

Q1 2021 Earnings Call

Company Participants

- Carla Albano Miller, Executive Manager
- Fernando Borges, Chief Exploration and Production Officer
- Joao Henrique Rittershaussen, Chief Production Development Officer
- Joaquim Silva e Luna, Chief Executive Officer
- Marcelo Zenkner, Chief Governance and Compliance Officer
- Roberto Ardenghy, Chief Institutional Relations and Sustainability Officer
- Rodrigo Araujo Alves, Chief Financial and IR Officer

Presentation

Carla Albano Miller {BIO 17540433 <GO>}

Good morning, everyone. Welcome to Petrobras webcast with analyst and investors about the First Quarter 2021 Results. It's a pleasure to have you with us today. We would like to inform you that all participants will follow the transmission by Internet as listeners.

After introduction, a Q&A session will begin. You can send us questions by email, petroinvest@petrobras.com.br. Today, we have with us Claudio Mastella, Chief Trading and Logistics Officer; Fernando Borges, Chief Exploration and Production Officer; Joao Henrique Rittershaussen, Chief Production Development Officer; Marcelo Zenkner, Chief Governance and Compliance Officer; Nicolas Simone, Chief Digital Transformation and Innovation Officer; Roberto Ardenghy, Chief Institutional Relations and Sustainability Officer; Rodrigo Araujo Alves, Chief Financial and Investor Relations Officer; Rodrigo Costa Lima e Silva, Chief Refining and Natural Gas Officer.

The presentation will be available throughout the webcast on our company's website. We'll start by watching a video of Petrobras CEO, Mr. Joaquim Silva e Luna.

Joaquim Silva e Luna {BIO 20531448 <GO>}

(Foreign Language)

Carla Albano Miller {BIO 17540433 <GO>}

Now, we start the presentation, I will call our CFO, Rodrigo Araujo Alves. Rodrigo, you may start please.

Rodrigo Araujo Alves {BIO 17767871 <GO>}

Thank you. Thank you, Carla. Hello, everyone. Good morning. It's a pleasure to be here with you but, first time as Petrobras Chief Financial and Investor Relations Officer. And I hope everyone is safe and doing well. So first of all, let me start.

Next slide please, next one. Let me start with safety, which is of course a fundamental value for our company and we've been very proud with the results we've achieved over time and it's important that for the first quarter of 2021, we have a total recordable injuries per million man-hours of 0.62 which is within the maximum acceptable limit that we have of 0.7 and of course with respect to safety, we always have a zero fatalities ambition and unfortunately, we have, we had one fatality

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during the first quarter. But our ambition is always to have zero fatalities. With respect to the recent actions that we developed to support the Brazilian society and to combat against COVID-19 pandemic, we've engaged in the donation of intubation medication to the Ministry of Health in a joint action with other Brazilian companies. And we've also acquired mini oxygen units and to supply public hospitals and donated oxygen cylinders in an action that was involved, the amount above \$15 million and we have also changed for certain platforms the boarding schedule in order to reduce the turnover and reduce the risk of contagion within our employees. Some of them have already returned to the original schedule, but some of them are still working on the different schedule to support lowering contagion.

With respect to the emissions, in the first quarter, we have -- with in terms of E&P carbon intensity. We have reached 16 kilograms of CO2 per boe. And in terms of refining, we had 39.9 are both within the acceptable maximum limit for the year that were defined as our 2021 target. And in terms of absolute GHG emissions, in the first quarter, we've needed [ph] 15.4 million tons of CO2 - carbon dioxide equivalent and we are a little bit above our annual target. But we expect that we can recover throughout the year.

Next slide please. So now I'm going to talk a little bit about our financial results in the first quarter. We had a very strong quarter with solid operational and financial performance. Our recurring EBITDA achieved a 34% growth in the quarter with 55% recurring EBITDA margin and we also posted a very strong cash generation of \$7.2 billion and when we reduce by the investments that we made in the first quarter, we have a positive free cash flow of \$5.6 billion and of course, it's important that this free cash flow is supporting our trajectory to reduce our debt and to improve our balance sheet.

So basically, when we compare annually, we have reduced already \$18.3 billion year-on-year and the quarterly reduction of \$4.6 billion and it's also good to note that we've reduced additional \$3.2 billion after the end of the quarter to April 2021. So we're highly focused on our deleveraging trajectory. And first quarter, we repurchased bonds in the amount of \$1.4 billion and we prepaid bilateral debts in the amount of \$0.3 billion as well. We had a cash flow from our divestment proceedings that we've closed during the quarter of \$200 million and of course it's important to note that we've increased our natural gas and oil production in the first quarter in 3% and even more important is to point out that we had almost 70% of participation of our pre-salt layer production, which of course adds more value to our portfolio. So, this was a very important result for the first quarter and we also had record sales of our S-10, our 10PPM low-sulfur diesel. With respect to production, as Joaquim mentioned as well that we had inventories made during the first quarter. So there is around 27 million barrels that were not realized as exports in the first quarter.

So, we already have an important improvement coming out for the second quarter with respect to exports that are ongoing by the end of the first quarter. When we look at the external environment, we had an important improvement in Brent prices 38% during the quarter, and of course our performance was positively affected by the improvement on Brent prices and we also had in terms of the average exchange rate during the quarter, an improvement from 5.4 to 5.47. So, this was almost flat during the quarter but, when we look at the end of period exchange rate and this is important because, there is a relevant impact in our earnings for the first quarter due to the foreign exchange and non-cash foreign exchange losses,

There was a depreciation of the Brazilian real from BRL5.2 to BRL5.7 per dollar. So a 10% depreciation that affected our earnings for the first quarter.

Next slide please. As I mentioned before, we are highly focused on reducing our debt and we experienced a \$4.6 billion reduction in the first quarter and additional 3.2 until the end of April. But when we look at the amortization profile, it's also interesting to note that we have a very solid liquidity at this point in the profile of the schedule of amortization of our debt is very comfortable. We've increased the average maturity of our debt to a point very close to 12 years so we're at 11.84 years at this point.

The average cost of our debt had a marginal increase from 5.9% to 6% but, as we look at the portfolio and the schedule of amortization of our debt, we're very comfortable with the current situation, of course, we are continually monitoring opportunities to reduce the cost of our debt and to increase the maturity of our debt but we're comfortable with our amortization profile and it's also important to note that alongside we got [ph] \$12.5 billion in cash that of course that's been reduced after the end of the quarter with the prepayments that we made after the end of the first quarter. We also have \$8.3 billion in revolving credit lines that give us enough support in terms of liquidity even during challenging times like what we had in 2020.

Next slide please, looking at the recurring EBITDA in the quarter. As I mentioned before, we've had a very strong quarter and it's interesting to note that our recurring EBITDA indicates that we had an increase of 34% of -- well supported by the increase in Brent prices, as I mentioned before but, it was in terms of both financial results and operational results a very strong quarter. We had a very strong operational position in the quarter as well, and it's good to mention of course that we had also lower operating expenses in the first quarter, so our cost resilience is also supporting the improvement in our performance.

When we look at the adjusted EBITDA Q-on-Q, it's basically flat. A little bit of increase from 8.8 to 8.9 but, when we look at the recurring EBITDA, it points out that we had a quarter with less noise and very good financial operational performance.

Next please. Looking at our segment performance, of course, E&P was strongly impacted by the positive increase in Brent prices. So, we had a Brent depreciation and also we had an increase in our production in the first quarter, especially because we had stoppages in the fourth quarter of 2020. With respect to our RTC segment, we see a very important improvement in performance during the quarter, which of course was highly affected by the inventory turnover effect especially coming from the increase in Brent prices.

So, we had higher realization prices and we have lower cost that were made in prior periods. So when we remove the inventory turnover effect, when we look at replacement cost EBITDA, we had a 7% decrease in the quarter. Especially due to the seasonality and of course to the lower levels at the end of the period, given the restrictions that are still remaining with the pandemic. With respect to the Gas and Power segment, we had a 24% decrease, which was mainly affected by lower margins in the generation of energy and in the commercialization of natural gas, especially given the increase in the cost of importing LNG specially JKM LNG has increased substantially in the first quarter. So this affected the performance of our Gas and Power segment.

Next, please. As I mentioned before, when we look at the cash generation for the period, we had a very strong operational cash flow \$7.2 billion. This -- our operational cash flow was positively affected by tax credits by the decision of removing VAT from the calculation basis of this. So we had tax credits in the first quarter, which were almost offset by prepayments that we made to our pension plan in order to support our divestment of refineries, so we prepaid certain obligations that we had with our pension plan in order to streamline the process of divesting our refineries.

And as I mentioned, when we look at the financing part, we paid around \$2.6 billion when we include leaseings and interest payments and we also had net payments of \$3 billion in terms of financing. A substantial part of this payments were prepayments. So it's -- we had a strong free cash flow of \$5.6 billion supporting our deleveraging efforts and it's also good to notice that we had \$0.2 billion in -- inflow of cash from our divestment procedures.

Next please. I've already mentioned before, but we are continually focused in liability management and capital optimization. So we've repurchased bonds after the end of the quarter, we had a tender offer of about \$2.5 billion and we also have the extension of the maturity of revolving credit lines of around \$2 billion to 2026, which supports our liquidity and helps us to reduce the optimal level of cash that we -- remain in our balance sheet and looking at liability management from a broader perspective. We also settled tax contingencies during the quarter. This is very important

for us. We're continually monitoring opportunities to settle tax liabilities and all kinds of contingent liabilities in terms that are favorable for the company. So we've paid [ph] around BRL500 million, a little bit less than \$100 billion to reduce liabilities of BRL1.5 billion in the first quarter and we are also recovering around \$0.2 billion in judicial deposits that we had. So it was a very relevant transaction and a very good transaction in terms of liability management that we were able to realize in the first quarter.

Next please. In terms of portfolio management, our portfolio management agenda is continuing very strongly. And we're trying to implement as fast as we can our M&A processes. We had already closed -- we had already signed 6 transactions in 2021 and we have closed 7 transactions. Of course the most relevant is the RLAM refinery and we've -- that we signed in the first quarter of 2021. So up until May 11, we have already signed \$2.5 billion in transactions and we had cash inflows of around \$500 million.

Next please. This is a general picture of our portfolio. We had -- we have around 50 transactions ongoing and of course we are highly focused on expediting our M&A transactions and we have signed relevant procedures with STAX [ph] with a highlight to the NTS which the natural gas transportation company that we sold the remaining 10% that we had, we closed this before May 2021.

So, this is the general picture. Next please. And finally, with respect to our net income to our earnings in the first quarter, we had a recurring net income of \$0.2 billion compared to \$5.4 in the fourth quarter of 2020, and this is basically due to the impact of the devaluation of the Brazilian real. As you know, we have our debt indexed to US dollars and we look at the fewer than foreign exchange rate to mark our debt by the end of the period, so we had a negative foreign exchange loss in the first quarter and non-cash of course but, this impacted substantially our recurring net income. So this is the general picture of our financial highlights of the first quarter and now, I'll give the word back to you, Carla, thank you.

Questions And Answers

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. We can move now to the Q&A session. And the first question that we received comes from Frank McGann with Bank of America Merrill Lynch. And it's for you, Rodrigo. The new deadlines for refinery sale though giving more time to complete the sales, still seem to be challenging in terms of time. How does the company see the process to sell the refineries advancing? What are the key challenges? Would contracts include any guarantee in terms of pricing or returns that could be provided by Petrobras.

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Good morning, Frank. Thank you for your question. First of all, in terms of the general picture of our M&A process. It's good to highlight that they continue normally, and we're going through the predefined gates that you already know that occurred in our M&A activity, but of course, you know that especially for refining assets, this involve complex transactions that of course have several steps both from our side and from the buyer side and of course with the regulators as well, but we are highly focused on complying with the deadlines that were established by the Brazilian antitrust body and in the first quarter, we've signed the sale of RLAM [ph]-- our refinery.

So we're focused on complying with the deadlines of the antibody -- antitrust body in Brazil. And in terms of guarantees and returns, we don't expect to provide those of course each transaction has its own SPA, its own contract but this is more of a general picture. Thank you for your question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. The second question from Frank is for Ardenghy. So Ardenghy, in recent months, there seem to be a more focused effort globally to deal with climate change that could at least on the margin speed energy transition. To date, understandably Petrobras has focused on maximizing its own privilege hydrocarbons asset base. Over the medium to long term, what are the options, if any, the company could be steady to possibly adjust this strategy to meet long-term challenges.

A - Roberto Ardenghy {BIO 21075963 <GO>}

Hello, Frank. Thank you for the question. And I divide the answer in two parts. The first, what we have accomplished over the years and it's true that Petrobras have been very focused on the recovery and the financial side, but also we have done a lot in terms of carbon performance because carbon performance is key to the future of any oil and gas company. It's already [ph] recorded double resilience not just to have a good project, a profitable project, but also low carbon project that we can market our products in the world [ph] -- in the future. And in this particular area, looking at the past, we have done a lot already. The carbon -- the so-called carbon intensity for the exploration and production of Petrobras has been very improving over the years. We have reduced the amount of carbon greenhouse gases produced by barrel [ph] in more than 47% from 2009 to 2020. So that's a good number.

And also in the pre-salt that is today the key project for Petrobras. We have today, the third largest carbon captured project in the world. In last year, we have been able to capture and put back to the reservoir 7 million tons of CO2. This is 18% of the world projects in a global scale. So this what we have done also it's worth to mention the low sulfur diesel in our refining plants. We have already mentioned this in our press release that the increase of the sales of low-sulfur diesel is very important for Petrobras and has been improving over the years. That's very important to Brazil. As you know Brazil is very diesel prone. We are a country that is a -- very high in terms of consuming diesel special for transportation and public transportation in our urban areas. So reducing the amount of sulfur in -- or diesel brings a lot of benefit for society. But looking at the future, because as you said, there any transition is speed up and we have to be prepared.

So we are very focused on technology. Petrobras, as you know very technology-driven company. So we see opportunities in projects like the all-electric or in our platforms. If we can receive the necessary authorization from the authorities to put these kind of systems in our platform, we are going to be able to reduce in 20% our greenhouse emissions, in our offshore projects in ultra-deep water, especially in the pre-salt. The high sab that is a technology developed by Petrobras in which we are able to capture the gas leaving the reservoir and separating the gas and returning back to the reservoir the CO2, that's also very, very important.

And also the renewable fuels that we are also waiting for the authorities here in Brazil to authorize us to produce the renewable diesel in our refining plants and as a side effect of this production, the aviation biokerosene for as a jet fuel. And so those are the areas in which we are seeing the progress. So we are very much focused on progressing and improving our carbon efficiency over the next year.

Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Ardenghy. The next question comes from Gavin Wilye with Scotiabank and it's for Rodrigo. Rodrigo do you expect higher dividends to shareholders to remain a priority for Petrobras staying consistent with plans to distribute \$30 billion to \$35 billion over the period of 2021 to 2025. will the new Boards look to review the various aspects of Petrobras dividend policy in particular, do you expect any amendments to the 60% payout of free cash flow, once gross debt plus capitalized leases moves below to \$60 billion.

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Good morning, Gavin. Thank you for your question. First of all, we'll stay consistent both with our dividend policy and with our expected dividend payments.

Of course, our focus now is on achieving our debt target of \$60 billion to 2022. So we're moving as fast as we can to achieve our debt target.

And you can see that as I mentioned during the quarter, we're using basically all the free cash flow that we have to reduce our debt. Given the challenges that's imposed by the pandemic, of course, that we're still running on a higher cash level than what we think it's optimal.

But our focus of the free cash flow at this point is to reduce our leverage. And of course we want to improve our -- at the level of our dividend payments and once we reach our \$60 billion debt target, our current dividend policy gives us enough flexibility to evaluate the timing and how to better implement our additional dividend payments in order to also ensure that we are -- we have a financial sustainability, both in terms of our short-term, medium term and long term so it's important of course to preserve our financial stability as well.

So this is what we had in terms of targets and prospects. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. The second question also from Gavin is to Joao Henrique. Joao Henrique, the five-year plan outlines the majority of capital spending will be allocated to upstream pre-salt developments has deemphasized exploration. Do you expect any changes to capital allocations relatively to what has been outlined in the current 2021, 2025 plan?

Do you believe the upstream production growth or exploration should be accelerated?

A - Joao Henrique Rittershausen

Good morning, Gavin, Thanks for the question. Our expectation is to follow the premises of the plan presented to the market in 2020. The discussions for the next five-year plan, they are ongoing and we hope that we will approve this in the next strategic plan. But we expect there no major changes in the -- in this direction.

A - Fernando Borges {BIO 15388573 <GO>}

I would like to make a complement to this answer to Gavin. We have allocated for this five-year plan \$6.5 billion in exploration and have 46.5 [ph] billion allocated to upstream area. We think that this 6.5 is a huge amount of money allocated to exploration. We have to look out that we do these exploration in partnership with other companies and we are focusing on equatorial margin and the first reserve could increase our uptake to deploy more for us in the coming years. If you look to the develop Brent we have -- as already mentioned 13 production units to come.

We have declared preferential rights Atapu and Sepia and that trail is that or had -- already has a FPSO which won [ph] in Sepia, we will come on stream in the second half of this year and the production increasing this year is a result of the ramp-up of P-70 in Atapu area and in these 2 areas, we have room for another production unit. So we are doing, I think a good speed on even production development and in exploration.

Thank you, Joao Henrique. Thank you, Fernando.

A - Carla Albano Miller {BIO 17540433 <GO>}

Now, the next question comes from Christian Audi with Santander. And it's for Rodrigo Araujo. Rodrigo, uses of cash. So with your continuous strong cash flow generation and already lower

debt, how could you prioritize the use of your cash between paying on debt versus increasing capital -- CapEx versus paying dividend?

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Thank you. Good morning, Christian. Thank you for your question. Well, in terms of, if you can talk about a financial framework. It's important to see that the first dollar from the cash flow of our operations and of our M&A activity is of course directed to the payment of our commitment and our commitments and the CapEx that is already committed in our business plan. Then of course that the second dollar is to reduce debt. So as I mentioned before, we are highly focused on achieving our \$60 billion debt target as fast as we can, our 2022, \$60 billion debt target.

If we look at the general picture for 2021, we are very close to achieving our annual target of say -- of \$67 billion and of course when we reach the \$60 billion target, our current dividend policy gives us enough flexibility to evaluate the timing and the best way to implement our policy and pay additional dividend, of course, making sure that it is sustainable in terms of our financial ability for short, medium and long term. With respect to future CapEx, of course, we are now focused on executing our 2021, '25 business plan and as you know, we annually review our business plan as Joao Henrique mentioned before. But, of course, our CapEx will always be focused on value-generating assets, optimizing our portfolio in terms of maximizing returns and efficiently allocating capital so that we maximize our returns. So this is the general framework that we have. Thank you for the question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. The next question is for Fernando Borges. It's about production outlook. So could you just touch on potential start-up schedule and maintenance schedule for the FPSOs for the rest of the year and how it could impact production?

Fernando, you are on mute, sorry.

A - Fernando Borges {BIO 15388573 <GO>}

We had a very busy maintenance work in the last quarter of 2020 just because of the COVID pandemic and we postponed at maximum the intervention which brings more people to our units but we had to them -- to do them. Now for this year, we see a steady level of maintenance not causing any special decrease in production.

And so finally, we have come back to the normal in the speed of maintenance, the rate of maintenance of our production units. That's it.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Fernando. The next question comes from Lilyanna Yang with HSBC and it's for Rodrigo.

Rodrigo, how do you see Petrobras current strategy plan and what key issues pertaining to the plan do you foresee this new administration should review or improve? Could you please share your top three priorities for this year. Do you believe that Petrobras should raise CapEx towards \$15 billion as opposed to the current \$10 billion given the current levels of operating cash flow?

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Thank you, Carla. Thank you, Lilyanna for the question. Good morning. First of all, with respect to our business plan. We have a very solid business plan in place and of course, our focus will remain on the efficiency of our capital allocation and portfolio management in order to maximize our returns. So this is a top priority for us and we're going to be continually focused on maximizing returns for our portfolio management. We have as you know, a significant challenge of reducing

our leverage, reducing our debt levels in order to be closer to what our peer companies have and this of course brings a lot of resilience both to our future plans and to our portfolio as well.

Another important message that we have is our focused on resilient projects, so resiliency is a key word. And as Ardenghy mentioned before, not only financial resilience but financial and environmental resilience is a main topic for us as well. As I mentioned before, and Joao Henrique, our -- we have this annual process of reviewing our business plan but we don't expect to see any major changes in terms of the general guidance. Our capital allocation will be focused on maximizing returns and on having an effective portfolio management policy.

Again focused on the dual resilience of being resilient for lower Brent prices as we experienced last year. All the company had a major experience in terms of realizing the resilience scenario that they had. And of course focusing our -- on our environmental resilience as well.

Talking about the top three priorities, I would say that of course for 2021, our main priority is to ensure that our projects are on schedule. They support our cash flow generation, they support the cash flow of our operation. So our committed CapEx and making sure that the projects are on schedule for 2021 is very important for us. I would say also that our priority is to ensure that we are able to move as fast as we can with our portfolio management agenda, which is also important both to improve the returns in our portfolio and to reduce our leverage as well.

And of course, I've mentioned before, reducing our debt is definitely very important for us in order to give us a solid financial position to support the additional dividend payments that would come from our dividend policy, which as I mentioned before gives us enough flexibility to analyze the timing and the best way to implement considering the need to support our financial stability as well. Thank you for the question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. The second question from Lilyanna is also for you. So what are your thoughts about the privatization of refining assets in Brazil. Is it necessary for Petrobras to sell the assets that are in the company's divestment plan in the coming two years or three to five year agenda for divestments is a more welcome one.

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Thank you for the other question, Lilyanna. Well, first of all, with respect to the refining assets, as I mentioned before, we have a committed schedule with the Brazilian antitrust body. So we're very focused on complying with that schedule. And of course that -- improving the number of players in the Brazilian refining market is good for the market. Good for the Brazilian society and good for Petrobras as well. So we have an important output that comes from our divestment. So we're focused on complying with the deadlines that we agreed with the Brazilian -- court with the Brazilian antitrust body, sorry. With respect to the, divestment or to the portfolio management plan as a whole and to the three to five-year agenda. Of course, we are always trying to anticipate those process and to streamline them, looking for opportunities that we have in the market. So we're focused on doing things as fast as we can, but we're comfortable with the plan that we have in place now. Thank you for the question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. We also received questions from Luiz Carvalho with UBS. And the first question is for Mastella.

So Mastella, the company has been successfully in keeping with the international priority and somehow the results of refining have been solid. Would it make sense to think of a deadline of 24, 48 or even 72 hours for implementation of adjustments. Looking forward, what could change in the pricing policy?

A - Marcelo Zenkner

Thanks for the question, Luiz. Our internal pricing policy went through some learning process in the previous years with the period with very low volatility in another word very high volatility. Even with daily adjustments. Today, we are at an intermediate level, and so my view provides a balance in international market, allowing us to compete efficiently and flexibly without immediately passing on the volatility of international prices or the exchange rate to the domestic market.

So the adjustments up or down occur without any defined frequency and our announcement on the business today prior to their implementation with wide visibility on the prices practiced and by location and mode and this information is immediately published on Petrobras website. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Marcelo.

The second question also from Luiz Carvalho. It's for Rodrigo. So Rodrigo, the RGT's stock price reached on Wednesday the level above the price of the last follow-on. In your view would this be a trigger to unlock the sale of the remaining 37.5% stake. Other wise, can you give more color on the rationale of the process?

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Good morning, Luiz. Thank you for the question. As you know, we've announced and it's of course in our 2021, 2025 business plan, our intention to divest of our remaining stake in BR Distribuidora. What we're doing now is evaluating the timing of the transaction in order that we can maximize the value of the transaction for us. So this is basically where we are now.

Thank you for the question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo.

We received questions from Bruno Montanari with Morgan Stanley. And they are both for you.

So the first, does the company still intend to implement the enhanced dividend policy distributing 60% of free cash flow once the optimal capital structure is achieved?

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Good morning, Bruno, Thank you for -- I think there is something with my app.

I'm kind of invisible now at least for me. But I hope you can hear me. I'm here. Well, good morning. Thank you for the question. As I mentioned before, Bruno, we are of course currently focused on reaching our debt target of \$60 billion for the year of 2022 and we've been using the -- all the free cash flow that we have to reduce debt. We know that given the scenarios still imposed by the pandemic, we're still running on a higher cash level than we think it's optimal.

But we think that -- it's necessary at this point but we definitely want to improve our level of dividend payments and as I mentioned before, our existing dividend policies -- policy gives us enough flexibility to evaluate the timing to implement the policy and to ensure, of course, we maintain our short, medium and long-term financial sustainability.

Well, thank you for your question.

A - Carla Albano Miller {BIO 17540433 <GO>}

So the second question also for you Rodrigo is about the agreement with CADE. So the company was recently granted an extension in the deadlines to sell refineries and also natural gas assets. If Petrobras is not able to meet the new deadlines, could it be subject to any sort of fines from CADE. In the case of HIPPA refinery whose sales process had to be restarted. How to expedite the procedures in order to meet the new deadline.

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Well, thank you, Bruno. I've mentioned before that in general terms, our M&A, our portfolio management process are trading normally, are ongoing through the gates that we have defined in our mature M&A activity. Of course as I mentioned, you know that the refining transactions are complex transactions that involve the -- involve activities from our side, from the buyer side, from the regulators.

And of course, as I mentioned, we are highly focused on meeting the deadlines that were established by the Brazilian Antitrust body. So this is where we are in terms of the general picture of the processes, specifically with respect to HIPPA, we are still evaluating how to restart and evaluating what we do with respect to the process keeping our failed attempt in first-time. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. We received questions from Rodolfo Angele with JPMorgan. The first question is for Fernando Borges. So, Fernando, pre-salt lifting costs seem to have stabilized at very interest levels below \$3 per barrel.

Is there room for further improvements? What is the expected trend here?

So, Fernando, I don't know.

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

I think you are on mute, Fernando.

A - Fernando Borges {BIO 15388573 <GO>}

Not on mute but without a screen. Thanks for the question. In a more broad view, Rodolfo, I could say, if you look back five years, we have our lifting cost of \$9 per barrel of equivalent oil the whole of Petrobras. Today we are 5.2 and in our strategic plan for the next five-year, we hold on 5.2 even with the decline of the fields and increase of the cost of the assets we have to manage and if you put a big eye on pre-salt, in the previous five years, we had \$4.3 per barrel.

Today, we are in around \$3 per barrel. But in the next five years, we have a project of \$3.84 per barrel and go steady with that. So that's the whole view of leasing cost and so, the whole Petrobras, we could focus something around \$5 and pre-salt something around \$4 per barrel. Thank you for the question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Fernando. The next question from Rodolfo is for Joao Henrique. So, Joao Henrique, this is about the Buzios development. So can you give us an update on how things are moving along? Will all the new FPSOs have 225,000 barrels per day of capacity?

A - Joao Henrique Rittershausen

Currently, we have the 4 FPSOs in production in Buzios field. And you have the -- already had 3 FPSOs that are in construction on Almirante Barroso, on Almirante Tamandare and P-78. And we

had planned the -- start production to these units in 2022, 2024 and 2025. And the capacity of this unit will be 150 to Almirante Barroso, 225 with (inaudible) Almirante Tamandare and 180 to P-78. We have here already two new units on the propylene interface P-79 and P-80 with 180 and 225,000 barrels per day and another two units are on planning in the starting phases. And this unit here, will be contracted probably in the EPC format and the DIDA store will -- store have this unit with the production capacity of 225,000 barrels per day. On the end of the development phase of the Buzios field, we expected to have around a total production around 2 million barrels per day -- 3 million [ph] barrels per day. Thank you for the question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Joao Henrique. Now we have questions from Bruno Amorim with Goldman Sachs. And the question is for Rodrigo.

Rodrigo, has there been any change recently to the offers previously made for us is up for sale?

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Thank you, Bruno. Good morning and thank you for your question. Well, we haven't seen any changes to offers previously made for assets. What we see of course is usual negotiation process that is part of any M&A transactions going through the gates that you know exists in our M&A activity process and of course, what I can say is that we're focused on moving as fast as we can our M&A transactions, but we haven't seen any specific changes. Thank you for your question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. The next question comes from Andre Hachem with Itau BBA and it's for you. So amidst the recent volatility in the fuel price environment, how has the sale of the refineries been evolving and how the new management team see this topic, it's reasonable to assume that the sale of HIPPA could still happen this year and closing in signings could through next year.

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Good morning, Andre. Thank you. Thank you for your question. Well, as I mentioned before, we are focused on complying with the deadlines that were established by the Brazilian Antitrust Body and including FCPA of course. And so this is what we can say for now. We don't see any disturbance in the process at this point, but of course, we remain focused on complying with the deadlines.

And as I mentioned before with respect to HIPAR its specifically, we're still re-evaluating the process given our first failed attempt. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. The second question from Andre is to Fernando Borges. So Fernando, the agreement over the ToR Surplus with the Chinese NOC was expected to occur during the second half of 2020. How has this been evolving? When should we expect to see a final agreement?

A - Fernando Borges {BIO 15388573 <GO>}

Yeah Andre, the negotiations are going well. It's a complex one because we have field repaired, 4 units installed. And we have room for more 81 -- up to 81. So it complies with compensation, so this seem going compared to where we expect next September to finalize this. And it's going to be an opportunity for Petrobras to receive the compensation and starting, sharing the production with the two partners.

Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Fernando. The next question is from Vicente Falanga with Bradesco BBA. So it's for Rodrigo. Rodrigo, do you believe the sale of BR Distribuidora is positive for Petrobras from the perspective of capital reallocation?

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Thank you, Vicente. Thank you for your question. Good morning. Well, as I mentioned before, you know that BR Distribuidora is one of the assets that we intend to divest from the remaining stake in our business plan. So yes, we do believe that is positive in terms of capital allocation and what we're doing now is evaluating the timing in order to maximize the value of that transaction for us.

Thank you for the question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo.

So next question also from Vicente for Marcelo. So Marcelo, what in your view is an optimum price policy for Petrobras. Do you believe that the government will push for a stabilization fund?

A - Marcelo Zenkner

Well, Vicente, good morning. Well trying to answer your question. We do believe, it's the one we are currently practicing the best one. But of course, we want to rise in that to the business environment to take into account our options and also competitors' options of course informed the best in profitability. It's important to say that we got, we try not to press on to the customers in the internal market volatilities. But we maintain the alignment of prices in the international market. It is very important to ensure that the market continues supply without risk of shortages by not only Petrobras but these is several actors responsible today for serving different Brazil regions.

And in addition to Petrobras today, we have distributors and porters, all the refiners do this job. The same balance, this competitive balance is responsible for price reductions when the supply grows in international market, it has occurred throughout 2020, for example. It's important to say that fuel prices impact on Petrobras are not the only component of the price felt by end consumers. You have to add petrol taxes, state taxes, cost of acquisition, mandatory mixing of biodiesel and ethanol, in case with gasoline. And on top of that gross margins for distribution companies in (inaudible) station. So we do our part trying not to pass on volatility, but it's very, very important for us and for the other actors in this market to keep on -- keeping on making our prices in equilibrium with international market. It's very important for the group workings of this market. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Marcelo. The next question comes from Regis Cardoso with Credit Suisse. And it's for Fernando Borges.

Fernando, Petrobras recently declared interest in both Sepia and Atapu areas, does it make sense to participate in the auction with a consortium. Is there any synergy in replicating in Atapu in the new surplus volumes auction, the same consortium of the construction contract and for Sepia, would it make sense to enter in the bidding process alone?

A - Fernando Borges {BIO 15388573 <GO>}

Regis, bidding strategy is something that the -- any company used to open. But Petrobras has a policy -- Petrobras has a banner that is grow in partnership in our new activities in the ultra-deep waters or exploration. So we are confident that's open to share the risks and the profits of our activities even always with partners that's the one component of our strategy planning. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Fernando. We have one last question from Barbara Halberstadt with JPMorgan and it's for Marcelo. Marcelo, it would be great to get some additional color on the dynamic for the export markets after the first quarter of 2021?

A - Marcelo Zenkner

Well thank you Barbara for the question and I'm glad to share our crystal ball related to the future scenario. Well what we rather seen in the first quarter this year some weaker premiums but since then, the market fundamentals in our view have improved significantly. So China demand is picking up and there is some strong support for premiums and subgroups. Vaccines rollout in several places in the world have also improved the market sentiment and in our view, this provides the path for the recovery of the world demand. So we do see some improvement in the premiums for oil and crude oils over the next quarters. Thank you.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Marcelo. We also have one more question from Barbara to Rodrigo, it's about liability management. So Rodrigo, what do you expect in terms of liability management for the rest of the year?

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Thank you, Barbara. Good morning. Thank you for the question. Well, first of all, as I mentioned that we of course. We are highly focused on reaching our debt targets both the \$67 billion for 2021 and \$60 billion for 2022. But we are, of course, always looking for opportunities to reduce the cost and to increase the maturity of our debt profile for the remaining portion of the debt that will still carry after we achieved our target.

So we're continually focused on this. And when we think about liability management in a broader perspective, as I mentioned during the presentation, we are continually looking for opportunities to settle liabilities that we have in general -- contingent liabilities in general whenever we find opportunities to settle down them in favorable terms for the company, we are, of course, always looking for opportunities to do this.

So this is how we view liability management as a whole. Thank you for the question.

A - Carla Albano Miller {BIO 17540433 <GO>}

Thank you, Rodrigo. At this time we conclude our Q&A session. If you have any further questions, you can send it to our Investor Relations team. Rodrigo, will now make his final remarks. So please, Rodrigo.

A - Rodrigo Araujo Alves {BIO 17767871 <GO>}

Thank you. Thank you everyone for your time today for being here with us for our earnings call of the first quarter of 2021. As I mentioned before, we have a -- we had a very strong quarter both in terms of operational and financial performance and we are highly focused on executing our strategy and delivering our '21, '25 business plan. And so thank you for being here today and feel free to contact our IR team with whatever questions you still have. Thank you very much.

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