

Q3 2021 Earnings Call

Company Participants

- Andrea Marques de Almeida, Chief Financial & Investor Relations Officer
- Carla Albano Miller, Executive Manager, Investor Relations
- Claudio Mastella, Executive Director of Commercialization and Logistics
- Rodrigo Araujo Alves, Chief Financial and Investor Relations Officer
- Rodrigo Costa Lima e Silva, Executive Director Refining & Natural Gas
- Unidentified Speaker

Presentation

Carla Albano Miller {BIO 17540433 <GO>}

Good morning, everyone. Welcome to Petrobras webcast with analysts and investors about the third quarter 2021 results. It's great to have you here with us today. We'd like to inform you that all participants will follow the transmission by listeners. After introduction, a Q&A section will begin. You can send us questions by email at petroinvest@petrobras.com.br. We also inform you that all executives are participating in the event remotely, in their individual rooms, respecting all security protocols.

Today, we have with us Claudio Mastella, Chief Trading and Logistics Officer; Nicolas Simone, Chief Digital Transformation and Innovation Officer; Roberto Ardenghy, Chief Institutional Relations and Sustainability Officer; Rodrigo Araujo, Chief Financial and Investor Relations Officer; Rodrigo Costa, Chief Refining and Natural Gas Officer; Salvador Dahan, Chief Governance and Compliance Officer; Nabeco Haderu, [ph] Executive Manager for Subsea Systems; and Joao Jeunon, Executive Manager for E&P Integrated Asset Management.

To initiate, I will pass to our CFO, Rodrigo Araujo. Rodrigo, please go ahead.

Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you, Carla. Hello, everyone. Good morning. It's a pleasure to be here with you today, and I hope you're all well and safe. So we can start with the next slide, please. Thank you. So as we see our rate of total recordable injuries per million men-hour, it has been continually decreasing. And when we look at the first nine months of 2021, we're at 0.56 level that is below our level of alert of 0.7. And of course, the company's been doing significant work in terms of continually improving its safety, and safety is a main value and priority for us. But of course, we're not only comfortable with such rate. We're focused on having zero fatalities. And unfortunately, we had two fatalities in the third quarter of 2021. So we're highly focused on improving safety in our operations and meeting our ambition of zero fatalities.

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Next slide, please. In terms of our emissions and our commitment to the energy transition, we've announced in September this year, our ambition to achieve emissions neutrality in a time frame compatible with the Paris Agreement and, of course, it's focused on the neutrality of activities under our control, Scopes 1 and 2, and we're also committed to influence our partners and our upstream joint ventures to achieve the same ambition in non-operated assets. This ambition is aligned with the OGCI, the Oil & Gas Climate Initiative, of which we've been a member since 2018, and reinforces our commitment in reducing emissions in our operations.

Next, please. In terms of the results with respect to emissions in the year 2021, our results are coming as expected and our outlooks for 2021 are very healthy, and we expect to achieve the goals that we set for 2021 in terms of kilos per CO2 per barrel of emissions in the upstream segment. Our carbon intensity is 15.7 compared to our target of 17 or acceptable maximum limit of 17. So we're comfortably below the target that we set for 2021. And in terms of the emissions in our refining operations, we're also below. We have 39.9 kilos of CO2 equivalent per ton of complexity weighted in our refining operations. And our acceptable maximum limit is 40, so we're below the target set for 2021. And in terms of absolute GHG emissions for 2021, we're also -- we've emitted 46 million tons of CO2 in this year and this is also compatible with the targets that we set for 2021 as well.

Next, please. In terms of CO2 emissions -- in terms of CO2 reinjection, sorry, we've been focused on reinjecting a relevant portion of our CO2 emissions. And when we look at the -- what we've done since 2008, we've already reinjected 28.1 million tons of CO2. And only in 2021, we've already reinjected 6.7 million tons, which is very close to the level of reinjections of 2020. And we're focused on achieving our commitment of reinjecting 40 million tons of CO2 by the year 2025, and we're focused on achieving that target and continually improving the level of CO2 reinjection.

Next, please. Another important aspect of our ESG strategy is, of course, recognition of improvements in our governance. October, this year, we have completed the obligations that we had under the agreement with the US Department of Justice. This agreement was signed in 2018, and it's now closed. And there are important recognitions that were made in the conclusion of this process, of course, related both to the improvement of our internal controls and to the evolution of our integrity program.

The company's compliance system has evolved substantially since 2015. And of course, we are highly committed to continue the improvements in our governance and compliance systems. But it's an important achievement and recognition, the conclusion of the agreement with the US DoJ. Of course, the agreement also acknowledges that Petrobras was a victim of the corruption schemes that occurred in the past. And as I mentioned before, we're focused on continually improving our governance and our compliance systems.

Next, please. In terms of our financial and operational highlights, of course, we have to highlight the fact that we've achieved our target of \$60 billion gross debt more than a year before. The expected deadline -- we expected to achieve that in 2022, and we closed third quarter 2021 with the gross debt of \$59.6 billion, which is very important achievement and brings us to a capital structure that is much more compatible with our

peers and allows us to compete much more efficiently in the oil and gas market with majors and other peers.

We had a recurring EBITDA of \$12.2 billion and a recurring net income of \$3.3 billion in the third quarter of 2021. Very solid operational performance with higher sales of oil products in domestic market, especially diesel, gasoline and jet fuel. Our oil and gas production also increased in third quarter. We have the pre-salt, representing more than 71% of our total production now. So we had a very solid operational quarter. That resulted, of course, in the -- in our -- an important generation of cash from our operations of \$10.5 billion and a free cash flow of \$9 billion.

During the third quarter, we also had important inflows from our portfolio management strategy. Of course, the remaining shares that we had in Petrobras Distribuidora resulted in a cash inflow of \$2.2 billion, and we also had payments of the coparticipation agreement for the Buzios field of \$2.9 billion, that was also a relevant cash inflow and represented the entrance of our partners in the Buzios field.

And yesterday, our Board of Directors approved a new anticipation of dividends of \$6 billion that, alongside with the \$6 billion that we had announced in August, totals \$12 billion of anticipated shareholder remuneration for the year. And this is, of course, an important contribution and represents the company's commitment with -- at generating value and distributing its earnings and an important contribution both to its shareholders and to the Brazilian society not only in the form of dividends, of course, but in the form of tax paid and social responsibility as well. So the company is getting stronger and healthier in being able to substantially contribute to the Brazilian society as well with relevant investments and commitment with operational efficiency.

Next slide, please. When we look at the external environment, Brent prices were 7% above Q2 2021 and the average exchange rate was -- there was a little appreciation of the real when compared to the US dollar during the quarter. But to me, a relevant figure here is the change in the end of period exchange rate, which impacts our end of period debt when we translate it into Brazilian reals, our functional currency, and it impacts our earnings. So we had an important impact in the earnings of the third quarter of 2021. That is, of course, a non-cash impact, but it impacts relevantly our third quarter 2021 earnings.

Next, please. When we look at the gross debt, as I mentioned before, we reached the target of \$60 billion. In anticipation, we originally forecasted to meet it in 2022. And when we look at the track record of the company since 2015, we had in the past \$166 billion in gross debt when we consider the finance leases, and the multiple of our cash flow from operations was in the past above 7. So it's an impressive corporate turnaround journey that has been made by the company and, of course, allow us to be even more focused now on operational efficiency and on returning the cash that we generate.

In the third quarter of 2021, we prepaid \$6.1 billion in gross debt. And there was, of course, the startup of the FPSO Carioca, which added another \$3 billion in finance leases. This an important achievement with respect to FPSO Carioca as well. We're very close to start producing second producing field from FPSO Carioca and continuing with the ramp

up of the platform, which adds relevant production to our portfolio and adds value to our strong portfolio overall.

And when we look at our leverage in terms of net debt to EBITDA, we closed Q3 2021 at 1.17, which is very in line with the -- with our peers and majors. And of course, when we think about the \$60 billion debt target that we set, it is the level that allows us to be committed with the company's financial sustainability and to navigate scenarios much more challenging than the one that we're seeing now. \$60 billion debt allows us to go through scenarios like the one we saw last year, when we had Brent prices around \$40 per barrel without substantially increasing our leverage. So it brings us very optimized capital structure and allows us to look very enthusiastically to the future.

Next, please. In terms of our EBITDA, we had a very solid quarter as well. We improved our recurring EBITDA by 7%. Total EBITDA of -- \$12.2 billion of recurring EBITDA in the third quarter of 2021. As I mentioned before, this is, of course, result of a very solid operational performance both in the upstream and downstream segment.

Next, please. Looking at the performance by segment, we had an important impact of Brent prices for the upstream segment. Our production, of course, increased by around 1% this quarter as well and pre-salt is improving its share in terms of our total portfolio, which also adds value to our portfolio and our results.

In terms of our RTC segment, we had also important results in the second quarter. And despite the improving operational performance, we had higher expenses with legal proceedings that offset the improving operational performance. And with respect to our gas and power segment, of course, we had lower natural gas margins substantially due to the increase in LNG costs. I believe LNG costs internationally are substantially higher and we have longer-term contracts. So we had an impact of LNG costs in our long-term contracts in this quarter, but the annual result is also very solid and in line with our planning for this year as well.

Next, please. In terms of cash generation and the distribution of our cash, alongside with our EBITDA, we had the impact of income taxes and working capital that was relevant in the third quarter. We're seeing higher prices. So we see some increase in terms of working capital as well. As I mentioned before, we had \$9 billion of free cash flow in the third quarter of 2021. And when we include the inflows from the portfolio management strategy and from the Buzios coparticipation agreement, we have a free cash flow after divestments of \$14.3 billion.

Of course, that was mainly used to reduce our gross debt. We prepaid \$6.1 billion of gross debt and we also had additional scheduled payments. So the total payments in terms of debt was \$6.8 billion this quarter. And we also had the first payment of the dividends that we announced in August. \$4 billion so in terms of cash. In the end, we have a positive cash change of \$1 billion in the third quarter of 2021.

Next, please. In terms of our liability management strategy, of course, we're -- in terms of debt level, we're quite comfortable with the current capital structure. Of course, this is

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something that company continually monitors, but we believe that \$60 billion debt level allow us to be able to manage the company efficiently in challenging scenarios. But when we look at the profile of the remaining debt, of course, we see opportunities to increase its maturity and to reduce cost. Our current cost is 6%. And we improved the maturity in the third quarter of 2021 from around 12.5 to 13.5. When we look at the amortization schedule for the next year, it's quite compatible with the company's cash flow generation and we see that we have a very smooth amortization profile that allow us to make the relevant investments that we need to make and to distribute our dividends without committing the company's financial sustainability.

We also had -- we have revolving credit facility lines of \$8.7 billion and a cash level of \$11.5 billion. When we think about the cash level, we see that we're -- we have a cash level that is higher than our optimal cash level that we believe that is around \$8 billion to \$10 billion. But of course, we still have potential challenges coming from the pandemic scenario that is -- of course, it's improving, but we still see potential challenges in the upcoming future. So we have a higher cash level than we think it's optimal at least for the short-term, but we do expect to bring our cash levels to lower level closer to a range from \$8 billion to \$10 billion.

In third quarter, we also had the early redemption of \$1.3 billion in our bonds, make-whole of some of our bond series. We also have \$3.5 billion in prepayments of bank loans. And we had a very positive news in terms of credit profile. Moody's upgraded our credit risk from Ba2 to Ba1 in the third quarter of 2021.

Next, please. In terms of portfolio management, as you can see, the highlighted transactions, we had six signings and four closings in the third quarter of 2021. Of course, relevant transactions that support our deleveraging, and it help us achieve the optimal portfolio focused on world-class upstream assets and world-class refining assets in Brazil, of course, especially in the ultra-deep water pre-salt and world-class refining assets in the South East of Brazil. That is the focus of our portfolio.

Next, please. In terms of highlights of this third quarter, we had the follow-on the remaining shares in Petrobras Distribuidora that I mentioned before. We also had relevant signings both in terms of our agreement with CADE with respect to the refining assets and to the natural gas assets. So we signed the SPA for REMAN that is our north refinery and also we signed Gaspetro and other relevant assets in the natural gas agreement with the Brazilian (inaudible) authorities. And also, we had the closing of the Rabo Branco field in October 2021. So our total cash inflow in 2021 is \$2.9 billion, and the total value of the already signed transactions in 2021 \$5.6 billion, and that of course supports our deleveraging strategy and distribution of earnings. So it's a very positive inflow in terms of cash.

Next, please. So in terms of earnings for the quarter, we had \$3.3 billion of recurring earnings in the third quarter of 2021. We had a 5% increase in gross profit. And as I mentioned before, we also had a negative impact with respect to the depreciation of the real that impacted our -- as I mentioned, it's non-cash, but it impacted substantially our earnings. We also had reversal of impairments from upstream assets, given the more positive price scenario and capital gains from the Buzios coparticipation agreement.

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Those were partially offset by actuarial losses related to our corporate health plan. We had a relevant change in terms of legislation here in Brazil. (inaudible) was part of our labor agreement with the unions and it impacted negatively the third quarter of 2021.

Next, please. Finally, as I mentioned before, our Board of Directors approved in 2021 an anticipation of \$12 billion. \$6 billion were approved in the second quarter of 2021 and an additional \$6 billion has been approved now in third quarter. This anticipation of shareholder remuneration, of course, is compatible with our financial sustainability and reinforces our focus on capital discipline, on optimizing our capital allocation and, of course, on distributing all the earnings that we generate that, of course, is very positive both to our shareholders and to the Brazilian society that in the end receives a relevant portion of the dividends that we pay. So this is very important in terms of Petrobras' contribution to the Brazilian society as well.

We believe that having a stronger and more solid Petrobras is very positive for the Brazilian society. And as I mentioned before, we continue to be highly committed with the execution of our strategy and we believe that the results that we have in the third quarter represent important achievements in terms of delivering our strategic plan.

Thank you. I'll pass the floor back to Carla. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you Rodrigo. We can now move to our Q&A session. And the first question that we receive comes from Frank McGann with Bank of America Merrill Lynch and it is for Andrea. Andrea, what cost pressures are you seeing both relative to operations and also to investments? Could this affect future CapEx decisions?

A - Andrea Marques de Almeida {BIO 19358739 <GO>}

Thank you, Frank for your question. We do not expect cost impacts this year since the contracts of goods and services have been settled before, and also because even inflation corrections do not apply at the same time for all our contracts. In respect to the future investments, we continuously access all the applicable variables not on costs but exchange rates, brand scenarios in short and long terms also possible projects, optimization analyzed then the other aspects are considered on the future CapEx decisions. Yeah, conclusion and goes to announce by the end of November or beginning December or our '22 to '26 strategic plan, which we will detail our investments choices. Thank you for your question.

Operator

Thank you. The second question from Frank is for Rodrigo Araujo. So Rodrigo, given the significant improvements in the company's balance sheet and expected tight global supply demand that is expected over the next few years, could the company move increasing investments in upstream projects over the next several years?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you for your question, Frank, of course the more positive oil price scenario is supportive of increasing CapEx in upstream assets. But when we look at the portfolio in terms of future perspectives we're of course concerned with long-term prices and we're committed to invest in assets that are both environmentally and low price resilient. So we have a very solid threshold in terms of project decision of 35 Brent price in terms of resilience for long-term projects. And we can expect some increase in terms of CapEx for the '22 to '26 business plan that we expect to announce by the of end of November, beginning of December. But again, all the CapEx increases that we eventually make will be related to resilient assets and then are able to be profitable and have adequate returns even in quite challenging scenarios. But thank you for your question.

Operator

Thank you, Rodrigo. The second question comes from Luiz Carvalho with UPS and this is for you as well. So the company has been very vocal in the sense of highlighting its potential contribution to the society in the form of dividends. How can we see this developing in the next 12 to 18 months? As the country undergoes a challenging macro situation, could Petrobras increase its dividends to benefit the country? How could we understand the potential limit for distribution? Could there be the case for potential higher percentage than the 60% of the difference of operating cash flow and CapEx?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you. Thank you for your question Luiz. Well, first 2021 is a transition year in which we achieved our \$60 billion gross debt target, \$60 billion gross debt target, and we have of course, of course managed to balance reducing our leverage this year with distributing our earnings as well. So this has been an important part of our strategy for 2021. Of course that depending on the results of the fourth quarter of 2021, we may see additional dividend distributing depending on the scenario. The results and the company's financial sustainability as well.

But in terms of the future for 2022, we expect to comply with our dividend policy and distribute 60% of our free cash flow, starting from 2022. And then, of course depending on the scenario and the results that we have, we may think about additional distribution. But again, it will be depending on the scenario and the upside that we have in terms of what happens next year. Of course, we're now looking at '22 to '26 business plan and considering aspects like the timing of dividend distribution. We want to have a more consistent distribution in terms of timing as well, considering potentially quarterly or half year distribution. We don't have a straightforward answer now, but it's something that we're looking for -- we're looking at and we may have this discussions concluded by the announcement of our '22 to '26 business plan. Thank you for your question.

Operator

Thank you, Rodrigo. We've received another big question from Luiz. So I'll break it down in three. So the first part would be for Rodrigo, question, what changes for Petrobras upon the divestments of the refiners? Does Petrobras foresee additional investments by other players in the market, potentially in your refiners?

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The second part is for Mastella. So how do you see the Brazilian refining market advancing after the refinings are sold? Also, how the company seized the guarantee of domestic fuel supply, when there are other players in the market, and what will be the Petrobras hold in this scenario?

And the third part is for Rodrigo Araujo. So, following the halting of the sale prices for Hanashi and Hefati how are the plans for the final optimal portfolio for the company, in spite of rates considering changes in its configurations, or can we expect the company to continue to focus of only refineries, even if in the long term?

A - Rodrigo Costa Lima e Silva {BIO 22136974 <GO>}

Yes, we are preparing our company to this new environment implementing free action plan. The first one is regarding improving our efficiency through a program that we are calling here as RefTOP. This program aim to put our refineries in the first quartile of benchmark -- that we use the reference of United States refinery performance. We are trying through this project optimize our energy efficiency, looking for to reduce costs in steam natural gas and power.

Actually we are in the five projects that it's around \$300 million in CapEx on the horizon until 2025. The second line that we are working here is prepare our hydro to follow market conditions. We are increasing our hydrotreating capacity around 10,000 cubic meters per day and we are looking for increasing our conversion capacity around 9.7000 cubic meters per day. To implement those projects, our current business plan is a point to a CapEx around \$3.7 billion. The third line of action is capturing the opportunities that we have in energy transition horizon regarding biorefinery. Here we are trying to analyze the opportunities to produce bio jet fuels and renewable diesel.

So I pass through to Mastella to answer your second question.

A - Claudio Mastella

Thank you. Thank you for the question Luiz. Well, talking about our new refiners in Brazil competition among the -- rather the new refineries will occur naturally, and it tends to be positive, so the market supply, and risk-sharing. Besides, I think we'll create a healthy pressure on efficacy -- but you basically and it's important to highlight that Brazil already has and has had for some years the competitive environment in both diesel and gasoline and domestic market.

And the participation of different players already occur, mainly importing these problems. Talking about the competition, Petrobras have already demonstrated that it is prepared

for the arrival of more players. Thank you.

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Well, Luiz thank you for your question. In terms of the third part, where you ask us with respect to the halting of the Hanashi and Hefati processes and whether we have any changes in terms of strategy and portfolio. No, we don't have any changes. Of course, we would continue to be committed with complying with the agreement of the agreement that we have with the Brazilian Antitrust Authorities to divest off a relevant portion of our refineries, giving a more general perspective, we already have the signings of RLAM and REMAN that were both in the first and second quarter of 2021, and we're moving faster towards concluding SIX. We also have LUBNOR and Regap that are more advanced.

In terms of the ones that we're unsuccessful and then meaning Hanashi, we expect to continue our conversation with the Brazilian Antitrust Authorities, so that we can re-launch the processes in a way that we can be more effective and successful and actually be able to conclude the transactions in the second opportunity. So we've been having discussions in terms of timing and strategy of how to launch the processes in terms of timing as well. So that we can improve the competition in the M&A process and be able to successfully sign and close them. So this is where we are now, but thank you for your question.

Operator

Thank you all. So the next question comes from Rodolfo Angele with JPMorgan. And it's for also you Rodrigo. Can you give us an update on the process of -- say of the refining park? What can be done to make these assets more interest for buyers? And what would be a reasonable timeframe?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you for your question, Rodolfo. Well, as I mentioned before, we're considering timing and the strategy of how to relaunch the processes that were not successful, they were unsuccessful for -- reasons hip-hop for temple, the bits that we received were substantially below minimum valuation. And Hefati, we could not agree on the terms of the transaction unfortunately, but Hanashi we didn't receive binding offers. So, we expect you to relaunch those transactions after we conclude discussions with the Brazilian Antitrust Authorities. But we're concerned about improving the level of competition in the transactions and how can we ensure that we were able to re-launch and sign and close them successfully. So we're working on this now and this is where we are. And in terms of the other processes I've already mentioned where we are in terms of timing, but thank you for your question.

Operator

Thank you Rodrigo. Rodolfo also made a question for Zhang, so can you give us an update on the auction of Atapu and Sepia? Have you seen interest from companies to partner up with Petrobras?

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Bloomberg Transcript

A - Unidentified Speaker

Thanks Rodolfo for your question as the company has publicly announced on April, Petrobras has expressed, its pre-emptive rights to work as operator on both are of Sepia and Atapu with a minimum of 30% of worker interests. Unfortunately, the bid process is ongoing and we are not able to share any perceptions of other companies at this moment.

Finally, we reinforced that Petrobras maintains our intention to work in partnership and non-E&P areas in order to reduce the risks and costs. Thanks again for the question.

Operator

The next question comes from Bruno Amorim with Goldman Sachs. And it's for Mastella. So Mastella, do you attribute the recent rise in demand for Petrobras shares for November to much stronger demand in the domestic market overall or harder to achieve toward more internal sourcing in detriment of less imports by the fuel distributors?

A - Claudio Mastella

Bruno, thank you for your question. Well, we haven't really noticed anything that could support and in the growth of demand and domestic spending November, which is seasonally weaker month than October. According to your typical demand for Petrobras products for November, we must have in mind that we have almost 100 clients each with different perspectives of the markets. So, I can speak on each of them, but it's all years some of their perspectives. It should be done, should be not sure. Thank you.

Operator

Thank you, Mastella. And the second question from Bruno, is to Rodrigo Araujo. So Rodrigo, can you please clarify the rationale for determining the size and timing of dividends going forward? The delivery story is now behind us. So is it reasonable to expect for the companies to pay out 60% of operating cash flow minus CapEx on a quarterly basis?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you. Thank you for your question, Bruno. Well, as I mentioned before, the anticipated dividends that we've already announced, of course we took into account balancing achieving our \$60 billion gross debt target. We've been able to distributing our earnings and being able to start improving the level of dividend distribution. 2021 is of course is a transition year and we expect to start from 2022 forward paying the 60% of our free cash flow, consistently and complying with our dividend policy, we're currently discussing whether to have a more consistent dividend payment in terms of timing as well we're thinking about whether we do it quarterly or have annually but we expect you to keep a closer time frame in terms of dividend payments as well.

And with respect to 2021, as I mentioned before, depending on the Q4 results and the scenario in company's financial sustainability and performance for the fourth quarter, we

may see the announcement of additional dividends depending on the scenario. Thank you for your question.

Operator

We now have questions from Bruno Montanari with Morgan Stanley and the questions for Mastella. So Mastella fuel prices in Brazil, have been making the headlines since the beginning of the year. How can Petrobras contribute to make the price adjustments less volatile to find the consumers without taking on additional margin risks? How can the company contribute to the discussions regarding potential tax changes or the implementation of fuel price stabilization funds in the country in order to reduce the negative impact of higher price to find the consumers.

A - Claudio Mastella

Thank you, Bruno. Well, regarding our contribution to the reduction of volatility, we do have right passing on to customers, all the volatility of the foreign markets and the exchange rates. This translates into a lower frequency adjustments, but doesn't prevent us from following structural changes in international price levels.

Finally, with regard to public policies. Petrobras wants to clarify that when requested, we have contributed without technical knowledge through the various government agencies in the most diverse issues related to market in Brazil. That's what we do. Thank you.

Operator

Thank you. Mastella. The second question from Bruno. it's for Rodrigo. So Rodrigo compared to peers Petrobras has adopted a more pragmatic approach towards energy transition, focusing more on short-term goals and we've kept with capital distant, does management expect to implement any changes to this approach in the new business plan. Considering the high level of free cash flow duration amidst higher oil prices, could it make sense for the company to increase investments in research on new energy, in order to be better positioned in context of energy transition.

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you. Thank you, Bruno, for your question. I think that we have several perspectives to look into this question. I think the first of them is, of course the quality of our portfolio, both in terms of environmental and low price resilience as we saw in 2020, the company's portfolio was quite resilient to much lower oil price scenario and \$40 -- around \$40 of average of Brent prices in 2020. So we of course, have a very resilient and strong portfolio in our hands. So this allow us to think about this question much more carefully and look at it in a more pragmatic way as you mentioned.

Of course, we're focused on reducing the level of our emissions and we have already set targets and as we have -- as I explained earlier, we also announced the ambition aligned with the OGCI as well, and of course alongside with reducing the level of emission in our operations, which is something that we're continually investing on and looking for looking for projects that allow us to reduce the emissions in our operations both in the upstream

and the downstream segment in a more efficient way. Like the RefTOP project that we announced this year that is focused on reducing -- on improving energy efficiency in the refining operations.

We also think about developing a framework and a governance process to look into this future potential projects, energies and future potential scenarios as well. But of course, it's not something that we expect to substantially improve or increase CapEx related to those alternative businesses for the '22 to '26 business plan. So we expect to continue to be focused on the current portfolio that we have and on improving the level of emissions in our own operations. Thank you for your question.

Operator

The next question comes from Regis Cardoso with Credit Suisse. And it's also for you. So, it's about addition distributions on 2021. Cash flow generation was strong in the third quarter of 2021. In our view, it would be possible for Petrobras to distribute even more with the cash generated until the end of 2021. Should we expect Petrobras to announce more dividends or would it depend of the balance sheet full-year results?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you. Thank you, Regis for your question. As I mentioned before, depending on the scenario for the fourth quarter of 2021, what we have in terms of earnings and cash flow generation we may see additional dividend distributions half for the fourth quarter, but again, it will all depend on the company's financial sustainability and on the future scenario on the fourth quarter of 2021. And, of course as I mentioned during the presentation, our cash level now is above the one that we think it's optimal, but we do see -- we still see challenges in terms of the overall scenarios, so we expect to be able in the short to medium term to bring our cash level to somewhere closer to \$8 billion to \$10 billion that we expect our optimal cash level should be -- but again, this will all depend on the scenario end of in the upcoming months and as I mentioned before, of course we're committed to start applying our dividend policy and start paying 60% of our free cash flow for the year 2022 as well, so this will all be taken into account and to analyze our financial sustainability is in order that we can announce additional dividends. Thank you for your question.

Operator

Thank you Rodrigo. The second question from Regis is to Mastella. So Mastella, this is about gasoline and diesel. So recently, there were some news saying that Petrobras is not fulfilling additional fuel demand from distributor, above contracted volumes, which was confirmed by the company. Could you comment on that? How do you see the capacity of third parties to supply local demand for oil products, whether it exceeds Petrobras capacity, do you believe the current levels of your price provide enough incentives to import? Does it make sense for Petrobras to not supply specific markets, where imports could make more sense for example, on the cost of the North and Northeast regions.

A - Claudio Mastella

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Thank you. Thank you for the question. First of all, it was fully complying with its contractual obligations. It's very important to make clean. Specifically for November, as I said before we receive a typical additional demand much, much higher than expected for that month. So, even without find a separating the limit capacity it was not possible to meet the extra demand overall, a 20% of diesel, 10% gasoline.

Well, the Brazilian market, however will not be short of supplies. Currently, there are several other players besides Petrobras, distributors, trading companies, refiners, which produce and import gasoline diesel not fully capable of meeting the demand.

Talking about our commercial strategy, we don't avoid markets. Petrobras will continue to operate in every location where we find profitability and competitiveness, including coastal markets in North East. Thank you.

Operator

Thank you, Mastella. The next question comes from the Vicente Falangaw with Bradesco. And it's for Rodrigo Araujo. So Rodrigo, it seems like that Petrobras has the balance sheet to pay more than 60% of operating cash flow minus the CapEx, does the company discuss this possibility for this year.

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you for your question Vicente. Well, as I mentioned before, '21 is a transition year. So we're of course we were highly focused on reaching the \$60 billion gross debt target that we reached now in the third quarter. And, of course that depending on the results for the fourth quarter in the company's sustainability and the in the scenario for the short term, we may announce additional dividends and as I mentioned for 2022, our expectation is -- should start complying with our dividend policy and just start distributing 60% of our free cash flow.

And of course, whenever we have scenarios that allows us to have stronger cash flow generation, we will be taken into account in considering potential additional dividends. But thank you for your question.

Operator

Thank you, Rodrigo. The next question also from Vicente for Zhang. So Zhang has Petrobras been talking with potential partners for the Tier 1 auction this December. How is the interest from foreign conference.

A - Unidentified Speaker

Vicente, thanks for the question. As I mentioned for the Transfer of Rights bids process is actually ongoing. And in that case, unfortunately I can't disclose this information about competitiveness at this time, okay. Thanks a lot for the question.

Operator

The next question comes from Lilyanna Yang with HSBC. And it's for Rodrigo Araujo. So Rodrigo, can you please update us with the more monetization status of Braskem? Why has it taken so long to materialize?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you, Lilyanna. Thank you for your question. Well, currently we're we have ongoing discussions, we've Novonor that of course is another relevant shareholder, in terms of next steps and trying to reach some kind of common point in terms of the conditions of a potential sale transaction. So this is where we are now, of course, we continue to be committed to divesting our interests in Braskem. But we want to maximize value. So we're currently having on discussions with Novonor with respect to the conditions of a potential sale. Thank you for the question.

Operator

Rodrigo, Lilyanna also has another question for you and it's about CapEx plans. So Petrobras is making more money than what was expected in the budget. This is leveraging faster to and has announced its higher dividends, isn't it the time to increase CapEx above cost inflation? If so, where would this mix make more sense to allocate cash or this management prefer to recommend the board of directors to distribute more dividends?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you, Lilyanna. As I mentioned during the presentation what we think about of course, the more favorable oil price scenario is supportive of increasing Capex in upstream projects. And we expect to see certain level of CapEx increase for the '22 to '26 business plan, especially related to projects that were postponed giving them more challenging price scenario last year, and that could be anticipated especially projects that are closer to the end portion of the business plan.

But again, we will continue to be focused on assets that are resilient both in terms of emissions and resilience to low price scenarios. So, this is how we look at this and the kind of projects that we're will be focused on. Of course, depending on the scenario, even considering the potential CapEx improve we could see additional dividends, but this is something that would depend on the upcoming scenario. But thank you for your question.

Operator

Thank you, Rodrigo. Now we have questions from Christian Audi with Santander. And the first question is for you and it's about uses of cash. So, how would you prioritize your uses of cash going forward?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you, Christian for your question. Of course, as I mentioned, before we believe that the \$60 billion gross debt level is an adequate level in terms of capital structure or should

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we do need some flexibility around that level, especially after reaching it. We believe we need some flexibility at our -- flexibility around \$60 billion. So that we can manage the company's future financial sustainability more efficiently. But then, as I mentioned the higher oil prices scenario is supportive for increases in Brazilian projects in terms of upstream CapEx, and of course additional dividend distribution depending on the upcoming scenario.

So our future capital allocation will be focused on of course having the CapEx, that is already committed in our '21 to '25 business plan. I've been focusing on some certain level of CapEx increase that we expect for '22 to '26. But of course, complying with the 60% free cash flow over dividend policy and eventually paying more than the 60% whenever we have supportive scenarios like the one we've been seeing now, but thank you for your question.

Operator

Thank you, Rodrigo. Now we have questions from Gabriel Barra with Citi. The first question is for you. So looking at the company's strong cash generation divestments and current leverage situation. How can we you read the current dividend policy? Would there be room for payments beyond what was already been disclosed by the company?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Well, thank you for the question Gabrielle. As I mentioned before. Of course '21 is a -- is a transition year. But again, we've been able to reach our \$60 billion gross debt target before and we expected. And depending on the upcoming scenario from of, depending on our earnings and cash flow generations for the fourth quarter of 2021, we may see additional dividends announced, but again, it will depend on how things play out in the fourth quarter of 2021, but thank you for your question.

Operator

Thank you, Rodrigo. The next question from Gabriel is to Mastella. So, Mastella, currently, one of the major discussions involving Petrobras is its pricing policy. Looking at the current scenario for FX and oil, we believe that pressure on fuel will continue at least in the short-term. However, when we look at the imports parity, we still see the company charging prices below the import parity? Therefore, I would like to understand a little better how Petrobras has been thinking about its pricing policy for the current moment and for the future as well. Is there any possibility of changing this strategy?

A - Claudio Mastella

Thank you, thank you for the question. Gabriel, we understand that the alignment of general prices with the global market is essential for the maturing of the competitive markets in Brazil, when the participation of several agents that will be encouraged to make investments in finding resistant and also share risks. With that, we can build a stronger market, less risk of any supply failures in the future.

So, we continue to seek this balance, read the market, without this we're going to need to learn your place as you've been doing since. Thank you.

Operator

Thank you much Mastella. Now we have questions from Annie Liu with Bank of America Merrill Lynch. So we have one question for Rodrigo. As the \$60 billion debt target has been met, what will be the next goals or targets on the debt management leverage front?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you, Annie for your question. We think that \$60 billion is an adequate level that allows to navigate through challenging scenarios like the one we saw last year without jeopardizing the company financials sustainability, even in lower prices, lower price scenarios, like the one we saw in 2020. But again, of course, we do need some level of flexibility around the \$60 billion level. So, that we can efficiently manage the company's cash. And of course, distribute our earnings and pay future dividends.

So, we expect to work on some level of flexibility around 60 in the upcoming future, but we don't expect to bring this debt level substantially lower to the one that we have now, we think that from looking at this from different perspectives, the \$60 billion gross debt level allows us to be quite resilient and have a strong financial sustainability for the future. Thank you for your question.

Operator

Thank you, Rodrigo. Now, we have questions from Pedro Soares with BTG Pactual. The first question is for you. So, with the gross debt target now achieved, what should we expect in terms of capital allocations in the coming quarters? Could you provide an update on the minimum levels of cash aimed by the company? Can we expect payments beyond the 60% of operating cash flow minus CapEx?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you, Pedro, for your question. As I mentioned before our optimal cash level was just somewhere around \$8 billion to \$10 billion. This is where we expect you to be working in the future. But again, we still have certain challenges in the pandemic scenario that we are expecting to see in the upcoming future. So, we think about a short term trajectory to bring our cash level closer to this 8 to 10 level that I mentioned. In terms of gross debt, I've mentioned before we then expect to substantially reduce the company's debt, we don't want to under leverage the company as well.

So, we think that 60 billion is an adequate level for now and of course this is something that we continually monitor, but for the current scenario we think that \$60 billion is a sustainable level and then is optimal in terms of cash allocation and supporting our dividend, distribution and future CapEx strategy.

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And in terms of additional dividend payments of course depending on the upcoming scenario whenever we have constructive centers like the one we have now, we can propose additional dividend payments and have additional payments, but we're now focused on complying with the existing dividend policy and paying the 60% of our free cash flow. Thank you for the question.

Operator

Thank you, Rodrigo. So the next question also from Pedro Soares is to Rodrigo Costa. Refinery utilization rates are currently at high levels. Can we expect some utilization reduction in the coming months as distributors are expected to increase fuel imports?

A - Rodrigo Costa Lima e Silva {BIO 22136974 <GO>}

Our utilization rate is related with value generation output. This is on one condition. The second one is the market demand and the third one is the regarding our -- regarding availability of our refineries. So at the first quarter, we achieved 85% of utilization rate and now at the October, our forecasts point to 90% of utilization rates.

Operator

Thank you, Rodrigo. Now we have our last question. The last question is from Barbara Halberstadt with JPMorgan. She has two questions. So the first one would be to Rodrigo Araujo. In terms of capital structure assuming the divestment program is completed. What's the level of debt that the company would be comfortable with?

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you, Barbara for your question. We think that \$60 billion that it is an adequate level in terms of capital structure. We do need some flexibility around that number, but we don't expect to bring it much lower than 55 or much higher than 65. Some flexibility around 60 would be more than enough, so that we can manage the company's capital structure efficiently and then add value to our shareholders. So that is where we expect to have our gross debt level set.

And of course, this is something that we will continue to monitor in the future, but we think that 60 billion allows us to go through challenging scenarios of lower prices like the one we saw last year. Thank you.

Operator

Thank you Rodrigo. So Barbara has one more question and it's for Rodrigo Costa. Rodrigo can you provide more color on the natural gas spends and in LNG. How was the business doing into the fourth quarter of 2021. We heard many companies complaining about freight costs has Petrobras encountered the same issues for LNG in part and how is the pass through mechanist in this case?

A - Rodrigo Costa Lima e Silva {BIO 22136974 <GO>}

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Hi Barbara, Petrobras is -- player in Brazilian natural gas market, it works with a portfolio of both in the supply and the demand side. We also have multiple contracts that align with different commercial conditions in short period contracts. We have passed through mechanisms that reflect the conditions of the moment of the market, if we see the fourth quarter, we expect high demand in our market because we see higher demands in thermoelectric and industrial markets.

For the supply, we have our production pipeline imports from Bolivia and LNG and we increase our gas capacity in regional, terminal around 50% in capacity and expand our capacity. For the LNG supply, we already bought around 112 cargos and we are accessing the need of additional purchase depending on the supply and the demand conditions, especially in the power generation. We -- according to our profile, we didn't face problems with the freight costs considered that Brazil is in the Atlantic Basin market. So we have, we also have our own ship that allow us to manage punctual market and operation issues. Thank you for your question.

Operator

Thank you, Rodrigo. At this time, the Q&A session is over. So if you have any further questions, you can send this to our Investor Relations team. So, Rodrigo Araujo, will now make his final remarks. So, please Rodrigo. Go ahead.

A - Rodrigo Araujo Alves {BIO 22236457 <GO>}

Thank you. Thank you, Carlos. Thanks everyone for your time this morning. As we presented, we're very happy with the solid quarter that we had both in terms of operational and financial performance. We've been able to reach our gross debt level, our gross dollar debt level target that we set up \$60 billion gross debt. And of course, we're quite happy with the results we've had. In the year 2021, we've announced relevant dividend payments.

We were able to make relevant investments and to relevantly contribute to the Brazilian society as well. So thank you for your time today, and thank you for your questions. If you have any further questions, please feel free to contact our Investor Relations teams. Thank you.

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