic partnerships in large players in this sector, as you can see here on the lower side.

The outlook for 2018 is the following. The company expects an improvement in operating cash flow. We will have a reduction of 2.7 million boed to Brazil, and exports higher diesel and gasoline sales, see how market share behaves and continuous cost reduction efforts. And accomplishments of partnerships and investments, we are saying that we are going to hit the target of $21 billion. And with a lot of interest on the part of the market for the assets of Petrobras and the divestments, and together with the debt reduction, as I said before, we have these factors that will lead to an improvement of our results overall, and probably dividend distribution. As we said before, we have a new dividend policy in place, so we will have as soon as it is approved.

Our projection for 2018, the best estimate that we have today is an average grant of $65 per barrel and operating in the rate of $30 billion divestments in terms of cash in this year $11 billion, investments amounted to $17 billion, interest payment $6 billion, and amortization of the principal, as we've said, $2.6 billion. So these are our best estimates for 2018.

Operational highlights, replacement of reserves, and one important information is that our production was exceeded by the incorporation of pre-salt and all our natural gas reserves then we were able to fully replace the production of the year and we reached the end of the year with reserves of 9.75 billion of oil equivalents by the SEC criteria, 10.5 years in R/P. And in the recent auctions in Brazil, we acquired selectively new areas by means of strategic partnerships with major players. We acquired 10 new exploration blocks, BRL 2.9 billion was the cost, and we have already expressed our interest in the fourth round that will happen this year, (20:20) Três Marias, Peru.

This year we already started the seismic activities in the blocks acquired and increased our exploration area by 17%. On the right, we show which areas are under construction or are in the PSC and which ones has been already built and which one still will be.

The next slide shows the production records in Brazil for the fourth consecutive year that is 2.15 million barrels of oil per day. The production of gas is also record in Brazil due to the increase in pre-salt production that has more gas in its composition so it's at 79.6% cubic meters (sic) [79.6 million cubic meters/day] and 96.5% natural gas availability record. Predictability, we reached the target for the third consecutive year with total production of Petrobras in Brazil and abroad, as last year we reached 2.7 million barrels of oil equivalent per day.

We have the E&P highlights and operating cost that reduced – operating expenses reduced by 6% and the lifting cost in Brazil and abroad reaching $11 per barrel. Excluding the foreign exchange effect, those lifting costs would be $10.4 in line with the previous year. And we should consider that lifting cost in Brazil, the value instead of $11 would be $11.27, slightly above the previous year.

Here we have our main project for the pre-salt fields. The Lula and Cernambi area are two new final platforms that shall be installed this year, and the development of production for this field with a total of nine platforms in that area. The Búzios area where we have the transfer of rights will have the first oil this year through P-74 that's already on location. For the development of this area we're planning five platforms. And in Mero, which is the first union on the PSC, we will have our first unit – will be implemented by 2021 and four units in Mero, the blue area, where we declared commerciality for the Libra area in green. This Libra area remains in the exploratory stage.

As for lower risk for the new production system startup, P-74 is already on location to begin operations in the Búzios field. Campo dos Goytacazes and Tartaruga Verde and Mestiça is being prepared for the pre moving activity. The other activities for 2018 are moving forward. They have with the production startup forecast for 2018. Mero and Sépia, the areas of the transfer of rights with production forecasted for 2021, and we already started a procurement process for five new systems. The Parque das Baleias integrated project, Mero 2, Búzios 5, it was the fifth platform in the Búzios area, and the Marlim Revitalization plan forecasting 29 new platforms.

Next, we have the sales of oil products that decreased by 6% in Brazil compared to 2016. And it's important to note here that the objective has been to maximize the company's results, not necessarily on the segment. And the options are imports, processing, and it's an economic decision thinking what's best for the company as we already discussed. There was a reduction on the sales of diesel and gasoline in the domestic market, but there was an increase in the crude oil exports that partly offset this decrease.

Domestic oil has increased in value and the percentage of processed feedstock has been greater participation of domestic oil. It was 93% last year and we remain at a very high level. And the new sector has been 77% compared to the previous year due to the economic decisions to optimize the company's results.

Next, we show the market share evolution. For gasoline we had a reduction of market share reaching 83% last year, and diesel 74% of market share at year-end. On the right, we have third-party import behavior. In green, it's diesel; and red, gasoline. Gasoline imports remained stable over the year, but for diesel we saw a steep increase and we maintain our price policy, acting on this policy to recover market share and that has already started to occur in the beginning of 2018. So we expect our market share to increase to 79% in diesel in February, noticing this reduction in imports.

Slide 30 of oil exports, we have a total export of 669,000 barrels per day and a reduction on the exports of oil and oil products with a net balance of around 360,000 barrels per day. So we took advantage of the increase in Brent price, increase in oil import, and that was very important to our result. We next show the natural gas supply and demand. There was an increase in demand, non-thermal electric and thermal electric both and the production of natural gas was sufficient to meet this increasing demand. So our imports of NGL was at the minimal level, and that also includes the performance of the segment.

Finally, we saw higher thermoelectric generation due to the increase of the stock price that we show on this larger graphic on the right. The results for the energy plan was also important, and that we show to the reservoir level how it decreased from 2016 to 2017. And for hydrology, it was partly responsible for the increase in the spot price, that brings a better result in the energy segment.

This concludes our presentation. We expect to have presented a consistent result in line with our strategy. I thank you all for your attention.

Q&A

Operator

Now we will begin the questions-and-answers session. Each participant will be limited to at most two questions. Questions should be made consecutively so that executives may answer them afterwards. We kindly ask you not to use the speaker phone when asking your question. Questions made in English will be heard by all participants in the original language and answered by the executive in Portuguese with simultaneous translation into English. Our first question, Mr. Regis Cardoso from Credit Suisse. Please, Mr. Cardoso, you can go ahead.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning. Thank you for taking my question. Two questions. First, concerning the manageable costs in 2017, 10% in actual terms, the decrease was even steeper. My question is, is there more to come and the main initiatives have already occurred now it's a matter of maybe preventing the cost from being a factor in growing and if you can talk about how you intend to continue cutting costs? My second question is about the fuel imports. You showed on the slide about the diesel import in February. What I would like to know is, in your understanding is this only the beginning of these reversion plans for the imports? And in your opinion, what has had a greater effect of fostering imports, is it a result of the commercial policy or is it a pricing matter of the scope of margins?

A - Operator

Good afternoon, Regis. I will turn your first question over to Nelson and the second will be answered by Mr. Celestino later.

A - Nelson Luiz Costa Silva {BIO 15817718 <GO>}

Good afternoon, Regis. The evolution process that we carried out last year continues to operate. We will evaluate it every week. We have that covenants that we talked to you about. I was having meetings with all areas of the company on Monday, looking at the variables of the scorecards and looking at the details of the cost, and this will continue running. It is true that the main adjustments was related to the departure of people with the reduction of the workforce, but we will continue to look very closely at all opportunities for cost reductions. Solange in a meeting this morning, had already mentioned the cost reductions in the E&P area as you saw with few interventions and so on, and we will continue looking at all opportunities for cost reductions in 2018.

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

Good afternoon, Regis. Actually, what we've been reinforcing is that our operation in the market always has the focus on maximum profitability, so the conditions for us to complete in the market (31:54) one of the assets in downstream more economically. And of course, this has effects in the competitive prices for each region. The current market dynamics lead us to a very competitive position in March, probably the month of April, showing that we do have a trend to maintain our market share in the Brazilian market. This has been the reasoning for the operation of our system, and of course that leads to an increase in the market share.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you for the answers. If I could add two more questions. (32:48) if you can talk about the import trend, if you think that the flexibilization of the economic policy is always it's a matter of premiums. Adding a quicker question, the class action provision of $11.2 billion, it seems like it's higher than what was expected and it includes taxes, so if you can talk about which taxes are involved.

A - Operator

First, concerning the trends for imports, considering that today with the market conditions and the trends of diesel and gasoline, it's been more competitive to the (33:50) in certain domestic markets. So the trend is for us to have a reduction on imports since we are quite competitive. Regis, the value includes the taxes for the remittance of the amounts for payment.

Q - Regis Cardoso {BIO 20098524 <GO>}

Excellent. Thank you.

A - Operator

Thank you, Regis.

Our next question is from Bruno Montanari from Morgan Stanley. Please, Mr. Montanari, you may go ahead.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon. Thank you for taking my questions. First, about the transfer of rights, confirming what was mentioned in the press conference earlier, the expectation of timing to the finders is May. I would like to understand the dynamics on the oil price that's being discussed, not getting into the merit of what the price is, but where – is there a potential divergence between the price that the company proposes and what the government proposes since the transfer of rights makes this a little bit unclear?

The second question about dividends, I understand that the proposal to change the policy is still being evaluated, but in this logic, the idea would be to have an equalization of this potential intermediate dividends, and we believe it could be more technical for refining, but the margin in the fourth quarter also had an effect, the gain in margin for refining as it related to temporary handling of inventory or if you see anything negative in the elimination.

A - Operator

I'll transfer to Solange, so she can answer your question.

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

Good afternoon, Bruno. Thank you for the opportunity for us to clarify this. What I said this morning was referring to the duration of the federal government, the commission that they intend to renew for another 60 days. This is not related to durations or turns. These turns do not exist. It's a negotiation that will only be concluded when we reach an agreement and when both parties evaluate that we have something positive for both sides.

The parameters that are being discussed are all the possible parameters related to cash flow and we don't have any definition. And to preserve the commission, we are not discussing or disclosing to the public what exactly – which perimeters are being evaluated. But as soon as we have a final result, a closure for this subject, we will bring it forward to the market. But on the dividend discussion, we will stick to what was informed this morning. We're talking only about the frequency, the provision for quarterly payments. And for the refining margins, I'll transfer for Celestino.

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

Bruno, for the declining margins that's basically inventory turnover. When we have Brent price with an upwards trend that slides (37:24) the inventory. Thank you.

Operator

Our next question is from Mr. André Hachem from Itaú.

Q - André Hachem

Thank you. I have two questions. First, about the deleveraging metrics, when we kind of made the plan you had (37:50) chart, and I imagine they would not include the fair amounts of the transaction. So how would that impact your deleveraging metrics?

My second question is about the new dividend policy. If there's a change to pay, say over the profit reserve, is it also going to influence the deleveraging on us?

A - Operator

Thank you, André. Well, my big concern is that (38:23), I don't remember. But anyway, including what will be paid in the class action settlement, not necessarily. We will see and agree when the amount in our partnership and divestment program stars should this be necessary, this will be done. We see the behavior of Brent higher than the average and this is what we are seeing – the market estimated as well.

So we do not see a need to see a major increase in our asset divestment because it is (39:02) leverages to the 2.5 (39:06) target. In terms of dividend we had the budget already approved for 2018 (39:12). At the time it was drafted, we established that it would have a positive result. However, this should not materialize and the company did not declare a dividend and the possibility of being against the reserves is not right now on the table. But it will be included in the studies that were commissioned by the board. Thank you.

Mr. Luiz Carvalho, UBS. Mr. Carvalho, you may proceed.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Good afternoon. Thank you. I have two questions. One, about the (39:56) of assets. I know that you cannot say anything more specific about such and such assets, but what about the evolutions about (40:05) refining. I would like to know if there has been any progress in this regard. Do you have any forecast regarding disclosing this maybe in the next few months?

The second question goes to Celestino. You have been discussing this extensively about the optimal point whether it does (40:29) and reduction and premiums and imports and the use of refining. And in the fourth quarter, we saw an EBITDA margin a little bit better for refinery. So what about your review of contracts with distribution companies that you started at the beginning of the year?

A - Operator

The studies continue regarding divestment (40:57) from refining and there's still an in-house debate going on that the studies continued. And they are intensifying, in fact. Now regarding margins, market share, et cetera, Jorge will answer.

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

Thank you for the question. With regard to an optimal point of operation, you have to consider the economics of the operation first of our own, of course, because this is the core issue that we have to turn our eyes to and the economics are very much impacted by the market, the market competitiveness and also by the spreads and the price of grains, mainly the spread. If you have a very vigorous winter, the spread of diesel is higher, significantly higher. So the assumptions have a very big impact on the utilization factor of the utility or the plants.

Regarding the contract, we have already (42:25) quite a lot in the contracts that we have today. Go back to when that (42:34) was the only one in the market practically, and we are introducing now new contracts with a more modern tool for pricing, bonus for sales and (42:49) on the level of service that the price wants to have, so we are modernizing these contracts.

So if Petrobras say that they may be more competitive in the market, this is what we have already been doing. We have already submitted the first draft to the company, and now we expect to start a debate to converge discount for client.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

So does that mean that you have different prices per refinery? Well, you already have a differentiated price per refinery, but in each refinery, you could also have a differentiated price for the company, is that what you mean?

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

No. No, it will not be a differentiated price for the distributors, but it will be depending on the level of service that we want and also on their performance also (43:51). Let's see, selling – exceeding the target, for instance, these are just common tools in the market, but instead of selling 10 cubic meters or sell 100 cubic meter, this is different. But we have the list price for the whole market at that point of sales.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Thank you.

Operator

Mr. Luiz Carvalho from UBS. Mr. Carvalho, you may proceed.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Thank you very much. Going back to the first question that I asked regarding divestment of some assets, I don't know what it (45:22) you will able to talk about that. Is there some kind of evolution regarding the possibility of selling assets that are under the transfer of rights? I believe that there is a bill of law in Congress that would allow Petrobras to sell these assets. And Ivan, I know you were straight to the point about the dividend policy, but I would like to know the rationale for the proposal that you submitted to the board. Is it because you wanted to be more recurrent and less (46:02) for discussions such as happens with the pricing policy? The more frequent it is, the less events you will have or am I completely wrong? Solange – and then I will come back.

A - Operator

Good afternoon, Carvalho. Very question is asked by many analysts to evaluate that, and in fact there is no definition whatsoever about any type of sale or divestment or sale of part of the transfer of rights because what we have today and what is written in the contract and that is enforced is that now Petrobras is not free to carry out any kind of deal with these assets, and any kind of evaluation can be made only after – together with this renegotiation, we have some possibility of doing that to the future.

Well, the rationale was that we want to have more and more predictability in the results of the company so it becomes more predictable and we want to have predictability in production, in our pricing policy, in our cost reduction. So this is what we want, we want to shorten because as we have more predictability because of all the measures put in place and we are very bullish about performance, so we believe that we should carry out this policy that is similar to many international companies and also many companies here in Brazil as well do this.

And the second important component brought by Investor Relation is that we have a whole set of investors that are very much focused in our dividend payout for their decision-making, for the acquisition of shares in a company or a stake in a company. Thank you.

Vicente Falanga, Bank of America. You may proceed.

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

(48:31) about the possibility of increasing on (48:35) ethanol from 27.5% to 40% in gasoline as part of renewable bio, do you think it is feasible how are you dealing with that from the functional viewpoint in terms of logistics, and is there logistic capacity to mix this higher amount of ethanol? And I would like to have a follow-up on other questions. When Petrobras has – is profitable again will it be valid for all kinds of shares (00:49:18) and et cetera? And regarding class action, just to confirm, it really come to an end that is to say, are you hearing about any other class actions that could happen?

A - Operator

Thank you. Celestino will answer, and then I'll come back.

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

Thank you. With relation to the mandates, we will discuss it (49:58) and other NDAMs, and there is no consensus yet. The plan is a plan for stabilization of the energy matrix. So the discussion is about carbon credit introduction. And the decree was signed yesterday and the targets will be discussed by June 2018. So there is nothing concrete about that and how the mandates will vote. And regarding carbon credits, this part is not decided yet so we have to wait and see in order to wait for the definition.

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

Thank you.

A - Operator

The amount that we mentioned totally and the class action for the U.S. investors under the scope of this class action and the rule for payment has not changed. It is exactly the same rule.

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

Okay, thank you.

Operator

Fernanda Cunha, Citibank. Miss Cunha?

Q - Fernanda Perez da Cunha {BIO 20784520 <GO>}

Good morning, everyone. I have a question about CapEx. Could you talk about your investment plans mainly focusing on shallow waters? And could you estimate how much this would bring down your CapEx estimate for next year? Because the maintenance of these sales is very high, very high cost, so could this be improved for 2018?

And my second question has to do with the discount of the crude in the fourth quarter. When we compare to the last two quarters, the discount was $3 to $4 a barrel of crude, and now it's around $6. And this drew my attention because the (52:20) higher and also due to the fact that the heavy crude price, so discount going down in this last quarter. So could you tell me about the dynamics, this difference between the second and third quarter in the discounts?

A - Operator

Fernanda, I will give the floor to Solange Guedes.

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

Fernanda, good afternoon. Thank you very much for the opportunity that you're giving us with the questions that you have just asked. Our forecast, our estimate is that this project will come to an end soon by the end of 2018, and the horizon of our plan as of 2019 has no CapEx allocated for that specific type of asset. So this is the way that we did our planning.

A - Operator

Fernanda, Jorge will talk about discounts, okay?

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

Fernanda, in the year the discount dropped from 4.5% to 3.5% to the average heavier vis-à-vis the lighter crudes. This is a worldwide trend. And in the fourth quarter, we have to go more in depth regarding what happened because there could be some effect from import of crude from the U.S. I don't know whether you remember in the third quarter there was difficulty regarding the intro to the United States so this might have had some impact on the prices that you referred to. Thank you.

Q - Fernanda Perez da Cunha {BIO 20784520 <GO>}

Do you allow me a follow-up? Could you break down how much the sale of these projects have to do with the growth of CapEx that could be from BRL 14 billion to BRL 12 billion?

A - Operator

I do not have this information now, Fernanda, but I can guarantee that ever since we started to have the active portfolio management, one of the exercises that we do, one of the drills that we do in our portfolio management activities that gives origin to the divestment plan and specific partnership plan it also gives origin to the investment allocation decisions. And for some time already, these assets have not been prioritized in our plans to allocate investments. So what I can tell you is that they are not very significant amounts.

Q - Fernanda Perez da Cunha {BIO 20784520 <GO>}

Thank you very much.

A - Operator

Thank you.

Thank you very much. Now the question-and-answer session is closed. And we give the floor back to Mr. Ivan de Souza Monteiro for his closing remarks.

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

Thank you very much. I would like to thank you all for your participation. And the Investor Relations area of the company is available if you have any additional doubts.

Operator

Thank you very much. Ladies and gentlemen, the audio for replay and the slide presentation will be available at the Investor Relations website, www.petrobras.com.br/investorrelations. This concludes the webcast, and thank you very much for participating. Please disconnect your lines now, and we wish you a very good afternoon.