Q1 2018 Earnings Call

Company Participants

- Hugo Repsold, Petrobras
- Isabela Mesquita Carneiro da Rocha, Unknown
- Ivan de Souza Monteiro, Petrobras
- Jorge Celestino Ramos, Petrobras
- Solange da Silva Guedes, Petrobras
- Unidentified Speaker, Unknown

Other Participants

- Andre Saleme Hachem, Research Analyst
- Christian Audi, Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals
- Lilyanna Yang, Analyst, LatAm Utilities, Oil and Gas
- Luiz Carvalho, Director and Analyst
- Pedro Medeiros, Director and Analyst
- Regis Cardoso, Research Analyst

Presentation

Operator

Good day, ladies and gentlemen. Welcome to Petrobras conference call with analysts and investors for the presentation of the First Quarter 2018 results. (Operator Instructions)

Present with us today are: Mr. Ivan de Souza Monteiro, Petrobras' Chief Financial and Investor Relations Officer; Ms. 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, Organization and Performance Officer; Mr. Hugo Repsold, Jr., Chief Technology and Production Development Officer; Mr. Eberaldo de Almeida, Chief Human Resources, HSE and Services Officer, as well as other company executives.

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

To begin, we will hear Mrs. Isabela Carneiro da Rocha, Executive Manager of Investor Relations, who will start with a presentation about the First Quarter 2018 results.

Subsequently, questions from participants will be answered. Please, Mrs. Rocha, you may begin.

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

Good day, everyone. Thank you for joining us for the presentation of the First Quarter 2018 earnings. We would like to begin with Slide three showing the main highlights for First Quarter. In the first place, solid results were achieved. We continued the focus on our top metrics to come back our shareholders remuneration and partnership as a driver of competitiveness and value. In terms of the results, our net debt (sic) (net income) was BRL 6,960,000,000 in the quarter, up 56% vis-Ã -vis the First Quarter '17, the highest net income since the First Quarter of 2013. In terms of operating profit, it grew 25%, reaching BRL 17.8 billion.

Regarding the continuous focus on top metrics, our recordable injuries per million man hours rate was 0.95, therefore below what we have established as an acceptable threshold for the end of this year of 1. And this places at the same level of our peer companies in terms of safety. The other metric, net debt over EBITDA ratio -- adjusted EBITDA ratio reached 3.52. It increased a level in the last quarter of last year because of the class action settlement. But it came down again to 3.52. We are maintaining the target of 2.5 by year-end.

In terms of remuneration to shareholders, our Board of Directors approved a change in the bylaws and, therefore, the new policy for the remuneration of shareholders, which allows the distribution of dividend. The dividend payout policy now is called Shareholders Remuneration Policy. And it allows a quarterly distribution or paying out of dividend or interest on equity. This was approved by the board at the level of BRL 0.05 per share for both classes of shares.

Since we'll the focus on partnerships as the value drivers, again, the goal is to replicate the good experience and partnerships that we have in Exploration and Production. We have partnerships with Total, Statoil, Exxon, BP and CNPC, all heavyweight oil and gas companies. And we are opening an opportunity to have partnerships also in downstream, refining, transportation and logistics. We'll speak more about that momentarily.

On Slide four now. This is the trajectory of our -- the downward trend of the total recordable injury frequency rate, it continues to show a decline. And also, our leverage metric measured through net debt over EBITDA, that has increased the level of Fourth Quarter '17 and came down again. Again, we maintained a goal of 2.5 by year-end.

On Slide 5, the extraordinary shareholders' meeting held in April 26 approved changes to the bylaws, allowing the payment of quarterly distribution of dividends or interest on equity as well as the payment of intermediary dividends to the earnings reserve account. So we changed our policy. We adapted it. Now it's called Shareholders Remuneration Policy. And our Board of Directors approved this prepayment of interest on equity, taking into account not only the results that we're presenting in the First Quarter of this year. But also the better expectation for the company this year, the financial status situation of the company and our deleveraging goals. That's why we decided to prepay the dividends.

On Slide 6, we show you the Brent performance. Brent oil prices continues to grow. It was $53.8 per barrel in the First Quarter of '17, increasing to $61.4 in the Fourth Quarter '17, now $66.8 in the First Quarter again, which helped the results of this company, either through oil exports or the sale of our oil product to the domestic market. Exchange rate remained stable.

Here on Slide 7, we summarize our main results. Sales revenue of BRL 74.5 billion, gross profit of BRL 26.8 billion, net income of BRL 7 billion as mentioned before, adjusted EBITDA of BRL 25.7 billion and free cash flow of BRL 13 billion. All of these indicators presented an improvement vis-Ã -vis the First Quarter of 2017.

And our free cash flow would have improved if it weren't for the payment in this quarter of the sustainment of the class action settlement and also the premium for contracting of put options to hedge the price of part of our oil production.

On Slide 8, to show the performance of adjusted EBITDA, up 2%, BRL 25.7 billion in the quarter. In E&P, we highlight the higher Brent oil price and lower manageable operating expenses, lower expenses with idle equipment. In downstream, the EBITDA fell 19%, given a lower sales volume. In the domestic market, down by 9% compared to the First Quarter of last year, particularly for gasoline, because of very high penetration of ethanol. The indication, refining margins are lower year-on-year because, the First Quarter of '17, they were very high.

Next slide, Slide 9, please. Here, we see the increase of operating income and net income with a higher Brent price, which led to higher margin, both in exports of oil and in the sales of oil products in the domestic market as well as in the sale of natural gas. In addition, we had a gain of BRL 3.2 billion with the sale of assets of Lapa, Iara and CarcarÃ¡ and a reduction of general and administrative expenses and lower expenses with idle equipment. And these are the main factors explaining the increase in net income and operating income.

On Slide 10, please, we give you more color on the reduction of our general and administrative expenses, which will vary in quarters. That's where margins are -- we had reduced them by 19% from 2016 to '17. And now in the first -- from the First Quarter '17 to the First Quarter of '18, we had an additional reduction of G&A of 7%. As for selling expenses, this includes the payment of tariffs such as the sale of NTS, which occurred in the Second Quarter of '17. And manageable operating expenses, which are totally in keeping with the prior year.

Please go to Slide 11. Here, we have a history of our free cash flow. And this shows that the company is seeking positive cash flow. We reached BRL 13 billion in the First Quarter of the year. Operating generation higher than investments made, reflecting higher capital discipline, also resulting in higher capacity to serve our debt. Investments amounted to

BRL 9.2 billion in the quarter, down 6% year-on-year. For this, 96% were just in for the segment of Exploration and Production.

Moving on, Slide 12. Here, we're talking about the trajectory of our investment, again, showing a downward trend of both gross debt and net debt. In terms of the net debt, we reached $81.4 billion in the First Quarter, a 4% reduction compared to the end of last year. And realized debt management with the supplement of loans and borrowings amounting to BRL 44 billion and borrowing amounting to BRL 19 billion resulted in a reduction of the debt and the extension of the average duration from 7.61 years in the First Quarter '17 to 9.26 years in the First Quarter '18, maintaining an average cost of 6.2%. Our commitment is to have a net debt of $77 billion by year-end.

So on debt management, we would like to show you the profile of amortization that we have ahead of us in our cash exposure, which reached to $24 billion in the end of January. And it is now $19.8 billion in the beginning of May. This is our cash position. And we have a revolving credit facility amounting to total amount of $5 billion, $4.35 billion with 17 financial institutions and BRL 2 billion with Banco do Brasil, reducing our cash position. So we are now at a very comfortable position considering amortization.

In the next slide, we have an idea of our partnerships and divestment program. Here, we like to highlight the progress of this program. We had a closing of 5 deals. And in addition to the receipt of the fine referring to LiquigÃ¡s, this is not closing. But we completed a phase. And this now will lead to another process. Frames with the closing deal that resulted in $3 billion inflowing until May. In addition, we find this strategic partnership with Statoil at the field of Roncador. And we have 5 projects advancing to the binding phase. So we have a large amount of projects already at an advanced phase that we call a binding phase. They continue with competitive projects in agreement with the TCU, the central auditing court of Brazil. In terms of projections for 2018, we are maintaining the same projection that we announced when presenting the 2017 annual results. In May of 2017, we expected $15 billion of operational generation, cash inflow and divestments of $11 billion. We're maintaining the goal of $21 billion in signing of contracts. But we're estimating $11 billion of cash-in flowing from the investments of $17 billion. And payments of interest, amortization after principal, we had a reduction compared to the slides in March because of the debt management.

Now I'd like to talk about our operational highlights. In E&P, P-66 started production in Lula Sul last year. In 11 months, it has reached its maximum capacity. So it's already in full speed and in excellent operating condition. We also highlight P-74. It started operating on April 20, marking the beginning of the transfer of rights. It is the first platform out of the total of 4 that will be going to the BÃºzios Field. In terms of oil and gas, we had a slight reduction of 4% compared to the First Quarter of last year, mainly due to FPSO Capixaba that had a stoppage and some investments. We were expecting a lower production partly because of divestments and also the downtime of the early production system at BÃºzios. Talking about operational GAAP expenses in E&P, dropping and present reduction. And a lifting cost of around $11 per barrel. The slight lifting cost increase was due to the small production -- reduction to the increase of workovers in the well we are using. And we also had the drills impacting our lifting cost in the quarter.

On Slide 19, again, we talk about the recomposition of our Exploration portfolio. Again, this was a very important movement. We had the 15th ANP round with a bonus of BRL 2 billion. We also -- in addition to volume, I want to highlight the quality of these areas. And we acquired blocks in this bid for the 4th ANP but in rounds that we have shown interest to exercise our preemption rights. To talk about P-66, P-74, now we expect to set up our fifth FPSO, Campo dos Goytacazes in Tartaruga area. We got the final installation licensing they entered recently. And it is in the process of pre-anchoring. We expect first oil soon.

In terms of the progress of FPSO integration activity, we would like to highlight the progress of not only the integration activities but also pre-anchoring, pre-launching of flexible lines for projects that will be interconnected to the FPSO for this year. We expect P-69, P-65, P-75 and P-76 to start operation in addition to Campo dos Goytacazes that we have mentioned before. We are working strongly for P-68, to integrate P-68. It's possible that it will be only start operating next year. But it will not impact our production, as we have informed you before. It's important to highlight that we are in the process of contracting 5 FPSOs for the areas of BÃºzios, Mero, Parque das Baleias. And for Marlim revitalization.

Now talking about our sales volume, our sales volume of oil products vis-Ã -vis last year. And these are the factors explaining it. The decline in total demand for oil products, partly explained by the reduction of naphtha by Braskem. Braskem imported naphtha directly so our naphtha sales reduced.

A loss of market share for ethanol. This led to a reduction in market share of gasoline in the market and also an increase in third-party imports in the case of diesel. So oil products -- production followed at this oil market share, as we show here. It is important to highlight the share of domestic oil in processed feedstock. That continues very high, 94%. And availability of our refineries at 96%.

Next slide, we talk about the imports of gasoline and diesel by third parties. So we can already see an effect of actions made in the end of last year regarding the price of gasoline and diesel showing a reduction in the import by third parties, particularly in the case of diesel. And we can see a recovery of market share. It was 69% (sic) (79%) in April and gasoline, 86%.

The next slide, we bring you our imports and exports. We continue to be net exporters. We reduced our imports. Partly explained by naphtha, as I have mentioned, there was a reduction in exports of oil also following our production due to scheduled maintenance and divestments. On the other hand, there was an improvement in the exports of oil products, lower exports of naphtha and gasoline.

And talking about natural gas, there was an increase in the demand for and supply of natural gas, both in the thermoelectric segment and non-thermoelectric. We -- and also in vehicle natural gas, that also showed an increase. Domestic gas continues to have a great share in the supply of gas. And here we remind you of what was announced by the company in the beginning of our project to seek refining partners for the Northeast and the South of Brazil. The goal is to gather some companies. We have RNEST and RLAM in the Northeast, in the South, REPAR and REFAP. And the goal is to attract partners to these refineries. Petrobras would keep a 40% share and partners 60%. So partnership continues to contribute as a value driver for the company.

So finally, these results consolidated the strong results we had in the First Quarter. And this consolidates the recovery of the company. Now we have a sound foundation to execute our business and management plans. We should never forget the top metrics that I presented at the very beginning. Again, I would like to thank you for your attention. And we can now move to the Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Luiz Carvalho with UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

I would like to ask 3 questions. The first one, for Ivan, as usual. Now you have the approval of the new dividend payout policy and that you call remuneration to shareholders. Now I would like to understand how this is going to happen over the quarters? In the First Quarter, you have already announced interest on equity and for common and preferred shares. And I would like to know if the adjustments will be made, let's say, preferred shares will receive more, could this happen over the year? Or is this is going to happen right at the beginning? And the second to Solange. In relation to the transfer of rights, I understand your limitation. You cannot talk about negotiations. So on and so forth. But I would like to understand the process better. Supposing that the company breaches an agreement with the government, as was mentioned by Parente during his press conference on the 17th, I would like to know more about the internal approval by the company. Does this have to be brought to the Board of Directors and then to the minority group? How long does it take? And Celestino, the other question to you, could you give us some more color regarding the negotiation of contracts, the distribution companies? We saw that imports were not what we seemed to have at the beginning because there were many traders that had long-term contracts. And I would like to know if you can give us some color about that. And what about the recovery of margins and the use of your refining capacity from now on? What is your estimate?

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

Luiz, thank you for the questions. We are going to evaluate the company's results over the year. This happened in the last quarter. And if the adjustment happens, it will be only in the last quarter. So Solange is going to talk about the other questions.

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

The processes you referred to in your question about the process here in the company is the following. It should be taken to -- it has to be approved by the committee that has to give support to the executive committee. Then the minority council and other councils as well, the Strategic Committee of the Board of Directors and the Board of Directors as well.

So this is the ritual that we follow. This is the ritual that we follow to make other similar decisions to be made by the company. And that, we will continue to do with even more detail. And all these bodies have had, over the years, a lot of information about processes, et cetera. But we make strides in these discussions. They will be updated continuously because -- by the time the decisions have to be made so that everybody has all the necessary information to make their decision.

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

Regarding the contract with the distributors, we have just finished our negotiations. And the companies are now submitting this to the necessary approvers. And our commercial area with the distribution companies and the contract has some very interesting conditions from the viewpoint of performance bonds and the level of service. And with that, we expect to capture volumes, yes. And also improvement in margins. So on 1st of July, we have the beginning of 12-month contract. And these are new contracts in a new way of commercializing the product over the year in order to further improve our actions.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Is there any difference, not about prices but commercial conditions depending on volumes, for instance, or the target?

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

Not really the target but the volume that, that distribution company acquired from you.

Q - Luiz Carvalho {BIO 18040760 <GO>}

So how can we think about that from now on?

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

Yes. The volume is agreed. And the distributors will have targets. And having reached the targets, then there would be a different price.

Operator

Our next question, Regis Cardoso from CrÃ©dit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Could you go back to the interim dividend? Is there any room to establish that? Or how did you get to this prepaid interest on equity? For instance, you have 25% on the net income. So could you describe the room for the interim dividends? And now about export market share and what Petrobras can do on the commercial side of the operation in order to recover both volumes and margins. So how do you see the import dynamics in the Second Quarter? You talked about market share. But the market was a little bit weaker as well. The economy has not recovered. So in a nutshell, what did you expect in terms of market share and also volume? Was it lower because of these factors? And if you could talk about the characteristics of the contract, we would like to better understand what are the extraction points for distributors. You mentioned performance bond and the supply with the different level of service and a bonus to be paid in terms of reaching the target for the volume. And if you have different prices, let's say, per truckload or -- could you give us more details because we would like to know in practice how this is going to work.

A - Unidentified Speaker

Thank you, Regis. In terms of dividends, there was a very broad discussion with the information that the management of the company have in hand. You know that we have a very high volatility in commodity prices. And this is also a year in Brazil where you have an even higher volatility because of elections. And also, we have the information about Argentina, which brings a degree of concern from the last week on. So we had already established this proposal. We had already handed this to the Board of Directors. And the shareholders' meeting approved that for the quarter. And we will continue to monitor this. What we can expect is a reevaluation at every quarter as we advance and as we have the results for each quarter. But right now, the best information that the management had, led to this decision. And this has to do with the perception on the part of management regarding the annual result. But it would be really very rash to say that we are just establishing a figure for the result of the company for the whole year because, as I said before, there is a lot of volatility. And now I give the floor to (Dutch).

The first part of your question. The first part of your question has to do with imports and what about market share of Petrobras vis-Ã -vis imports. Really, in the First Quarter, we had -- compared to the First Quarter of 2017, the market was really going sideways. That is to say, no -- nothing up or down in these, with more competition regarding imports. But in spite of that, in the last quarter of 2017, especially at the end of November, we focused on some points. In the (inaudible), we focused on these points. And we were able to increase our market share to 79% in diesel. In May, it was slightly lower. And it is quite normal because the market at the beginning of the year is usually weaker. And it becomes stronger in gasoline, in fact. But as ethanol was very competitive this year, there were advancements of ethanol in the auto cycle in the First Quarter, around 5%. So this was the First Quarter and competition as I have just described. Now we are checking new ways of selling it, not only based on commodity prices, because the level of service comes into play. And we have good logistics, a good position in logistics and on coasting operations and in our supply, in general. So these are the actions that we have been adopting, combining commodity prices with the level of service. And all of these actions will be represented in the contract. So part of the contract that we are proposing has to do with the volume committed for the half year with the companies and also volumes vis-Ã -vis performance bonds. And in general, this is what we are proposing. But we cannot say anything more about that.

Q - Regis Cardoso {BIO 20098524 <GO>}

You talked about the First Quarter quite a lot. And I would like to know about the dynamic. What about the second? What is your estimates in terms of ethanol?

A - Unidentified Speaker

Could you repeat? Because the question was not very clear to the company.

Q - Regis Cardoso {BIO 20098524 <GO>}

I said that your comments were excellent, all based in the First Quarter. I would like to know if you could make similar comments in what you expect for the Second Quarter that is ongoing now.

A - Unidentified Speaker

Regarding the Second Quarter, I can talk about the month of April. We're in a good position. Market share of 79% of diesel, 86% for gasoline. For May, we see the position was a little better. And for June, well, the numbers are not closed yet. But we tend to be very competitive in the Second Quarter of the year as well.

Operator

Our next question comes from Andre Hachem with ItaÃº Bank.

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

My question has to do with CapEx. There was a reduction of CapEx of about $3 billion. What is expectation for the rest of the year? My second question is, we have higher oil prices, more auctions. Do you see any difference in services in Brazil? And the third question, recently, in an interview, Officer Solange said that Petrobras could go back to having Petrobras' own platforms in future projects. Could you comment on that position?

A - Unidentified Speaker

Andre, we understood your first and your last question. But the second one, the sound quality wasn't very good. So your first question was regarding the behavior of CapEx. Then you asked the second question that was not clear. Then the third question was regarding possible owned or a chartered platform. So I -- perhaps you could repeat the second question?

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

It was regarding to we had a relevant increase in oil prices and a lot of auction facilities. Do you see higher demand for services for drills and other services?

A - Unidentified Speaker

Okay, clear now. So the first one -- so the second question will be answered by Officer Solange and then we'll answer the third question.

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

Andre, your first question had to do with our CapEx in 2018. We haven't got our CapEx position yet. And we don't think the CapEx most of the year will be exceeded. We focused on paying some obligations. But these do not impact our speed to start a project. This is linked to the payment of the suppliers that are working in our project to develop production. And some of the payments will be postponed and they will be made along the year. The second question was -- well, okay. We are doing strong work internally.

Specifically, officers that are going to areas, working strongly on how we relate with our audience, the balance of services and how to approach them. We seek a new way to capture value for the company. So considering the low demand that we had recently, in terms of our services, we are preparing ourselves through our market strategy group to offer competitive and innovative services so that we can have an offering of services. You will remember that, that happens whenever oil prices increase. So Andre, for your third question, I think that this is linked to a comment I made regarding the contracting of our own unit or a chartered one. If you look at our business plan, we've gone to market and all of the units are chartered. Until 2022, there are 2 units that will need to be contracted. And as of 2023, we still cannot disclose -- we don't have disclosure of that in our business plan. So depending on how the company evolves, the technology evolves and depending on new opportunities that arise linked to new equipment, new ways to build the units, that's when we started considering having our own Petrobras project. So we would have time to work on that. And in this project, we would introduce innovation and changes, trying to reduce CapEx and to drive performance. But this was not a statement that -- something that we are going to do. As I said that there is an option, we have an opportunity to have our own unit in order to introduce improvements, innovations and changes. That would be for beyond 2023. Now the final decision regarding having our own units or chartering one will all be based on achieving the best economic results for Petrobras.

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

One last question, regarding P-74. All about the standard of operation, at what level is it operating? And any results within the Second Quarter?

A - Unidentified Speaker

Andre, please repeat.

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

Regarding P-74 standard operations last night, can you comment on its level of operations? And what we can expect?

A - Unidentified Speaker

P-74 started operating a little earlier than planned, two days before. And a good news, we managed to have very adequate commissioning. There, all of the systems are tested and wells started up. When we interconnected the first well, it immediately reached a stable production level and it continued to operate in a stable way, no anomalies in the process. It's operating with high efficiency. And our expectation is, one, if with this production we'll continue to commission other systems -- the gas systems, then we'll have the injection well so that we can continue to inject. Then, we will continue to connect production wells to take this platform to its top production level. This is the sequence. We should interconnect the 5 wells this year. And we will follow them up one by one to see how the whole system will perform. But we are very confident because this is well-commissioned and started operating really well.

Operator

(Operator Instructions) Next question, Christian Audi with Santander.

Q - Christian Audi {BIO 1825501 <GO>}

My first question has to do with refining. What capacity level has the refineries achieved in the First Quarter? It's just about gain of market share. Could you tell us more about refining margins? What would be the ideal or optimal point in terms of market share with a high margin? I just want to understand how you see this evolution, if you're happy with your goals, with your market share capacity utilization. This is my first question. My second question is geared to costs. We have reduction in general and administrative expenses. I would just like to understand if there's more to come, or have we reached the limit? And in terms of the increase in the lifting costs and even reduced production, what can you expect for lifting costs along the first half of the year?

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

This is Ivan, Christian. Thank you for the question. Officer Celestino will talk about FUT utilization factor at our facility and then we'll answer about G&A.

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

Christian, regarding FUT utilization factor, our facilities or refineries, what we have for the first half of the year. We had fierce competition regarding imports in ethanol. This led FUT at the refineries to be 72% initially. We realized commercial conditions; we tried to improve our operation. And in April, FUT increased to 78%. It's now at the same average of last year. And the markets tend to rally. So with the right commercial condition, with right market conditions, we will operate within FUT that will be higher. What we always say here. And since we operate (to the park, when the park), all of these variables are taken into account. And we always see good chance of bounce to operating results for Petrobras. Our exporting oil or using our refining and conversion capability primarily to export the oil products, maintaining a balance between external and domestic markets.

Q - Christian Audi {BIO 1825501 <GO>}

Celestino, what do you see as the range of utilization factor for the refineries that would make you happy for the rest of the year?

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

Our range is always difficult. The utilization factor above 90% is not expected for this year because of the opportunities of increasing efficiencies at the operation vis-Ã -vis the possibilities to export the oil, our refining capacity versus our conversion capacity. It's very hard to give you a range, given the diesel spread. For example, what are we seeing now? Refining margins, when we compare them with Brent oil crude, the diesel spread is a little larger -- wider. This can lead to other levels of recovery, different than what we had in the First Quarter of the year. So regarding cost reduction and G&A, with a regular follow up, I have described this, we continue to look at it weekly, we have a routine follow-up of all processes. We have still a lot to do. But we have some processes. We reduced third-party services and we are strict about controlling headcount, which is a large part of our costs. So we are very thorough and aware of our headcount, always trying to keep below the budget. It's a very good novelty that more of the same but with a lot of execution discipline.

Q - Christian Audi {BIO 1825501 <GO>}

What about the operational side? Lower expenses of equipment, maybe? There was an increase in the lifting costs. What is your vision for the rest of the year regarding these costs?

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

This is Solange. Christian, well, these numbers that we shared referring to the First Quarter of '18, as you've said it yourself, these numbers have 2 components. Reduced -- we reduced our total costs, as shown in the materials that we disclosed. We also have the effect of lower production in the First Quarter and there was a second event contributing, which was intense management that we've been doing for a while in terms of allocating our resources, our drills. So that we won't have idle drills. So we are ranging forward renewal of wells and that also impacted these numbers. There is one effect that has not appeared yet. But I want to keep you on the same page of another event that will happen this year. It has to do with the start-up of new units. As they start operating, the operational cost of these units will be full. And production will have a natural ramp-up until we reach full utilization of that cost for the different units. So this is something that we will see along 2018. But we will have visible benefits of this ramp-up of production in 2019.

Q - Christian Audi {BIO 1825501 <GO>}

One clarification. When we talk about dividends, what was not clear to me is how much will be paid to common and preferred shares. Will there be any changes compared to what you used to do in the past? And also in terms of the amount that will be paid to common and preferred shares?

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

So there was no change. The only change to the bylaws approved in the shareholders meeting was that we can pay dividends every quarter. But all of the rest remains the same. And adjustments -- depending on the performance for the results of the company, adjustments -- the final adjustments will be made in the end of the year.

Operator

Pedro Medeiros, Citibank.

Q - Pedro Medeiros {BIO 20001644 <GO>}

I have some follow-ups of the previous question, then I would like to go back to refining. Thank you very much for the information regarding the use of the refining hub of the areas during the First Quarter. But when we look at the behavior of domestic prices, especially in April, we see that the fees apparently, they're lagging behind. And that is quite relevant in terms of the variations of international prices in the last few months. And based on our maths -- on our calculations, for a month, the prices in Brazil are already below parity for gasoline and diesel. So could you confirm those? And what is the stand taken by the company? And what about the company's pricing policy in the light of international prices volatility? And my second question -- and I think I would like to ask all the questions and then we go back. My second question, could you talk about CapEx a little bit more? Because over the last four years, there was a trend in terms of investments being lower by the end of the year, lower than the guidance for the year. And again, we see a First Quarter with completion quite below. In fact, I would like you to confirm 2 things. And what is going on in the company in this regard. For the Second Quarter, if I'm not mistaken, you have already decided $1.3 billion up to $1.5 billion signature bonds for the pre-salt rounds and the preemptive right of the company. And this is the first confirmation that I would like. This $1.5 billion, was this part of the $17 billion that you had estimated for the year? And second, we understand that the fleet of rigs of the company, mainly deepwater rigs, last generation deepwater rigs, they had 8 to 10 contracts until the end of the year. So what kind of effect of renewal of these contracts or returning the rigs are affecting the guidance of the company for the year? And the third and last question, in fact, it's a very quick follow-up. In the First Quarter, there was a reported cost regarding the hedge of the company, BRL 700 million. And if I would like to know -- I would like to know if this is the total cost of the hedge or whether we should expect more costs regarding hedge for the remainder of the year? Solange, what about the expectation? So in order for us to set up our curve, could you clarify about platform fleet?

A - Unidentified Speaker

Let us start with refining and prices. But what you said really does not exist. What you have just -- just have started it. It does not exceed our prices, commodity prices plus the logistic costs plus margins. So this is the way that we have been managing our pricing policy. And prices below parity, this does not exist. Nowhere. This is valid also for diesel and gasoline.

We are going to answer about other details of your questions with contracts. Solange?

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

What you said about CapEx, it reflects the previous years. And so far, we had the dynamic of these services that you mentioned differently from the ones that we had with our suppliers. And the events that led to the low evaluation of investments practically came to an end. When we changed, many of the contracts have come to an end and many were changed, which means that today, we have a higher evaluation. We have more predictability nowadays in terms of carrying out these investments -- realizing these investments. So our plan and our projections show that we are in a different dynamic, different from the previous years, although this is not totally reflected due to other events that I mentioned before, unrealized payments in the First Quarter. You talked about the noninclusion of the bonuses of the fourth round. And what we can say is that they are included in this projection, yes. Now Hugo will answer the renewal of the new contract and also regarding the rigs.

A - Hugo Repsold {BIO 19059342 <GO>}

Thank you for your question. In fact, we have many rigs contracted. And the contract for some of them are ending this year. And this is one of the reasons why we have been reducing idleness of this equipment, because we are reaching the end of some contracts.

Many people are not renewing. And this does not mean that we will not contract again. We do not have to -- well, the prices of some contracts are not realigned or aligned with the market. So we are going back to the market in order to contract other rigs based on the demand that we have ahead of us. But with new market prices. So the sum of these 2 effects, that is to say, the adjustment of the fleet and also the cost of the same fleet, this is what has a very relevant impact on the utilization of our expenditures over the year. And also, in relation to investments and the new unit, we believe that there will be 4 units by the end of the year. Then the 2 last ones of the first phase of Campo de Lula, 67 and 69, which are the 2 extremes. That is to say the north and the south of the Lula field. And also, the next 2, because up to 334 in BÃºzios Field, which have 75 and 76. As Isabella said, considering the analysis that we are doing today regarding how things are developing, we do not see a high probability of putting in production 69 this year. But we continue to place our bets that there's still time for us to work. So we have given this information to the market already. But we have these 4 units in the pipeline. And at 68, (inaudible), that will start production next year.

Q - Pedro Medeiros {BIO 20001644 <GO>}

What about hedge? Oh, because of the increase in the commodity price. This is made clear to me. Okay.

Operator

Lilyanna Yang from HSBC.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Why is the 68 delayed?

(technical difficulty)

A - Unidentified Speaker

The interpreters apologize. However, they are getting a very bad sound from this question.

Lilyanna, Hugo is going to answer.

A - Hugo Repsold {BIO 19059342 <GO>}

There were events that happened simultaneously, Lilyanna, which were concluding the work that we had in terms of the hull. So the hull could have the right condition. And at the same time, we had to do the interconnection. So it is useless to put more labor, more people working there because it starts to have interfering. So the reorganization of the labor front in the -- you'll have to correct because of the carryover of the hull. And this is why it has the impact on our planning. It's not a matter of putting more funds in the shipyard. Today, what we see is that there is a high probability of us only placing it in production at the beginning of next year. No. But we have not left it. We have every single month, every single week, we look at each work front, each labor front. So that we can see how much labor we can put in the same unit and adequate safety conditions and labor conditions in order to recover the time that was lost. And it's according -- or on schedule. We continue to have the same estimate. And you asked about 68 and 70?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Yes. Do you have visibility regarding that?

A - Unidentified Speaker

Okay. Thank you for the question. Yes. We are going to inject the gas. And this is why I said that the second well had to be an injection well. After commissioning the whole system of gas in the platform, then we start to inject the gas. We will only be able to export the gas from the system, mainly BÃºzios, when we have about 3 totally interconnected. And this will happen in 2020. Before that, we will be injecting the gas produced.

Operator

Thank you very much. We are now closing the question-and-answer session and this conference call. I will turn the floor to Mr. Ivan Monteiro for his final remarks.

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

Once again, I would like to thank you for participating in this event. Any further questions, please get in touch with the company's Investor Relations department. Thank you.

Operator

Thank you, ladies and gentlemen. The audio of this conference call for replay and slides presentation will be available at Petrobras' Investor Relations website at www.petrobras.com.br/ir. This concludes today's conference call. Thank you very much for your participation. Please hang up your telephones. And have a great day.