



**1<sup>st</sup> Conference Call (held in Portuguese)**  
**Petrobras**  
**First Quarter Results 2019**  
**May 8, 2019**

**Operator:** Good morning ladies and gentlemen. Welcome to the Petrobras' webcast and teleconferencing with analysts and investors regarding the first quarter results 2019.

We inform that the attendees will follow the streaming through Internet and telephone only as listeners. After an introduction, the Question and Answer session will begin, when attendees will be given the guidelines.

If someone needs assistance during streaming, please ask an operator for help by typing \*0.

We will start by listening to the Petrobras CEO, Roberto Castello Branco, with the main result's highlights. Then the attendees' questions will be answered. Please note that the presentation will remain available throughout the webcast and at the company's investor relations website.

Attending today we have:

- **Mr. Roberto Castello Branco, CEO of Petrobras;**
- **Mrs. Andréa Almeida, Finance and Investor Relations Officer;**
- **Mrs. Anelise Quintão Lara, Downstream and Natural Gas Officer;**
- **Mr. Carlos Alberto Pereira de Oliveira, Upstream Officer;**
- **Mr. Eberaldo de Almeida, Corporate Affairs Officer;**
- **Mr. Rafael Mendes Gomes, Governance and Compliance Officer;**
- And other company executive officers.

Mr. Roberto, you may proceed, please.

**Mr. Roberto Castello Branco:** Good morning everyone. It is a pleasure to be here to discuss Petrobras' performance in the first quarter of this year.

It was not a brilliant quarter, I have to confess, we had some problems, including production, but you will see that the news is good both in April and in the future and, in early March, we did an analysis and have come to the conclusion that we will undoubtedly beat the goals set for this year. We are on this path and the numbers will support it.

Another important aspect concerns debt. We have been able to continue to reduce our indebtedness, which is already reflected in the first quarter figures in the sense of lower outlays for interest payments. We are spending the equivalent of one production system with interest payments, and so we have an annualized reduction of US\$ 1.2 billion with financial expenses and we are extending the debt maturity profile, the average today is 9.42 years, which implies minimizing the refinancing risk and, at the same time, a better cash management, optimizing financial management. This is very important for capital allocation improvement.

The most important in these first months of the year is that since the beginning of January we have started implementing our 5 strategic pillars. First, portfolio management. The first 4 months of the year, after closing the quarter, were very rich and active in divestments. We were able to divest US\$ 11.3 billion, the main one being the TAG pipeline for US\$ 8.6 billion; we sold mature oil fields; the station network in Paraguay; Pasadena, we only closed the transaction now on May 1 due to operational problems, but Pasadena represents a very strong symbolism with a tragic past, and we severed the connection with it.

At the same time, we expanded our divestment program, included a likely follow-up of BR Distribuidora, the sale of the service station network in Uruguay, which is an operation... Petrobras' operations in Uruguay, which are comprised of a gas station and distribution network, have continuously posted losses since 2006. They are small operations, but we don't allow resources to be wasted. It is forbidden to waste resources. So, we are going to sell the station network, we will deliver gas awards and restrict ourselves to our operations within the company's core business.

We are carrying out transactions, managing the company's portfolio to focus on the businesses where we are natural owners, with the company focus on oil and gas upstream.

Regarding refineries, the Board of Directors approved studies to divest 8 refineries, which meets these goals: Improve capital allocation; reduce indebtedness; and correct an anomaly: a single company accounting for 98% of downstream production capacity. This is unsustainable and we will work to make this divestment.

At the same time, the company aims to regain the investment grade by rating agencies as a complement to reducing its cost of capital. We are working to increase the return on capital employed and, at the same time, reduce the cost of capital. In doing so, we reduced indebtedness despite the introduction of the IFRS



accounting changes, which raised our gross debt from US\$ 78.8 billion to US\$ 106 billion, we kept the previously set target to reduce leverage to 1.5 times the cash flow.

And we will seek to improve our relationship with the global financial community. We, as part of this, in the next quarter, we will have a release in English identical and complete as it is in Portuguese, we are already introducing new information, you can see as investments, it is a continuous confidence building process.

Well, we also launched a manageable operating costs reduction plan in the amount of US\$ 8.1 billion. In the short term, we are focusing on those measures that are easier to implement, the so called "low hanging fruits", closing high-cost buildings such as the Ventura Building in Rio de Janeiro, the one on Avenida Paulista in São Paulo, seeking to minimize costs. Several offices outside Brazil are being closed, from New York to Tokyo, through Iran, Libya and other countries, also cutting discretionary expenses, but we have launched a voluntary layoff program, which we estimate to cause R\$ 4.1 billion savings. But we are certain that the bulk of cost reduction will come from process change and digital transformation.

Digital transformation is a powerful tool for cost reduction and efficiency gains, and the oil and gas industry is one that has the greatest potential for digital transformation to achieve these goals.

Well, another item in our focus is meritocracy. We have launched a variable compensation program to align shareholder and executive officer goals. The variable compensation is very important in this sense, paying a good fixed compensation and not creating incentives for achieving productivity gains and generating value and creating a "fat cats" company.

We started to implement the EVA system this month. We strongly believe in the potential of EVA to help us in this goal of maximizing value generation, and this will result in each of our employees feeling like an entrepreneur trying to add value to our business. This is the spirit that we want to introduce, of entrepreneurship among all our employees. Everyone will have goals; everyone will have a role to play. It's not just an abstract metric, ROCE, of "x" percent a year and people will know "Well, but what can I do to increase the company's ROCE? I don't know, it's something I don't even know how it's calculated." EVA will provide the opportunity for everyone to feel involved in the value creation process and play a relevant role, no matter their position in the org chart.



Well, finally, safety is one of our priorities, it's a very important aspect, and it is surely the biggest risk we have to manage in an oil company. A training program for employees is being launched that will involve 180,000 people across Petrobras and contractors.

Another important aspect is also the fight against fuel theft. We have dedicated our intelligence teams in close collaboration with the police, the use of sophisticated equipment, much attention and clarification campaigns to minimize the commitment of such crime.

Recently we had a very serious accident in the Baixada Fluminense, in Duque de Caxias, where people had to go to the hospital, one of them, a girl, unfortunately had a burn and is hospitalized. Petrobras, through its subsidiary Transpetro, has been tireless in supporting both those who have been injured, especially the girl, and in scanning the area to prevent such a recurrence. And again, I recall and emphasize that safety is our priority.

Well, I'll give the floor to Andrea Almeida, our new Chief Financial Officer, for her comments on the results.

**Mrs. Andrea Almeida:** Thank you, Roberto. Good morning everyone: I think Roberto already covered the main strategic milestones of the quarter, I will try to convey the financial message and also explain a little of the changes that we had thanks to the implementation of IFRS 16.

Perhaps the first most important point that I wanted to emphasize is that our leverage goal doesn't change, we are committed to leveraging the company. So, our EBITDA net debt indicator of 1.5 is maintained even after the IFRS adjustments.

We'll keep the calculations for a while considering and removing the effect until the market makes its adjustments, gets used to the numbers. In this sense, when you look at the number without the effects of IFRS, we realize that the indicator was quite in line this quarter, at 2.36 times, with a small increase. However, we achieved our goal, which was to reduce debt. In terms of net debt, we went from US\$ 69.4 billion to US\$ 68.3 billion.

We are now going to comment a little on the actual impacts of IFRS 16. I think all companies that report their results under IFRS will have an effect on their balance sheets and results this quarter, so it is not a privilege of Petrobrás, nor of the market, nor indeed of the oil business. Basically, they are changing the ways we account for operating leases.

The effect on the balance sheet will be basically an increase in assets due to the recognition of the right to use the asset under lease and an increase in liabilities. In liabilities, we will recognize the present value and future payments of leases. In the income statement, companies begin to recognize the asset depreciation and the liability's financial expense in lieu of the lease's operating expense.

It is important to note - I think this is the most important point - that it doesn't impact our cash flow at all. What we had paid before and what we had to commit of our cash flow remains.

In broad numbers, we will see an increase of around R\$ 102 billion in our liabilities, as well as our assets. We had a R\$ 3.7 billion reduction in costs and this is already included in the EBITDA that you will see disclosed, of R\$ 27.5 billion.

Our leverage indicator, when considering the last 12 months of EBITDA with the IFRS effect, changes to 2.89 times. Basically, this is the summary that we wanted to provide for the effects that happened and that you will see over time in our company and our indicators.

Talking a little bit about the market and, indeed, what happened over the last few quarters, we saw in the fourth quarter oil prices reaching very high, even historically very high values since October 2014. It reached values around US\$ 86.00 per barrel.

In the fourth quarter of 2018, prices declined in response to the perception of oversupply with the increase in US production and also a concern for the growth of the world economy, since the trade war was very strong, a war between China and the United States impacting the economic scenario. In this sense, we saw prices dropping and it reached, at the end of the year, about US\$ 54.00 per barrel.

In the first quarter of the year, we saw a recovery, mainly due to supply-side pressures and the implementation of production cuts by OPEC countries. Nevertheless, when we compare the average price of the fourth quarter of 2018 to the first quarter of 2019, we saw a drop in the average price, and we will see its impact on our results.

So, looking at EBITDA in the quarter, we realize that we were around 6% lower, posting R\$ 27.5 billion, and then we, indeed, had the impact of the price at margin, lower sales volumes of refined oil products and also a provision referring to the arbitration of Sete Brasil, on which we will comment later.



When we look at EBITDA by segment, at the time we obviously see in our upstream industry, which is our biggest cash generator in the company, it recorded EBITDA of around R\$ 25.5 billion, a little lower than the previous quarter due to a decrease in production that Roberto has already mentioned, mainly as a consequence of the scheduled stops we usually have in the first quarters of the year and also due to the fall of Brent prices.

In the downstream case, when we compare the first quarter with the fourth quarter of last year, we see EBITDA improving to R\$ 4.7 billion. It is a fact that the impact we saw in the fourth quarter was a consequence of the sale of the refined product with higher costs given the higher Brent price in previous quarters. When we compare within the year, we actually had larger sales of diesel and the increase of our market share, but this increase was still impacted by the high price, the cost of production was still impacted by the high price of the previous quarters and we also had more imported product in our mix, and we were not able to recover the levels of the first quarter of 2018.

In the gas and energy sector, we had EBITDA of R\$ 2.2 billion and the biggest impact, there again, we have non-recurring items that bring some variation there in our results. We had, in the fourth quarter of 2018, a large positive effect of the reversal of the provision for credit loss from Eletrobras receivables. This is perhaps the biggest effect of the variation we see in the gas and energy sector.

Well, I think that good news is free cash flow. We continue to have very relevant free cash flow, R\$ 12.1 billion, and we still see a fall because we also had what we can consider one-off payments in the quarter, such as the payment of the third part of the class action, of R\$ 4.2 billion, and the payment of the DOJ agreement, of R\$ 3 billion, partially offset by the receipt of 1.5 billion of last year's diesel subsidy.

I think Roberto has already talked a lot about liability management and, indeed, we have been implementing what we released to the market, we have been able, indeed, to lengthen the average term of our debt and we see that we don't have the amortization maturity concentration, which is highly positive and decreases the company's cash flow risk.

In the quarter, let's put it this way, we were obviously implementing the liability, we raised R\$ 16 billion, of which 11.5 were international capital market securities and a public debenture offering.

We also paid several loans and financing, including a tender offer, prepayments of R\$ 14.6 billion in bilateral loans and 1.2 billion in financing to BNDES.

When we look at what happened to our investments, we actually had 2.3 billion in the quarter, with the main concentration in the E&P sector, and of course the new pre-salt fields of Bahia de Santos as the most representative.

As our focus is indeed cost reduction, and Roberto has already mentioned, coupled with our resilience plan, perhaps I would stress here the importance of reducing the lifting cost and that we believe that this will evolve further to the extent that we enter with the new ramp-ups of the pre-salt fields.

Talking about profit, we had a net profit 4 billion higher than the previous quarter, our net income is actually impacted by special items, which we consider as non-recurring. When we look at the gross profit, we have already mentioned, then we had impacts of lower production, lower sales and Brent, the Brent price effects, but, on the other hand, operating expenses were reduced significantly, and this line has a very strong impact on non-recurring items, impairment, provisions for contingencies in legal proceedings and also the result of the sale of assets.

So, from the fourth to the first quarter, we also had some of these events impacting. In this case, operating expenses showed positive variation.

And in the financial results, we also had, we already mentioned the impact of the IFRS, we had a more negative financial result in R\$ 2.7 billion, one piece being the increase of interest on account of the operating lease and also a decrease in financial income due to gains in agreements that we signed with the power industry registered in the previous quarter. Again, the balance between one quarter and the other.

In governance, I think Roberto has already covered this item, right, basically we have been flexibilizing some items, of course, always keeping the company's compliance, and we got some progress in the sense that we could, for example, bring the responsibility of the Board of Directors to approve the sale of wholly owned subsidiaries and other relevant items for our agility.

In portfolio management, I think we've been doing this, I think within this portfolio management context we even changed the name of the area from Acquisitions and Divestments to Portfolio Management, which is, indeed, what we have been doing very firmly since the PNG and already with the resilience plan as well. And within the new portfolio management guidelines, we announced to the market our intention to sell 50% of the downstream capacity (in line with which Roberto spoke, including the sale of 8 refineries), the full sale of the station network in



Uruguay and the additional sale of interest in Petrobras Distribuidora, while Petrobras remains as a relevant shareholder.

We expect to continue with this divestment system expressively and we believe that we will have, every quarter, new achievements to show you and we will be able to fulfill our divestment and leverage reduction plan for the company.

I'll give the floor to Capo.

**Mr. Carlos Alberto Pereira de Oliveira (Capo):** Well, good morning everyone. I'll start by talking about production. On this slide I will stress a bit here on the issue of the fall in production quarter over quarter, but my first message, which I think is fundamental, is this: We are maintaining the annual target of 2.8 million barrels of oil equivalent per day in 2019.

So, in the first quarter of 2019, when we compare this quarter with the first quarter of 2018 and the fourth quarter of 2018, we have a variation, considering the production of oil equivalent, of about 5% comparing with either the first or fourth quarter, and this is explained by the divestment that we did in the Roncador Field, which now in 2019 we no longer have 25% of the production of Roncador, which was sold, we also sold our share in the United States company, basically almost the whole stake, we kept 20% of our participation there.

As far as new systems are concerned, we are implementing a lot of systems, but they are more complex systems. The gas system requires more... we have had some delays, let's say, in the commissioning of these systems, which we have now resolved (this appeared in the first quarter), and also we had a greater number of stops in this first quarter, so this higher number of stops also contributed to the decrease.

Now, on the other hand, we had 3 new platforms starting up in the first quarter, which was 76 and 77 in the Búzios field, 67 in the Lula field, and they also offset, they helped offset the natural decline of production, which always happens.

The important thing to mention is that with the deployment of 7 new platforms that were put into production in the last 11 months, we are now in the ramp-up process of these units, that is, we made adjustments in the gas system and we are in ramp-up, and because of this, I go back to my first statement that we are maintaining this annual target, our predicted target of 2.8 million barrels of oil equivalent per day in 2019.



If we look at the right side of the slide, we will see exactly how this production start-up of the new platforms in the pre-salt is also partly due to the change in the composition of the post-salt portfolio, with this sale of assets that we have made, we see that the pre-salt production is becoming more relevant, we have gone from 44% in the first quarter of 2018, the pre-salt share in total production, to 49% in the first quarter of 2019. This is a trend we follow then.

In this next slide, we are making a comparison here, when we look at the green part that is on the leftmost part of the slide, we are putting in the same production base in terms of asset base, we are disregarding the assets that have already been divested. So we see a first quarter of 2019, which we have already mentioned, with the production of 2.5 million, this number being leased, but in April we have already seen the growth of this production to 2.6, that is, returning at the same level of the fourth quarter, and now in the last 10 days we are at 2.7 million barrels of oil equivalent per day. And now in the month of May, if we take only the month of May, we are already above 2.8 million barrels of oil equivalent per day. This number doesn't even appear on the slide because I just picked up this number, it's the number from now, so we're estimating we are already above 2.8 million barrels of oil equivalent per day in May alone.

This is an important trend, and last week, on May 2, we completed the ramp-up of the P74 platform, it is now producing at its maximum capacity of 150,000 barrels per day, and an important point is that we also did this after 12 months of the first oil from the platform, which is our goal, keeping it in 12 months is a record, it is an important number for us, that we have kept there in 12 months, we have 4 producing wells in this platform with an output of 150,000 barrels a day from the Búzios area.

Following to the E&P spending issue, one important point is that we reduced (when you look at the left side of the picture in manageable operating costs) we cut 22% in these costs when we compare the first quarter of 2019 with the first quarter of 2018. This is due to cost optimization with intervention in wells and also helped in part by the exchange devaluation that we had in this period.

When we now look at the right side of the picture, which is the part of the lifting costs, we are at the US\$ 10.00 level. So, although we had lower production in the first quarter, the reduction we had in manageable operating expenses allowed us to stay at this level of US\$ 10.00, compared to the fourth quarter, and keeping the difference of US\$ 1.00 per barrel, which is quite significant when we compare the first quarter of 2019 with the first quarter of 2018. And in the pre-salt, we are keeping the lifting cost below US\$ 7.00 a barrel.



I'll talk a bit here on this slide about reviewing the transfer of rights agreement. On April 9, 2019, the National Council for Energy Policy (CNPE) decided on the revision of the transfer of rights agreement and defined Petrobras' compensation of approximately US\$ 9 billion. On April 18, that is, 9 days later, the National Council for Energy Policy also published a resolution on the parameters for bidding for surplus volumes in the transfer of rights assignment, which is now in the Búzios, Sepia, Itapu fields, which will be the areas going to auction, and Petrobras, from this publication, has to exercise its preemptive right in the bidding related to these areas until May 17.

On April 23, the Ministry of Mines and Energy released a complementary ordinance establishing the guidelines for calculating the compensation that Petrobras will receive due to a bidding being carried out in these areas where it is already producing, then it will open participation to other companies through this bidding and will have a compensation for this, which we call deferral. And the important thing is that in this resolution and this ordinance that was published on this surplus auction, they will be offset by the investments made based on market parameters, which are the parameters of price, of oil. So, these oil and gas sales prices are already fixed. Likewise, the investments and operational costs that are already included in this resolution, and everything is already pre-defined.

And finally, to comment a little about something that happened more recently, in the month of April, and that is also important for us, that is this oil province of Sergipe deep waters, in which we have been working for some time, and through the extension in that we made a well in Moita Bonita, then we confirmed the extension of this accumulation of Moita Bonita. In this Sergipe deep water area we have already made 6 discoveries, which are those discoveries shown here for Cumbe, Barra, Farfan, Muriú, Moita Bonita and Poço Verde, and with the confirmation of this extension and also the long duration test in Farfan, which is scheduled for November 2019, this opens an important perspective for Petrobras on a new province in this area. We already have a planned module there, a system foreseen in our PNG 19-23, which is a FPSO with capacity for 100,000 barrels per day, and what we have found in this this province is also excellent oil and reservoir.

I wanted to leave this message here as well and I will ask João Henrique to kindly comment a little more on the part of the new systems.

**Mr. João Henrique:** Good morning. Speaking of the new systems, we had 7 new systems coming into production in 11 months. In April 2008, P74 came into production, and 11 months later we saw P77 starting up production. This is an important milestone and has been achieved with a high level of operational



efficiency and safety, which demonstrates Petrobras' ability to execute complex planning that integrates all areas of the company.

This milestone is also very important due to the 10 years of the pre-salt production start-up. We have one system in the Tartaruga Field, 2 in the Lula Field, and 4 of these systems are in the assignment of rights, in the Búzios Field, 3 of them went into production in the last quarter. We have had good production results in these systems. One of them, as Capo said, reached the maximum production capacity of 150,000 barrels on May 2, and with only 4 wells in production at the unit.

Still this year we may also have 4 more systems reaching the maximum production capacity, which will be key to ensure production, our production goal by the end of the year.

The next slide shows the work we are doing to ramp-up the units. We have the a high readiness level of the wells and subsea area, 86% of the wells are expected to start operating in 2019 in the Búzios, Lula Sul, Lula, Berbigão, Sururu and Tartaruga Verde fields, they are already drilled and completed, and the average ramp-up of the units, the average time for units to top-up is very good, which we are able to do in less than 12 months, and this is the result of the investment in technology and the standardization and repetitiveness that we have in these units that have a similar project.

In this slide, we show the new systems that may start-up production in the coming years. These systems should ensure our production growth, which should be around 5% per year. P68 in the Berbigão field already has the completion level of more than 95%, it starts operating in 2019. Wells readiness for ramp-up of this system is also high, we already have 56% of the wells drilled, 28% of the wells completed. In Atapu, P70 will start operating in 2020, also with a high level of platform and wells readiness, and from 2021 onwards we have 9 more systems that will start-up their operation, with Sepia and Nero I already in execution, Búzios 5, Parque das Baleias integration, Nero II, Marlim I and Marlim II are in the contracting phase and the others in the planning phase.

I'll leave the floor to officer Anelise.

**Mrs. Anelise Quintão Lara:** Good morning everyone. Well, regarding our sales volumes and refined oil products production, firstly, I wanted to point out that our sales revenue in this quarter was about R\$ 80 billion, R\$ 5.5 billion higher than the first quarter of 2018, and one of the main reasons was the greater volume of sales of refined oil products, as you can see in this first chart, and in relation to the first

quarter, sales volume was 5% higher, in particular as a result of diesel, there was an increase of diesel sales by 19% compared to the first quarter of 2018.

There was a decrease of about 3% in gasoline due to the lower demand for gasoline and competition with ethanol. In terms of refined oil products production, there was also a 4% increase in this quarter compared to the first quarter of 2018, basically also reflecting the increase in diesel production, which also increased 9% compared to the first quarter of the previous year.

The share of domestic oil in downstream was reduced by 2%, participation in the first quarter was 92% due to lower domestic oil production. The operational availability of our refineries was 94%. We had Replan resuming this year on January 25, and the Cubatão refinery is still stopped for maintenance and modernization of its safety system.

In the next slide, we see the issue of the downstream use factor, market share. On diesel, we have a market share of 84%, in line with 2018, the rest of the market share is filled by third-party imports, gasoline we have 81%, also with the stronger participation of ethanol in the market, and the 75% utilization factor, which is considered an excellent factor for the demand for refined oil products in the current market and for the need and efficiency of the downstream plant.

In the next slide, we see the import and export balance, mainly an increase in imports actually doubling between the first quarter of 2019 to the first quarter of 2018, due to the increase in imports of both oil and refined oil products, in particular diesel to meet market demand.

On exports, we see oil roughly in line with that of the first quarter of 2018, and this reflects in a net balance that is shown in the third chart of this slide, with 315,000 barrels per day of imported oil.

In terms of gas and energy, our gas and energy revenues were approximately R\$ 1.5 billion and an increase of over R\$ 770 million compared to the first quarter of 2018, mainly due to higher margins in the energy segment and the sale of natural gas associated with lower provisions of expected credits and judicial losses, and the operating margin was 13% in the first quarter of 2019 compared to 9% in the first quarter of 2018.

In this first chart, in terms of demand for supply we notice that we have a total increase of LNG, which, in relation to the first quarter of 2018, goes from 2.3 million m<sup>3</sup>/day to 7.1 with a resulting decrease in the import of Bolivian gas, due to a better pricing of LNG in the international market in this period. In Japan,



nuclear plants started-up operations and the price of LNG in the international market dropped, thus favoring the increase of LNG in our matrix.

In terms of demand, we are still in line considering the first quarter of 2018, we are practically with the same level, a small increase in non-thermal demand and also in thermal demand, as a result of a greater use of industrial consumption and also a lower rainfall and such, which ended up favoring the increase in thermal demand also in this period in relation to the fourth quarter of 2018 and even in relation to the first quarter of 2018.

So that was it, and now we are available for questions.

### **Question and Answer Session**

**Operator:** We will now begin the question and answer session. We ask each participant to limit to a maximum of 2 questions. Questions should be asked in sequence and the speakerphone function should not be used.

To ask a question, please enter asterisk 1. To remove your question from the list, please enter asterisk 2.

The first question comes from Rodolfo Angele, JP Morgan.

**Mr. Rodolfo:** Good morning and thank you. My 2 questions are as follows: The first, regarding cash generation, I think, indeed, that this is a number that we and the investors are looking at closely, it has been quite strong. Looking forward, what should we expect in relation to Capex? This quarter I think it was below the run rate, but I would like to hear from you if there is room to also look for some improvement in cash flow coming from Capex.

And my second question is in relation to the new volumes. First, we are glad to hear the company reaffirming the guidance for the production year, and I wanted to know if you could talk a little about the impact of this on the lifting cost. We know that the pre-salt had a lower than average response, but there are 2 factors that I wanted you to say a little if possible: First, how the lifting cost of the assignment of rights area is going; and how the lifting cost behaves during ramp-up of these FPSOs that are starting-up operation this year. So, in the end, we would like to have an idea of what to expect on the cost side, in addition to volume. Thank you.

**Mr. Roberto:** Good morning Rodolfo. I'm going to answer your first question and the second question I will turn to Capo to answer; it is a more specific question.



We are extremely focused on cash generation and the trend is for it to increase, this is our goal, both for the acceleration of oil production and for the reduction of costs. We are working on two fronts in order to reduce both operational costs and administrative costs, and we are hoping, without a doubt, to succeed in this goal.

With respect to Capex, indeed, it is far below what we would expect given that our annual Capex was budgeted at nearly US\$ 16 billion. And I have to confess that we have a problem there, we have 2 issues: First, as I have observed in past periods, Petrobras has the habit of overestimating its budgeted Capex for the year, which is very bad because it creates expectations that are not fulfilled and, at the same time, causes problems in the company's financial management, which is costly and entails waste in capital allocation; on the other hand, it may also be reflecting an internal slowness in purchase execution. These issues will be discussed in the coming days so that we can correct deviations from the program or re-estimate Capex for the year, which, without a doubt, should also be higher due to our participation in auctions provided for by ANP, including surpluses of the assignment of rights.

I'm going to leave the floor to Capo now and I believe that the higher the production, the higher the pre-salt share in our total production, the lower the lifting cost will be. But I'll pass it on to Capo, who will undoubtedly have a much better and much more specialized response than I could give you.

**Mr. Capo:** Well, good morning. The first thing to mention about lifting cost, certainly with the start-up of the pre-salt, we are working to lower this lifting cost, on the pre-salt platforms, and we have stayed there at US\$ 10.00 a barrel at this level, and we have an expectation that we will be able to stay below US\$ 10.00 as we put more production in. So, it's in that line that we are working to overcome this level and stay below US\$ 10.00.

We don't usually break down the lifting cost of pre-salt and assignment of rights and others, but in the assignment of rights you are seeing here that we have a lifting cost in pre-salt of US\$ 7.00 per barrel on average. In the assignment of rights our cost is lower than this, because we work with proprietary platforms, then we have a lower cost as well. So, although we don't open this number, it is lower than the US\$ 7.00 per barrel we have in the pre-salt on average.

**Mr. Rodolfo:** Okay, thank you Roberto, thank you, Capo.

**Operator:** The next question comes from Bruno Montanari, Morgan Stanley.



**Mr. Bruno:** Good morning, thank you for picking up the questions. I wanted to understand the trend of wells in new platforms. In P74, the flow rates are close to 40,000 barrels a day, which is well above the numbers we were used to in Lula and Sapinhoá. Should this be the productivity trend going forward in the pre-salt or is it something that applies specifically in Búzios and Libra, for instance? And, if this is actually the new trend, does this change the Capex curve for the projects somehow from now on?

The second question is about the surplus auction. I understand that you have not yet decided on the preemptive right, but I wanted to understand what the company's reasoning is for deciding to strongly participate in this auction considering the reserves that the company already has compared to investing in other exploratory areas that may be less costly.

And a third quick one is about BR Distribuidora. I wanted to understand the decision-making process of maintaining a relevant participation and make a follow-on compared to possibly selling a majority (or even total) stake to a strategic partner. Thank you very much.

**Mr. Roberto:** Bruno, I'll answer the second question and the first one I'll leave for Capo to answer. The decision regarding the follow-on of BR has not yet been taken, we are in a study stage. We still have no definition of how much we are going to sell, how much we are going to keep or if we are going to make another operation in sequence. Everything will depend on our market valuation and strategic assessment.

The key issue is that we don't have the skills, we are a company that is very good, is excellent in oil upstream, but we don't have the skills required for a fuel distribution business. So, at the end of the day, we're going to stick with a stake, but that will not be a controlling stake. But this is a matter that will be dealt with later.

I would also like to clarify that, with respect to BR, that BR will not participate in the refinery purchase process.

I'm going to pass it on to Capo now.

**Mr. Capo:** Well, Bruno, good morning. With regards to the productivity matter of the pre-salt and these last wells, particularly the Búzios and Libra fields, we have found a good productivity in these wells, it was already within our forecasts that we would find such productivity in these wells, which is being confirmed. And in terms of Capex and how this can impact the Capex, indeed, we had already

included this, what we do is a programming of wells starting up in waves, because the production has its natural decline, so at this first moment we have 4 wells in the P74 platform, but then, as production declines, we will include more wells to complete the platform capacity.

So, the Capex that we predict for this system is already included in the PNG, it will happen in the way that we have already completed in PNG, so this was already thought of this way, but, indeed, we have been finding and even confirming the good productivity we had in this region. But the Capex that is scheduled there is already predicted by this wave production logic: first 4 wells and then we will increase as production declines.

With regards to the surplus auction, that is, the assignment of rights and also in the auctions scheduled for this year, and you mentioned how our priority will be, our priority is the pre-salt. We are competitive in the pre-salt and we intend to participate in a very effective, incisive and efficient way in the pre-salt bids, which have resumed since 2017.

So in these bids we have had an intense participation, you are following up, and our idea, we are now analyzing with regards to the exercise of the preemptive right of assignment of rights, we are still evaluating internally, we have until May 17 to take a stand and we are in the internal discussion and we don't have a position to tell you on this respect. But our focus is on the pre-salt, this is an important area for our sustainability and to ensure the growth and maintenance of a high level of production, which is what people are looking for.

**Mr. Bruno:** Great, thanks a lot.

**Operator:** Our next question comes from Luiz Carvalho, UBS Bank.

**Mr. Luiz:** Good morning, everyone, welcome Andrea, good luck, count on us. I have 3 questions here. First, for Roberto. Roberto, roughly 6 months heading the company, we talked to you before you eventually stepped in there, if you could make a brief evaluation of the main difficulties you have found in the last 6 months and where we might eventually have some kind of positive surprise of what you imagined when you got there.

The second question is for Capo. Capo, of course we have seen production (and I am very happy with the breakdown which you have provided here for the number of wells already drilled and completed, which we understand has obviously a much more visible process from the production growth point of view) and I wanted to understand the risks that you see for this growth, for the 2.8 target for this year.



Any shutdown scheduled going forward, any problems from that point of view of the risers' corrosion? What can possibly put this 2.8 under pressure?

And if you allow me to make a third question to Anelise, we have seen the refining plants utilization factor close to 75%, which is relatively lower than what we saw previously running between 80 and 85, and at the same time Petrobras continues to import refined oil products. I wanted to understand the reasoning of such operation, to operate with refineries a little lower when you still have the utilization factor at 75% and still need to import. And when can we expect the teasers of individual units? Thank you.

**Mr. Roberto:** Good morning Luiz. First, a correction: I have not been here for 6 months, I started on January 3rd, so on May 3rd I completed 4 months...

**Mr. Luiz:** Almost there!

**Mr. Roberto:** [laughter]

Answering your question, Petrobras did not surprise me, and if I was surprised it was on the positive side. It has a very good team, very well qualified people, world-class assets in oil, especially of course in the pre-salt, but others also in deep water, it has technology and this makes me very optimistic about the future, it is very motivating to have the opportunity and the privilege of running the largest oil company in Latin America with all this potential.

Of course, Petrobras has problems, and we are very honest in this respect, our motto here is transparency. Petrobras still has high costs, high indebtedness, much has been done in the last 4 years, but we need to move forward, we need to create value for the shareholder, the return on capital employed is still lower than the cost of capital, we have to solve this, we have to increase, through better capital allocation, the return on capital employed and that is why we are guided by the advice of natural owner.

Bruno Montanari referred to BR Distribuidora. BR Distribuidora is a business that we don't think we are the natural owner, we are not able to generate the highest possible return, there are others who probably can do better than us, but, also, BR Distribuidora has the opportunity to improve greatly. We are changing the management of BR Distribuidora, it has a new CEO, several initiatives underway that will enable BR to better fulfill its potential, because it is also a very good company, with approximately 8,500 stations spread throughout Brazil, it has a strong brand name in Brazil, so it can do much better than it has done so far. And



Petrobras, too. I think our best days are still ahead, and when you listen to Capo's report on the pre-salt production increase, we can be very optimistic.

So, I'll refer your second question to Capo and then Anelise will answer the third one.

**Mr. Capo:** Hi, Luiz Carvalho, good morning. With respect to production risks, that is, maintaining the target of 2.8 million barrels of oil equivalent per day, we have already incorporated into this goal, that is, the scheduled stops we are planning for this year. So, indeed, we have a concentration of stops now in the first quarter, we also expect to have some bigger stops in the beginning of the second quarter, but on a higher production pace.

So, everything is already included in the production behavior, as well as the risks that are associated with our activity, that is, all this part you spoke of the ducts, the risers' risk, indeed, we make a periodic evaluation and a periodic inspection of all risers. So we are aiming to reach this goal of 2.8 already taking into account the natural risks of our activity.

I'm going to pass it on to Anelise.

**Mrs. Anelise:** Luiz, regarding the refining plants utilization factor, a first point is that Replan stood still until January 25 and this impacted the first quarter. The second point is that this utilization factor also reflects the demand for refined oil products in the country. So, with production in this range, we are able to meet the demand. Diesel import is specific, we have an import and export process of gasoline more in the sense of exchange of product quality, gasoline that is less rich by a more rich in octane, and there is no use in increasing the footprint only focusing specifically on the increase of one of the refined oil products, you know, what can happen is the production increase of other refined oil products that will have no demand in the market.

So, in this sense, importing 80,000 barrels a day of diesel makes economic sense and meets our optimization process of our downstream park.

**Mr. Luiz:** It's ok, many thanks guys.

**Operator:** Next question from Pedro Medeiros, Citibank.

**Mr. Pedro:** Hi, good morning everyone. Welcom Andrea. Thanks for picking up my questions. Indeed, I have 3 questions too, some are pretty straight forward. The first one, Capo, if you could please focus a little more on the implementation

expectations of new wells in the Roncador field in the light of the partnership that was signed with Equinor last year. How is this project going, what can we expect in terms of timing, potential and how was this handled in the company's guidance?

My second question goes back to the beginning of the question and answer session when Rodolfo asked about investment expectations for 2019, and, Roberto, thank you for the answer about the review and the potential overestimation of the guidance for the year, but I wanted to understand this conceptually if we look at the company's E&P area and in light of the data you have now presented in this teleconference on the total number of wells that have already been drilled and completed, if we look at the investment in the E&P area over the coming quarters, concept-wise should we not see a downward trend in these expenditures on a quarterly basis for both 2019 and 2020?

So, whatever you can comment conceptually for us to manage a little of our expectation, this is a very important source of cash generation, the expectation of cash generation for the company both this year and next year.

And my last question, indeed, is quite objective. In the presentation I did not see any mention about the progress of the negotiation of the Marlim field and a stake in Comperj with CNPC, as announced in November last year. So, whatever you can tell us about the progress of this negotiation, I'll be thankful.

**Mr. Capó:** Good morning, Pedro. I will comment here on the expectations of the implementation of new wells in the Roncador field through this strategic partnership that we made with Equinor. We have done a great job, our purpose remains the same, that we increase the field recovery factor from 28% to 34%, and this year we are doing exactly the breakdown and planning together with Equinor to reach the goal of increasing the recovery factor.

2019 is dedicated to the breakdown of these projects and we should then have a guidance for the field starting in 2020. So, this is a time-consuming job, it's an important job as we need to gain a deeper understanding of the reservoirs we are able to make through this partnership.

Regarding the investments expectation for 2019, Roberto has already mentioned, that is, we are certainly working on optimization, this is something that is ongoing in the company, but also remembering that we are maintaining this guidance for 2019 even from the perspective of our PNG, it doesn't provide for investments in bids, and this year, in particular, there are 3 bids from the National Petroleum Agency, which is the sixteenth award, the sixth round of sharing and also the surplus of the assignment of rights.



So, we're certainly working on optimizations, but we're keeping the Capex guidance for 2019, but, in the internal logic, we are always seeking efficiency, of course.

On the question about the negotiation of the Marlim field and also in the agreement with Comperj and CNPC, we have a negotiation with the CNPC and we go until the second half, that is, the works continue with CNPC and then, until the second half we don't have a position to report at this moment on how this will evolve, because we are doing joint studies on the best investment alternatives on all sides.

**Mr. Pedro:** That's great, wonderful. Thanks for the answers.

**Operator:** Thank you all. We have now closed the question and answer session of this webcast and teleconferencing. Now we have the CEO Roberto Castello Branco for his final comments. May you please, Roberto.

**Mr. Roberto:** I would like to thank everyone for attending our conference call.

We hope to come back the next quarter with better results. The continued pursuit of value creation is a routine in the company and I strongly believe, as I said, that our best days are yet to come, and we are working hard, all of us here, in the pursuit of this goal.

Thank you all, see you later.

**Operator:** Thank you! Ladies and Gentlemen, the audio replay of this teleconference will be available on the company's investor relations website at: [www.petrobras.com.br/ri](http://www.petrobras.com.br/ri).

We remind everyone that we will have an edition of this webcast and teleconference in English later on. Thank you very much for your attendance and have a good day.



**2<sup>nd</sup> Conference Call (held in English)**  
**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 Capo for his comments on production and cost of production.

**Mr. Carlos Alberto Pereira de Oliveira (Capo):** 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. Capó:** 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. Capó 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. Capó:** 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 divestures 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.