



**International Conference Call  
Petrobras  
First Quarter 2019 Results  
May 8<sup>th</sup>, 2019**

**Operator:** Good morning, ladies and gentlemen. Welcome to Petrobras webcast and conference call with analysts and investors concerning its First Quarter 2019 results.

We would like to inform you that participants will follow the transmission by internet and telephone only as listeners. After an introduction, a Q&A session will begin, at which time instructions on how to participate will be provided. If you need help during the conference call, please call the operator by dialing \*0.

We will start by listening to **Petrobras' CEO, Mr. Roberto Castello Branco**, with the main highlights of the results. Afterwards, the participants' questions will be answered. The presentation will remain available throughout the webcast and on the company's Investor Relations website.

Present with us today are:

- **Mr. Roberto Castello Branco - Petrobras' CEO;**
- **Mrs. Andrea Almeida - Chief Financial and Investor Relations Officer;**
- **Mrs. Anelise Quintão Lara – Chief Refining and Natural Gas Officer;**
- **Mr. Carlos Alberto Pereira de Oliveira - Chief Exploration and Production Officer;**
- **Mr. Eberaldo de Almeida – Chief Corporate Affairs Executive Officer;**
- **Mr. Rafael Mendes Gomes - Chief Governance and Compliance Officer;**
- As well as other company's executives.

Please, Mr. **Roberto**, go ahead.

**Mr. Roberto Castello Branco:** Good morning for those on the west side of the Atlantic, good afternoon for those in the east side of the Atlantic and good night for those in Asia, Australia and the Asian Pacific region.

We are very pleased to present the first quarter 2019 performance of Petrobras. It was not a brilliant quarter of course, but there are very good improvements on the side of debt management, the deleveraging process continued, we lengthened the average maturity of the debt, we reduced our cash availabilities in order to improve capital allocation, and I'm going to speak for a few minutes and afterwards I will leave the stage to Capo, our Chief Exploration and Production Officer, because he has good news for you in terms of production.

Well, on the strategic front, we made several advancements on the execution of our 5 strategic pillars. In terms of portfolio management, we announced



transactions involving US\$11.3 billion, among them the sale of TAG, the gas pipeline, and the closing of the transaction of the Pasadena refinery in Texas – that is very symbolic, very important to us given that, it represents the looking to a tragic past of Petrobras –, and in terms of the future, we had several other assets to our divestiture program and I think that they contributed to improve capital allocation in order to increase return on capital employed, they will allow us to deleverage further and, in the case of the refineries, to correct what we consider an anomaly: the fact that only Petrobras owns 98% of the refinery capacity of Brazil. And for sure it will contribute to increase our return on capital employed to stimulate the increase in efficiency in our company.

We are starting a relentless search for lower costs, we are starting by focusing on the low hanging fruits, several of them we already tackled in this first 4 months of the year. In terms of meritocracy, our Board of Directors approved a variable compensation program in order to align the goals of the executives and shareholders to contribute to maximize value creation at the company. We started to work on an EVA program. Our goal is to make every employee of this company – independently of his or her position at the company – to feel like an entrepreneur in order to generate value for its own business. It is like everyone in this company, each employee in this company is the owner of a small wall into expanding his business, creating value for his or her little business.

We managed to put in place an administrative reform in order to gain more flexibility and speed on the decision-process and to enhance accountability among our executives.

Well, I will end my comments emphasizing our focus on safety of our operations. We are starting a program involving the training of 180,000 people, including our own employees and employees of suppliers in order to maximize the safety of our operations.

We are also focusing on fighting crime, that means the stealing of our pipelines, of our oil and fuel pipelines. This has been increasing in our operations in Brazil and we are using our intelligence teams in a close cooperation with the police of several states and the federal police of Brazil in the use of equipments such as sensors and drones and so on in order to be successful at fighting crime.

We definitely don't want to have an accident like it happened in Mexico a few months ago.

Well, I conclude my comments saying that our best days are still ahead of us. We strongly believe we are on the right path to maximize value. Well, having said this, I will pass to Capó for his comments on production and cost of production.

**Mr. Carlos Alberto Pereira de Oliveira (Capó):** Well, good morning, good afternoon and good evening. I will just say a few words about production, but the first thing that I would like to say is that we are maintaining unchanged our



target oil production forecast for 2019 at 2.8 million of barrels of oil equivalent per day.

In the first quarter of 2019 we had a lower production comparing to the first and fourth quarters of 2018 and it was mainly due to the divestment that we had on the Roncador field and also the sale of 8% of our share in the United States operation – the company that we have there, the Petrobras America – and also we faced some delays on the commissioning of our gas systems in the new platform, new units that we have put on stream, and also we have some concentration in this first quarter of 2019 for the maintenance stoppage.

But with the startup of these 7 new production units, P74, 75, 76, 77 of the Búzios field and P67 and 69 and also the FPSO Campos dos Goytacazes, 7 units in the last 11 months, we are in the ramp-up phase in these units and this for sure can assure us that we still can maintain our target oil prediction forecast unchanged for the 2019, the 2.8 million barrels of oil equivalent per day.

In April we returned to the same level of production as the last quarter of 2018, when we considered the same asset base, I mean, we just don't consider the divestments that we made in 2018. And it is also important to mention that on May 2<sup>nd</sup> after 12 months after the first oil we completed the ramp-up of the P74 platform, and this platform is now producing in its maximum capacity of 150,000 barrels of oil per day with 4 wells on production.

So based on the perspective that we already have in April, we see that in the last 10 days after the entering of this new well, in the last 10 days we are producing about 2.7 million barrels of oil equivalent per day and in May we are producing over 2.8 million barrels of oil equivalent per day and with an upward trend, the production keeps growing and we are in this pace in order to keep our goal for the year, our target of 2.8 million barrels of oil equivalent per day.

That's what I wanted to say for now.

**Mrs. Anelise Lara:** I believe we can open for questions right now.

### **Question-and-Answer Session**

**Operator:** The Q&A session will now get underway. Each participant will be limited to at most 2 questions. Questions should be made consecutively, and we kindly ask you not to use the speakerphone.

In order to pose a question, please, press star 1. To remove your question from the questioning queue, press star 2.

Our first question comes from André Hachem, Itaú BBA.

**Mr. Hachem:** Good morning, thank you for the questions. My first question is in regard to production.



Hello?

**Mr. Capo:** Yes, we're listening.

**Operator:** You may proceed.

**Mr. Hachem:** Good morning. Can you hear me?

**Mr. Castello Branco:** Yes, we can, please proceed.

**Mr. Hachem:** Yes, good morning. Thank you for the questions. I have 2 questions. The first one is in regard to production. Capo mentioned that the challenges related to ramp-up for the P74 platform have now been overcome and the unit is now running at full capacity in only 12 months. I would like to understand if it would be reasonable to assume the same ramp-up rate for the new units or if this could be an even shorter ramp-up rates for the new units given the learning curve of this first unit.

I would also like to understand if in regard to the Campos basin, what could be done to reduce the depletion rates that we've been seeing over the past few months?

My second question is in regard to the compensation for the deferral of production in transfer of rights. In Petrobras's view, will this be a cash payment? And is this considered in the deleveraging target of 1.5 times net debt to Ebitda? Thank you.

**Mr. Capo:** Hello André. About production, yes, our expectation now is that we have learned something about the P74 and, of course, the first units that went on stream, and on the commissioning of the gas systems. They are very complex, different than the units that we had before on the pre-salt, and with this learning what we can say is that we are going to proceed now with the ramp up of those units and we have to sustain the growth of the production for the year.

Campos basin. Yes, we had a lot of efforts on the Campos basin, in the last presentation of our results, the fourth quarter of 2018, we mentioned that for the Campos basin not only we are working with Equinor and other companies in strategic partnerships in order to have more oil from those fields, particularly in Roncador, but at the same time we are working to have more oil from the new wells that we are going to put on stream in the old platforms that we have there. At the same time, we are buying some exploratory areas with a lot of sort of extras that we are maintaining in the program of sustainability at the Campos basin, our intention is to keep production in the next years at the same level that we have today.

About TOR compensation, could you ask again? Because I didn't get your full question.



**Mr. Hachem:** In regard to the transfer of rights production compensation, in your view, will this be a cash payment? And are you considering this to reach the 1.5 times net debt Ebitda leverage target?

**Mr. Capó:** Okay. About the compensation, no, we are not considering it in our target, about this compensation it is something that is going to be defined by the partners that are going to enter in the area, so there will be a bid in the end of this year, so the new rulers of the concession of the area will establish a negotiation in order to define what will be the compensation.

But the compensation is not something that is open, in fact, it is defined (and very well defined) by the resolution of the CNPE and also another complement that was made by the Ministry of Energy in Brazil. So the parameters of this compensation are defined, the only thing that is not still defined and that has to be negotiated is what will be produced in the field in the next years, in each field in the next years after the bid.

**Mr. Hachem:** Will this compensation be in cash or could it be, for example, in barrels we are not taking of the production?

**Mr. Capó:** No, it is part of negotiation between the partners.

**Mr. Hachem:** Okay perfect, thank you very much.

**Operator:** Our next question comes from Frank McGann, Bank of America.

**Mr. McGann:** Yes, good day. Just in terms of your production goals longer-term, clearly as we look at the chart on page 30 on the slide presentation you got a number of units that have been defined when you get past 2020, but a lot of this has not been contracted yet and it is less clear how you are thinking about long-term production growth.

You obviously have resources that are very, very large that could be developed over time and raise production, but how are you thinking of the balance between your other goals of profitability and the balance sheet and longer-term growth in production? How do you see that will be played out and what would be the opportunities here that we could get for potentially [unintelligible] additional production growth?

And then secondly, in terms of the profitability of the upstream units, the transfer of rights has no special participation tax, so should we think of potentially a faster ramp-up now in overall profitability as a result of that?

**Mr. Capó:** Well, Frank, about the long-term expectations for the production, in fact, we are keeping the same production levels that we announced when we made our business plan for the 2019 and 2023. So, until we have another



strategic plan, we have the same levels, the same targets for the production for those years, for the years to come.

And in terms of the profitability for the TOR, for sure with this productivity and the levels that we are having on those wells, we have good profitability, but at the same time it is also planned in our business plan for the 2019 and 2023 the same answer I could say that I gave you for the production for the next years.

So it is all included, and we really have good profitability in those fields that are related to the TOR contract, but we have already included this profitability in our future perspectives that we have for Petrobras.

**Mr. McGann:** Okay, thank you.

**Operator:** The next question comes from Régis Cardoso, Credit Suisse.

**Mr. Cardoso:** Good morning Roberto, Anelise, Capo, the remainder of the directors, also welcome Andrea, we wish you the best of luck in this new mission you have, also if Carla is also on the line, I also wanted to welcome her.

I have a few questions, mostly follow-ups. I will try to be brief. One of them is in regard to production ramp-up, that is probably best for Capo to answer. It seems to us that 2.7 million barrels equivalent a day you mentioned in the release for the last week of April would probably relate to something around 2.1 million barrels a day of oil production in Brazil and that you would still have another 400,000 barrels a day to ramp up in the existing production that is already net of your divestment in Tartaruga.

So I wanted to know if you can comment on those numbers, if you believe they are correct, so 2.1 oil with a potential further ramp-up on another 0.4 in existing platforms. And also, what you believe to be the main risks to that ramp-up, if it's gas commissioning or is it something else?

Also, the second question would be to Anelise, it is in regard to sale of refineries, if you already have a clear view of whether it's possible to sell individual refineries and whether you would sell the logistics associated together, because that logistics is often shared between more than one refinery.

And just a few very quick follow-ups, one of them in regard to the payment of IOCs. The company has been very vocal about deleveraging, you were not... I mean, why announce now these early distributions? And then also a follow-up question on the low execution of Capex, if you have any examples of why Capex in the quarter was so much below what you had originally budgeted? Thank you.

**Mr. Capo:** Hello Régis, good morning. About the production ramp-up and also about the Tartaruga field divestment, we are keeping the goal, the target of 2.8 million barrels of oil equivalent per day even with the divestment of the

Tartaruga field that we announced recently, and in Brazil we are producing over 2.1 billion of barrels of oil per day and we are going to grow this production after the ramp-up of the new units. And the risks, we consider the necessary risks in our risk management of the production and we also included any risk that are natural risk is of our activity.

So the gas commissioning is something that we learned a lot when we started the production of the P74, and we have already used this learning on the commissioning of the gas systems on the other platforms that are going on stream. So based on that, we keep the goal and the target of the oil production for the year based on what I have mentioned now.

**Mrs. Andrea Almeida:** Maybe I'll try to cover Anelise, she had to leave. We will have a teaser that will be in the market in the end of June and we will have details on the sales of refineries. The idea is to do the sales individually and only attach the oil pipelines together, they are really connected to the refinery. That's the idea, but we will have more details in June.

And covering the dividends or interest on capital, the idea is while we are deleveraging. And I believe we still have a lot to do, the idea is to pay the minimum dividends that we are somehow obliged by law, and after we reach the goal then we believe we will be able to pay more to the investors. That's the idea.

**Mr. Castello Branco:** Again, I'd like to point out that Brazil is one of the few countries in the world which has a minimum mandatory dividend. Of course, it is a distortion, we are not a utility, we are an oil company that is subjected to price and cash flow volatility, but we will comply with the law, we will pay dividends, we will pay the minimum dividend established by law.

We believe and strongly hope that in the future the law in capital markets in Brazil will be modernized.

**Mr. Cardoso:** Thanks. If you allow me just a few follow-ups. In regard to the interest on capital, if I understand it correctly, you continue to provide intermediate distributions of both dividends and interest on capital. And then also in regard to the Capex question, if you have any examples of why execution was below budget. And finally, to Capo, it seems like you have an inventory of drilled wells that is well in advance of your expected first oil date for the FPSOs, if this is indeed the case and why is that. Thank you.

**Mr. Castello Branco:** André, we have a long to-do-list. One item is to establish a very clear dividend policy and disclose it to the market. We are still in the process of making it.

**Mr. Capo:** André, about the Capex question, as we had faced this delay on the commission of the gas systems, at the same time we postponed as well as the construction of some wells and for sure the interconnection of those wells to the



platforms. So that's the reason why we had this reducing on the Capex of the first quarter, particularly for the P70's: the 74, 75, 76 and 77 of the Búzios field.

At the same time, now we re-assuming the drilling and completion of those wells and we will be then ready to increase the startup in the next months, and that's the reason for sure that we are going to increase the production, mainly we are going to see higher productions in the next semester in order to keep the target for the 2.8 million barrels of oil equivalent per day in 2019.

**Operator:** Our next question comes from Christian Audi, Santander.

**Mr. Audi:** Thank you Roberto, welcome Andrea and Carla. I have 2 questions. The first one on return on capital employed and the second one on cash flow generation. Roberto, on return on capital employed, the company has already stated a target – which I think is very positive, not many oil companies do that in the world – of 11% medium term. My question is: Given your recent announcement of you trying to sell the 8 refineries, which I would think have a lower return on capital employed in the upstream assets, do you feel that you could actually surpass that target in a shorter period of time than initially set in the plan, or you feel that 11% is really the target that is ambitious enough for you at this point?

The second question has to do with cash flow generation. Even in this quarter, it remained strong given what you and Capo are saying about production growth, would you expect this cash flow to continue growing? So, can you talk a little bit about Capex, whether you feel current levels could actually increase or decrease and therefore obviously impact this cash flow generation?

**Mr. Castello Branco:** Well, I believe there are 3 questions, thank you for asking Christian. First of all, the return on capital employed, the target of 11% is for sure aggressive because at least in the last few years we have been far away from it, but I believe it's feasible, it's not easy, and when it was announced it was not supported by initiatives that could allow us to meet this target. Now we are launching several initiatives in terms of divestitures and cost-cutting that will make it possible.

But I still believe that it won't be easy. So we don't want to overpromise and not delivering. That's 11%, that's a good target and we will go for it very strongly.

Your other question was related to cash flow generation. Yes, that is what we are focused, on increasing cash flow generation to the acceleration of oil and gas output, Capo has explained about that, and cost-cutting.

And the third question was about Capex. We are going to review internally Capex, it is likely to be overestimated for the year and we are going to analyze why we are running low on Capex, if it's a problem of overestimation of Capex, or it's a question that we are being slow in procurement, in internal process of making the disbursements or how much of it is obtained through cost reductions



in the procurement of equipment and parts. So, it is still a question to be analyzed.

At the moment, I'm not able to give you a good answer about that. We are going to review it, and after this review I believe that we will be able to supply you with a good answer on that subject.

**Mr. Cardoso:** Okay, thanks Roberto. And do you plan to announce strategic plan update I guess where you would address this Capex, or do you have already an idea of the timing of when you would do the next update for your strategic plan or not yet?

**Mr. Castello Branco:** Well, we are making it gradually. As you have seen, we launched a resilience plan that added several assets to our portfolio of divestitures, we announced the cost reduction goal of US\$8.1 billion over the next 5 years, it could be more depending on our speed of implementation of the digital transformation program. When we review the Capex budget for 2019, we are going to disclose if we need to reduce or to increase, but anyway, the Capex budget does not include our expenditures with the auctions that will happen in the second half of this year.

**Mr. Cardoso:** Okay, thank you.

**Operator:** The next question comes from Vicente Falanga, Bradesco BBI.

**Mr. Falanga:** Thank you very much. First of all, congratulations for the company and the IR Department for the additional data disclosed in the press release. The data is really helpful for interpretation and for modeling.

I just had 2 questions here. First of all, Roberto, it was announced that Petrobras intends to substitute the participation of employees in earnings for bonus compensation based on certain targets, we think obviously the idea is very positive to align the interest of shareholders with employees. On the other hand, based on what we have read in the media, some union representatives are obviously against it claiming that it would not be legally possible for the company to do that.

My question is: What is Petrobras' legal conviction that it could be able to implement this change? And then my second question: How long does Petrobras estimate that it could sell the additional 10% stake in NTN and NTS? Could this happen anytime soon? Thank you very much.

**Mr. Castello Branco:** First of all, regarding the compensation program, it's implemented, everybody knows the targets, and everybody is aware of that. Our Human Resources department has been doing the job and it is in place. For 2020, it will be modified to include EVA. The EVA program is being implemented; we are working hard on that. A few days ago we had the official startup of the EVA work with a speech of Joe Stan – one of the founders of EVA



– jointly with Bennett Stuart, he came to Brazil specifically for this event and our teams are working with Stan value management on the implementation of these important program.

Your second question is about?

**Mr. Falanga:** You mentioned, Roberto, in the press release that Petrobras could sell the addition of 10% stake in NTN and NTS.

**Mr. Castello Branco:** Yes, we are going to sell. We are going to sell as fast as we can the remaining 10% in NTS and TAG. First, we are going to close the deal with Engie and Caisse de Dépôt and after that we will start the efforts to sell both of our stakes in these 2 gas pipeline companies.

**Mr. Falanga:** Perfect. Thank you very much.

**Operator:** The next question comes from Gabriel Francisco, XP Investimentos.

**Mr. Francisco:** Hello everyone, thank you for taking my questions. My first one is regarding the refining results. Ever since the company has begun implementing hedges for stated purpose of amortizing the effects of volatility, the bottom-line effect is that refining margins haven't actually recovered to the pre-hedging practices, they have particularly underperformed the previous results.

I wanted to understand better what is going on in this front, what are the costs entailed to practice these hedges, because in my understanding they intend to amortize the effect of the oil price volatility, yet the company continues to announce in its results that the refining margins were lower due to a higher stock effect on inventories. That's my first question.

My second question refers to the ANP segment. I wanted to understand the rationale of the deep-water investment in Sergipe, which is expected in the business plan. Given the company's metric of focusing on the pre-salt, I wanted to understand the particularities of these investments that justify any investment. Thank you very much.

**Mrs. Almeida:** So I can start answering the question about the hedging and the impact on the refineries results. Actually, the hedging that we have been doing is really to cope with the import parity. So whenever we are setting a fixed price for the market, we are hedging to keep the import parity.

So, the volatility in the Ebitda that you see in the refining results, actually the reason is more related to the cost of oil that they are using whenever processing, so we see in the 4Q a drop in the Ebitda generation and that's because they are using, for sure, oil from the previous quarters where the oil was much higher.



And in the next quarter, like in the first quarter of 2019, we see an improvement and they are still using higher-cost oil for sure, but not as much impacted as the 4Q and they increased the volume sales, so they had a better result. But I wouldn't say that there is a connection between the hedging, because the hedging is just to keep the import parity. I believe the way the refineries work and the lack between the price of oil they use in their processing that's the biggest impact.

I transfer to Capo.

**Mr. Capo:** Gabriel, thank you for the question. About the rationale for the investment in Sergipe deep waters, our strategic in E&P, we are deep-water company and at the same time this is a new province that we had the idea to invest, but at the same time we have to remember that Sergipe is also in our partnership program, we want to invest there as a new frontier, and we always do that with partners that we are at these days in this process, but for sure there is a rationale in this because we are a deep-water company and we work on the pre-salt, we work on the Campos basin, where we have almost 40% of our production, it is not pre-salt, but it is also very important for our production and it's also important for the growing of our production.

In Campos basin, for instance, we have introduced this concept to work in strategic partnerships at the Roncador field, for example, with Equinor, and also, we are buying some areas, new areas to explore the Campos basin. So, the rationale is very clear, our prospect is to work in deep waters, that's where we have the necessary capacity and capabilities for so, and also at the same time, as this is a new frontier area, we are going to do this with a partner there.

**Mr. Francisco:** Okay, thank you Anelise and Capo, that was very clear.

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

**Mr. Castello Branco:** I'd like to thank you for participating in our conference call today. It is always a pleasure to talk to you, and as I said, our best days are still ahead of us, we have world-class assets, we have a strong team, highly committed to deliver value and we have technology. These are the key points in our strategy, and we will do that. Thank you.

**Operator:** Thank you. Ladies and gentlemen, the audio this conference call for replay will be available on Petrobras investor relations website at: [www.petrobras.com.br/ir](http://www.petrobras.com.br/ir). Thank you very much for your participation and have a great day.