



Restoring the Crown Jewel of Brazilian Industry

A conversation with Pedro Parente, President and CEO of Petrobras,
on the five-year plan to transform his company

On November 16, 2016, President and CEO of Petrobras Pedro Parente gave a keynote address at the Wilson Center titled “Petrobras: The Way Forward.” The speech detailed the company’s new five-year strategic plan, and the challenges and opportunities facing Brazil’s largest enterprise in today’s tough energy market.

An accomplished executive in both government and the private sector, Pedro Parente returned to public service earlier this year charged with leading the transformation of Brazilian energy giant Petrobras into a more efficient and competitive company in a global oil market transformed by low prices. As chief of staff under President Fernando Henrique Cardoso, Mr. Parente was instrumental in dealing with Brazil’s energy crisis in 2001. This time around, Parente will follow a strategic plan devised with the Petrobras Executive Board. It includes continuing asset sales to lower indebtedness, developing partnerships, and concentrating activities in Petrobras’ core business of efficient oil and gas production. The plan has already produced positive results, despite the turbulent domestic environment.

Since Mr. Parente’s remarks at the Wilson Center, several other key developments have bolstered his positive view of the company’s future. The appointment of former Petrobras senior executive Décio Oddone as the new director-general of Brazil’s National Petroleum Agency (ANP) and subsequent announcement that the government will open new auctions for private investment to develop the pre-salt suggest that, as Mr. Parente told company employees, “2017 will be the year Petrobras turns around.”



The past three years have been challenging for Petrobras. The Lava Jato investigations placed in jeopardy not only the company's fiscal situation but also its reputation and standing in Brazil and in the world.

PETROBRAS: RECOVERING IN THE WAKE OF LAVA JATO*

1953 Petrobras founded after Vargas government nationalizes oil industry

1957 First oil discovery in Brazil

2007 Discovery of pre-salt oil fields

2010 Reform requires Petrobras to be sole operator of the pre-salt fields with a minimum 30% stake

2014 Operation Lava Jato begins, with investigations into Petrobras contract practices

2016 Pedro Parente named president and CEO of Petrobras

2016 Reform of the pre-salt rules opens fields to foreign investors

4th

Petrobras' 2014 global ranking among the big oil and gas companies

22nd

Petrobras' ranking in 2016

81%^{**}

Decline in Petrobras' operating profit January-September 2016, compared to same period in 2015

US\$ 3.57 billion
(R\$ 12.4 billion)

The amount frozen, pending judicial rulings, in accounts belonging to various individuals and companies to help Petrobras recover some of the skimmed funds



"2017 will be the year Petrobras turns around"

President and CEO of Petrobras Pedro Parente, speaking to company employees in early January 2017

US\$ 1.59 billion
(R\$ 5.5 billion)

The amount Petrobras stands to potentially recover



US\$ 190 million
(R\$ 660 million)

The amount Petrobras has already recovered



* The data above are not from Petrobras. Sources: *Folha de Estado*, *Reuters*
** Much of this decline was due to impairments (writing down overvalued Petrobras assets).



EVENT SUMMARY OF “PETROBRAS: THE WAY FORWARD”

In his remarks at the Wilson Center on November 16, 2016, President and CEO of Petrobras Pedro Parente focused on the plan to restore Petrobras’ financials and reputation. He touched only briefly on the Lava Jato investigations that have roiled the company and Brazilian society and politics, firmly stating that Petrobras was a victim of the kickback scheme and saw no benefits.

Over the next five years, Petrobras will concentrate on its core divisions as an “integrated energy company focused on oil and gas.” It will also work to generate profits in order to create a self-sustaining company that offers value to the country and to its shareholders, in large part through reducing costs per barrel produced. To measure the success of its implementation, the five-year plan calls specifically for bringing the company’s safety metric in line with the industry average and significantly reducing the company’s leverage.

Mr. Parente also discussed Petrobras’ recently introduced partnerships and divestment program, which aims to complete \$34.6 billion in transactions by the end of 2018 to improve cash flow, reduce the company’s debt, and speed up development of the pre-salt fields. He expressed the belief that these partnerships will help raise the bar for compliance and good governance within the company, complementing its current efforts to improve in this regard.

Mr. Parente closed his remarks by noting that although the company is going through “a very difficult period,” it has the strength and resources—both human and technological—to overcome current challenges. He expressed hope that Petrobras would once again be a source of pride for Brazil and its people.

Paulo Sotero, director of the Brazil Institute at the Wilson Center, and Ambassador Anthony Harrington, chair of the Brazil Institute Advisory Council gave brief remarks before Mr. Parente’s keynote speech. A Q&A session followed his address.

Petrobras: The Way Forward¹

*Remarks by Pedro Parente, President and CEO of Petrobras
Woodrow Wilson International Center for Scholars
November 16, 2016*

Being CEO of Petrobras in this moment is a huge challenge. [Brazil's] President Michel Temer, when he invited me [to take over Petrobras] said we need to professionalize the company. This gave me the assurance needed to know that we would be successful in turning the company around.

I am going to show you what we are doing at Petrobras, beginning with what happened at Petrobras before I arrived, and then discuss where we want to be and how we will get there (talking about the new management system, governance, and compliance). As you may imagine, these issues

are very important now to make sure we create conditions [to avoid a repeat of] what happened before in our company.

The Global Context

There are a lot of uncertainties in the global economy: stagnation in Europe and Japan, migration flows (especially in Europe), the slowdown in China. Of course, China has 7 percent growth, which is a very good number for any country, but there is always noise about this issue. There is also the Middle East scenario; developed country mone-

¹ See Disclaimer on page 15.

Wilson Center President and CEO Jane Harmon, Petrobras President and CEO Pedro Parente, and Ambassador Anthony Harrington at the Wilson Center (November 16, 2016)



“Lava Jato...was a small number of executives working to benefit themselves, suppliers and contractors, and a number of bad politicians. Petrobras was a victim of this process.”

tary policy; the Brexit; and last but not least, the political transition here in the United States, which is a very complex development. It is difficult to anticipate what the impact of all of these issues will be on the oil industry, which is itself facing huge transformations.

One transformation is in the competitive scenario for oil and gas. In the beginning, the issue was not demand but rather supply: the new oil coming from shale exploration. Shale is a completely different kind of industry: much faster to find and develop the fields and much faster to close the fields once we produce what oil exists. So [it created] changes in the supply and demand curves, with large surplus production beginning in the last quarter of 2014, and so the price per barrel fell from over \$100 to a number between \$20-\$30. Now it's back in the range of \$40-\$50 per barrel.

As a result, all big companies in the world embarked on programs of profile optimization, asset sales, lower capital expenditure (capex) and operating expenditure (opex), very strong capital and financial discipline, and adjustments to the workforce. Companies are cutting their upstream investments: there was a 25 percent reduction in investments in 2015 and another 24 percent reduction in 2016. Another reduction (but smaller) is predicted for 2017. Brazil currently accounts for 6 percent of global upstream investments. One takeaway is that even without undergoing the [domestic and internal] problems Petrobras faced, we would still have to adjust the company because the main source of revenue of the company fell by more than half.

The Brazilian Context

Of course for Petrobras, a major issue was Operation Lava Jato. It is very important to stress exactly what the Lava Jato issue was: a small number of executives working to benefit themselves, suppliers and contractors, and a number of bad politicians. Petrobras was a victim of this process. Petrobras did not benefit in any way. In fact, Petrobras was in real jeopardy in terms of its financial

situation and its reputation [due to the kickback scheme]. It was a tsunami for the company, a very bad time for the company—and it was a difficult situation for the good executives and employees.

We have also faced a very challenging economic scenario: a deep and prolonged recession, rising unemployment, inflation above the target—although recent signals are showing that inflation is converging toward the target range—with fiscal imbalance and deficits in the federal government and state governments. One of the states with the most critical situation is Rio de Janeiro, where Petrobras is headquartered. The government is tackling reforms that I believe will pass: the expenditure ceiling has been already approved by the lower house and the government expects to have it approved before the end of the year. And the launching of the public-private partnership program fits very well with our partnerships and divestment program [at Petrobras], which I am going to discuss a little bit later.

The Petrobras Context

Petrobras currently has a very high level of debt, which is a good synthesis of its problems. The company faces not only the consequences of Lava Jato, but also the fact that a number of investments have required more capex or are taking longer than anticipated, and so are not producing any results for the company.

A huge amount of money was invested with no returns. When we look at the amount of money we invested and the debt that was created, we can see that a big part of it is not providing any results for Petrobras. In part, this is due to investments which were later showed to be poor investments. But part of it is also due to the fact that the company used prices below international parity for a period of time. This created a huge debt that we are [still] dealing with.

And [we have faced] a challenging regulatory framework. The current local content requirements policy is not, I would say, a smart one. It

is very detailed a policy that, in my view, is not emancipating Brazilian companies to compete in the global environment. It is actually creating market reserves for Brazilian companies, and we all know what happens when there are market reserves. I am in favor of a local contents policy—and Petrobras can help, taking into account the scale of our investments—but it needs to be a different local content policy.

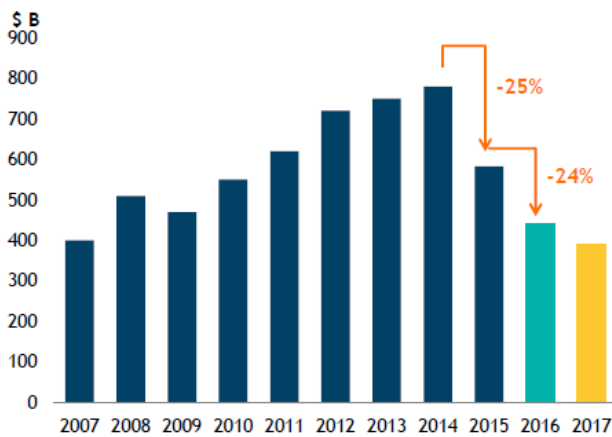
The current local content policy is heavily based on sticks, not on carrots. It is very detailed, and there are many problems related to this policy that need to be improved. Moreover, many of the changes in this regulatory framework have not been in a good direction. Investors in the area in oil and gas wait many years before their money starts to generate returns. It is very capital intensive. So changes in the regulatory framework—changes in the rules—after you

have already invested can create huge challenges. We did have changes that created concerns [among investors] and we are still dealing with these changes.

[A few years ago] the size of Petrobras' debt was more or less the size of its cash generation (or EBITDA, as the economists call it). But then there was a sharp increase in the debt. Looking at 2015—it really started changing in the beginning of 2014, but still we had a carryover effect—we see that the debt reached 5.3 times cash generation, which is really a bad situation.

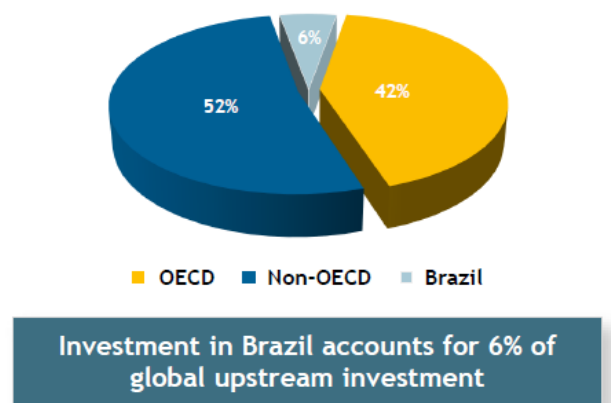
This \$123 billion in debt is the biggest debt in the oil and gas industry, both in absolute terms and relative terms. In fact, according to a bit of research we did, it is the highest debt of all listed companies in the world, which is not a good record for a company. Dealing with this issue is one of our

Figure 1: Upstream Global Investments (2007-2017)



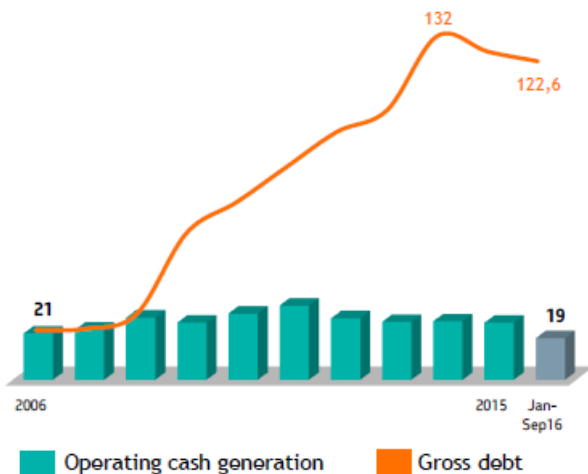
Source: IEA - World Energy Investment 2016

Figure 2: Upstream Investments by Region (2015), Totalling \$583 B



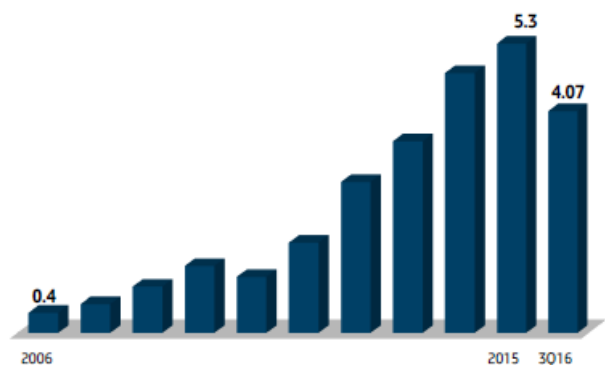
Source: IEA - World Energy Investment 2016

Figure 3: Petrobras' Debt relative to Cash Generation (billion USD)



Source: Petrobras

Figure 4: Petrobras' Net Debt/EBITDA



Source: Petrobras

main objectives. In 2016, we managed to reduce [the company's debt] from 5.3 to 4.07 in terms of our net debt to EBITDA ratio—but to be fair, part of it was due to devaluation of the currency.

A Five-Year Plan for Petrobras' Future

[When considering] where we want to be, the first step was to revisit our vision. There are several changes here that I would like to stress.

First, we see ourselves as an integrated energy company focused on oil and gas. So we are going to be focused on oil and gas over the next five years in a way that evolves with society. It is very important that we do consider the fact that society is becoming more and more concerned about renewable energy.

Second, we need to create a high value for our stakeholders, especially our shareholders—we are a company and we are supposed to generate profits. This does not stand in contradiction with our legal obligations [as a state-owned company]. Profits allow us to create a sustainable situation.

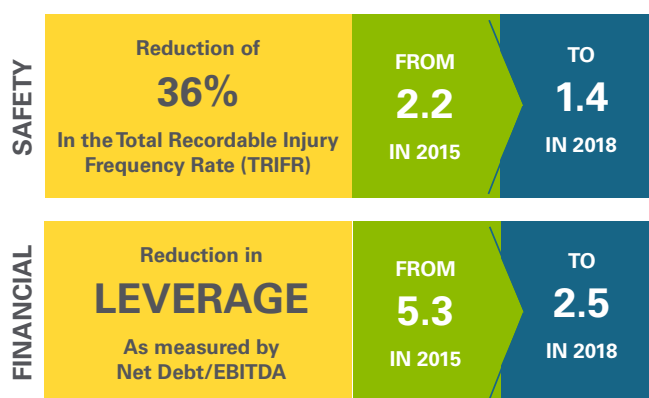
Third, Petrobras has a unique technical capability. Our engineers, our geologists, and the work they do—especially in relation to deep water exploration and development—is really something impressive. This company is known as a deep water company. We have a bank of strategic information about the pre-salt [deep water fields] that no other company has.

“[Petrobras] is known as a deep water company. We have a bank of strategic information...that no other company has.”

We also revisited our values: respect for life, people, and the environment; ethics and transparency; market-driven and results-oriented. And also the ability to really take on challenges and overcome these challenges through trust and confidence in our people.

Having all this in mind—our vision and our values—we developed a five-year plan with two metrics, not just one, and this is very important.

Figure 5: Main Metrics of the Strategic Plan



Source: Petrobras

We have a metric for safety and we have a metric for financials. We are not going to pursue our financial targets in opposition to our safety targets—just the opposite. We are going to do is improve both. In the safety area, we want to reduce an indicator called the “total recordable injury frequency rate.” This is the generally accepted indicator in the oil and gas industry. We want to reduce it 36 percent during this period: from 2.2 at the end of 2014 to 1.4 in 2018. Petrobras has been improving year by year, but we have not closed the gap between ourselves and the industry as a whole. We intend to be at the industry average by the end of the five-year plan, and are aiming at being in the first quartile—being one of the leaders in the industry in this regard.

Our financial target is a reduction in leverage, measured by net debt to EBITDA. The metric is based on the 2015 net debt to EBITDA ratio of 5.3, which we want to reduce to 2.5 by 2018. Originally, 2.5 was a 2020 target for the company, so what we are doing is to move the target forward two years to reduce the leverage of the company.

The natural question is to ask how we will get there, as these are very ambitious targets. We have four drivers for reaching these targets. One driver is the new pricing policy. It is a very simple policy that takes into consideration the international parity price and market share analysis. We work in a volatile commodity environment, without any influence over international prices, so risk is a very important issue to consider. This risk plus taxes will determine the price at the refinery. Whether or not we would be able to have a pricing policy was a significant question. The discussion has now moved forward to debating if this is a good or bad pricing policy, which is a very good sign: people now believe in having a pricing policy, and that we are going to practice this policy.

Another driver is the reduction in capex. We forecast a capex reduction from \$98.4 billion to \$74.1 billion over the plan's five-year period. There are some questions about how we intend to reduce our capital expenditure while at the same time increasing our oil production forecasts. This [trend] is possible due to several key factors.

First, we have high productivity. We had forecast a production average per well of 20,000 barrels a day for the pre-salt wells. What we are seeing, however, is 30 percent higher than the forecast on average: each well in the pre-salt blocks is producing 26,000 barrels a day. This is a very good number by international standards, and we have some wells that are at 40,000 barrels a day. This means we need fewer wells to reach capacity at each platform. Instead of needing eight wells per platform, we need only six (a 25 percent reduction), and this means considerable savings since each well is very costly to drill. To give one example, there is a piece of equipment we need to drill wells that costs somewhere between \$200,000-400,000 per day, depending on the geological complexity of the individual well. So we need lower capex to have the same quantity of oil.

Another very important achievement is the fact that we have already drilled more than 200 wells in the pre-salt area, and the time it takes to drill a well has fallen from more than 300 days to below 100 days due to the experience we gained. And again, you can imagine the cost savings from reducing the time it takes to drill a well.

Also important is that our lifting cost decreased from more than \$10 in 2010 to less than \$8 in 2016 (a 22 percent reduction). And in the pre-salt area it is actually even lower. One reason is our higher productivity, and the fact that our initial problems with platforms—delays in the construction of drilling platforms, requiring us to lease platforms to substitute those that were delayed—means we are adding those originally delayed platforms to production in the coming years. So, it is a capex that we invested in the past, which is now beginning to produce.

Another driver is cutting costs. We projected expenses of \$153 billion for the five-year period, and we are reducing this by 18 percent, to \$126 billion for the five-year period. A very important expense is personnel. We are finishing the second voluntary leave program in the company. These two programs provided for the departure of around 20,000 people hired directly by the company. When we consider everyone, including contractors and outsourcing, the reductions are even bigger. At the end of 2013, we had more than 400,000 people (including Petrobras personnel and all outsourcing). Now, the number is just above 200,000 people. This is a huge reduction of a very important component of our cost. We also embarked on waves of renegotiation with suppliers. I believe we are now finishing the second wave, and initiating the third wave of renegotiations. So we believe that we will be able to reach this [expense] target.

Pedro Parente speaking at the Wilson Center (November 16, 2016)



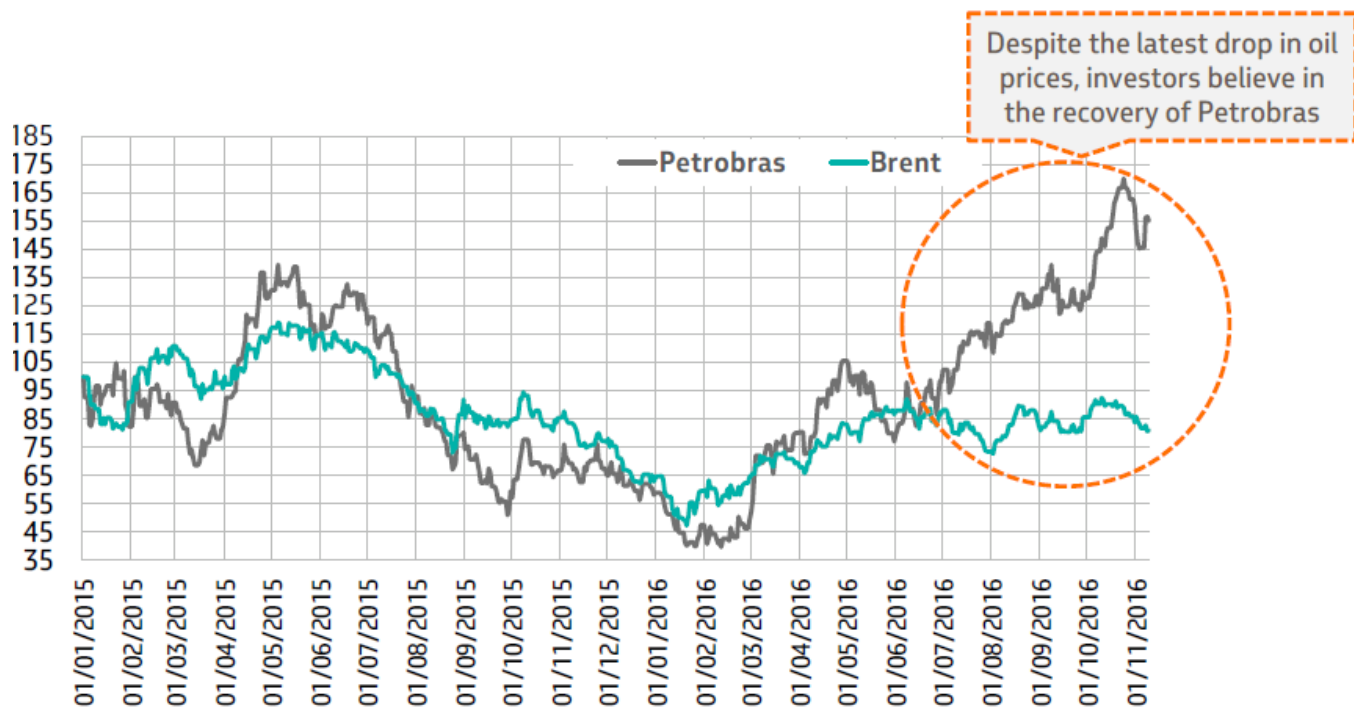


Figure 6: Petrobras' Market Value v. Brent (indexed at January 1, 2015 = 100)

Source: Petrobras

The fourth driver is our partnership and divestments program. We have a target of \$15.1 billion in transactions to be completed by the end of 2016. We originally expected to have the cash [from these transactions] in the company quickly, but this will not happen due to several different factors, such as the organizational changes we need to do in order to be able to sell these assets and so on. In any case, we intend to announce until the end of the year the transactions—partnerships and divestments—that will complete this \$15.1 billion. We are also forecasting \$19.5 billion in such transactions for 2017-2018.

We see a number of different benefits from partnerships: risk sharing, capex reduction, and so on. A key benefit is also the strengthening of corporate governance. It is very good when we have partners with very high standards of governance, because it helps us improve our standards as well. This will be very important when we discuss, for instance, downstream partnerships, especially the issue of pricing policy and the possibility of continuing this policy.

It is very important to also mention that according to our calculations, our partnership and divestment programs will by itself increase investment by our partners or other third parties by more than \$40 billion over the next 10 years, meaning that over the five-year period of this plan we may receive \$20 billion in additional investments to add to the \$75 billion I mentioned earlier.

We have many opportunities to strengthen our partnerships, I will not go into details. Some of our partnerships are already established, others are in the final stages of negotiations. The strategic partnerships are to be done with very big companies in the oil and gas sectors. We have signed a memorandum of understanding (MOU) with Statoil, the Norwegian oil and gas company. Two other important partnerships are with the Portuguese oil company Galp Energia and with the French company Total, which as you know has operations all over the world. We also have recently announced several other partnership opportunities. One of them is with Petrobras Distribuidora, our distributor company. We believe we are going to unlock a very high value for Petrobras by doing partnerships in this way.

Another important feature that will allow us to reach all these targets is our new management system. The idea is that our management system will cascade down our targets and strategies: the five-year strategic plan has 21 specific strategies and 72 initiatives. We will cascade down these strategies, initiatives, and targets to an annual period with a focus on execution at all levels. This is very important. We are going to use methodologies like zero base budgeting—which the company has used in a very localized way in some units—to improve management of the company as a whole. And a very important part of this new system is actively managing risk, because in our business we face many risks.

We will also work very hard to change the company's very hierarchical culture. We think that is very important to create conditions allowing more room for debate. Of course, once a decision is made, we need to implement it—but first we want to have the opportunity to discuss the ideas. This is not the way the company used to work.

We are introducing a huge program to reduce bureaucracy in the company. We are of course implementing measures to improve governance and compliance. At the same time, we need balance in order to avoid a situation in which the decision-making process becomes so bureaucratic that it creates paralyzation.

In personnel management, this word “meritocracy” is very important. We currently do not have meritocracy, and we need to change this. I strongly believe in alignment of interests. I strongly believe that we need to tie the bonuses given to managers to the achievement of plan targets. But we cannot do that according to current rules. It will take hard work to change, but this is very important.

In terms of governance and compliance, we have to adhere to legislation in countries where we are working or issuing bonds or shares. That means the Foreign Corrupt Practices Act in the United States, under the supervision of the U.S. Department of Justice and Securities and Exchange Commission. We also work under the UK Bribery Act. And there a number of different laws in Brazil as well. The most recent law was enacted in 2016, and among other measures it mandates that people appointed to manage the company (both the boards and the executive committees) have certain qualifications. These people need to have the right background in terms of experience, in terms of knowledge, and in terms of integrity. There are many other measures, but I'm not going to go over each.

In the area of governance, there are a number of different initiatives such as the creation of statutory technical committees and a review of the decision-making process within Petrobras, including the elimination of approvals by single individuals.

Previously, the company allowed one single person, one single executive director, to approve a transaction worth billions of dollars—this is not possible anymore. This initiative and others create a framework of controls that we see as very important to prevent the company from repeating what happened in the past.

And our efforts have been very well received by the market. I would like to stress, as you all know, markets are based on expectations. We have announced a solid and good plan in our view, the development of which involved more than 100 people in the company. But although it is a very good plan, preparing it was the easiest part. We now have to execute the plan, and execution in a state-owned company in Brazil is not an easy task. Nonetheless, the Petrobras team is fully committed to this plan and to its execution.

Moreover Petrobras, even while implementing this very tough plan, will continue to increase its production curve. At the beginning, oil production was a very small number but we are now producing around 2.8 million barrels a day of oil equivalent (meaning oil and gas). And by 2021, we are projecting production of 3.4 million barrels a day of oil and gas.

We have also been recognized and received prizes at different international conferences for the new technologies we are developing. This is something that makes us very proud and makes us trust that the company as a whole will overcome this very difficult period and that we all—Petrobras employees, Petrobras task force, and the Brazilian people alike—will be very proud of the company again.

Thank you.

“[We] trust that Petrobras...will overcome this very difficult period and that we all—Petrobras employees, Petrobras task force, and the Brazilian people—will be very proud of the company again.”

Q&A Session

Q: You mentioned that third-party investment might surpass \$40 billion in the next ten years. What percentage will be divestments? What percentage will be new partnerships, new blocs, and new activities?

A: This number is the number we calculated based on our partners and those that have bought our assets. They will pay us for partnering or for buying the assets. So there no division here between partnerships and divestments. We estimated that, if we kept these assets and had the money to invest, we would have invested around \$40 billion over the next ten years. Assuming that the companies that buy these assets do the same, we conclude that they will invest \$40 billion dollars.

As I said before, we forecast receiving around \$34.6 billion from the partnership and divestment programs in the period 2015-2018. In general, everything that is part of the core of the company (which according to our vision is oil and gas) will be partnerships, and everything outside of this core will be divestments. These non-core activities include biofuels, fertilizers, and petrochemicals. We clearly state in our strategy that we intend to be out of these sectors by the end of this five-year period.

Q: How do you view the recent changes to the pre-salt legislation and, since that legislation gives Petrobras the right of first refusal, how do you see that provision being implemented?

A: The legislation was, as I said, finally approved by Congress last week and now it goes to the president to enact the law. In our view, this is a very positive step both for the country and for the company. For the country because, as we are passing through a period of financial constraints, we [Petrobras] would not be able to develop the pre-salt province as it should be developed. It is a huge province. To give you some ballpark numbers, each pre-salt field would require \$10 billion in investment to start producing—not only capex

but also opex linked to production. [But of the income generated] out of this, 44 percent will go to the government of Brazil, the federal government and the states. So not doing this development would jeopardize the federal government and the states. We can help the fiscal situation in Brazil if we speed up the process of exploring the pre-salt area.

For the company, as I mentioned before, we developed a huge knowledge of the pre-salt fields, so that we are able (given our fiscal constraints), to choose only the crème de la crème of the pre-salt fields. Many of the people who work in the exploration side of the company were concerned with that [original mandate to develop all the fields]. And our strategic information is a very valuable asset for the company.

“We can help the fiscal situation in Brazil if we speed up the process of exploring the pre-salt area.”

The next step is for the government to start the tenders, the bidding rounds, which will unlock the process for renewed investments. I believe that the oil and gas sector will respond more and faster than any other sector in attracting investment to the country. Of course, we need other measures, including the implementation of the tax special program. We need a better local content policy. We need to overcome some state-level decisions, especially in Rio de Janeiro, to create a very good business environment so foreign companies invest in Brazil. Shell just announced that it will invest \$10 billion over the next five years, and Shell is a very important partner of ours.



Pedro Parente speaking at the Wilson Center (November 16, 2016)

Q: You mentioned the challenge of climate change briefly but also Petrobras' short term mission focused on oil and gas. Do you see in the foreseeable future an opportunity for Petrobras to contribute to Brazil becoming a carbon neutral economy? For example, by supporting investments in forestation and land restoration.

A: We have a very good team that looks into alternative sources of energy, including our research institute Cenpes that researches ways of getting more value from oil and gas. The real issue is that oil and gas will remain central for a long time because the alternatives are not good yet. But to be frank, we are focused right now on turning around the company. Then we can start to set priorities to help the country in the areas you mentioned.

Q: Can you comment on the delays in issuing environmental licenses? Recognizing that this issue is under the jurisdiction of IBAMA.

A: To create a good business environment in Brazil, we have to tackle several very important issues, including environmental issues. I am not saying that the companies working in this area should not pay strong attention to this issue—we do at Petrobras. But what is really important is to have rules that are followed.

The greatest difficulty in relation to environmental licenses in Brazil is that it is very difficult to anticipate when we will get the licenses, and the price for this risk is embedded in the returns required to invest in the country. If we manage to reduce this risk by having the right rules and following them, and providing transparency to [help companies] an-

ticipate when things will be done, then this would be good for the country and good for environmental issues in Brazil.

Q: What impact will the U.S. political transition have on Petrobras? Especially given that President-elect Trump has talked a lot about challenging OPEC's influence over oil prices and removing environmental regulations.

A: It is hard to say what will happen. I think that the impact of Mr. Trump's decisions on Brazil and Petrobras will be more indirect. We have good trade with the United States, but we are in a different situation compared to many other countries.

Regarding the world economy, in relation to the price of oil, I always remember what the former Minister Delfim Netto says about the exchange rate. He says the exchange rate was a variable created by the devil to demoralize economists. It is very difficult to predict the price of oil, especially in this changing circumstance. I can tell you that our plan for the next two years includes a forecast of \$45-\$65 per barrel, and in the last years of the plan the forecast has the price per barrel increasing to \$60-\$70. But we have also done a number of stress tests with different scenarios, to make sure we will be able to reach our targets regardless.

“Brazil has a very high cost of capital, so it is important that we be present in international markets...”

Q: What do you make of ongoing discussions between OPEC and some non-OPEC members and how will that affect the market and your company in general?

A: The Brazilian legal system allows for full independence of the companies that work in the oil and gas sector in Brazil. So, Brazil is not in a position to negotiate a limit for its production. Acting in the interest of Petrobras, I will not set any cap on our production because we need the money. Of course, as the CEO of Petrobras, I would like very much to see initiatives that increase the price of oil. I would like very much to see a more sustainable market, with more sustainable demand and supply for oil. I think that these negotiations, if they provide this, will be good for the company.

Q: You have said that what matters is not only the size of the risk but also the impact if it comes to pass. Could you discuss, in retrospect, the decision to list Petrobras on the New York Stock Exchange (NYSE), given the lawsuits and other things that are taking place?

A: First, the decision to list on the NYSE was not a bad decision. We are a company that works in international business and we need to reduce the cost of our capital. Brazil has a very high cost of capital, so it's very important that we be present in international markets including United States, United Kingdom, and others. So I have no regrets that we participate here or in the UK. Again, Petrobras is a victim: the victim of a gang that did not help the company in any way, and we believe we will be able to prove this.

Q: What is the biggest risk to implementing Petrobras' strategic plan, and do you feel that the plan will be sufficiently executed in two years—when there will be a presidential election—to shield the company from potential political interference by a new government?

A: We worked very hard on the risks, and there will be an “owner” for each risk—just like we have for the main targets in the plan. And we are also going to have a system to track these risks in real time and propose mitigation initiatives to cope with changes in circumstance that will impact the likelihood and magnitude of these risks. This is a very important part of this management system: it is very difficult to anticipate, but it is not difficult to monitor these risks in a more proactive way than we did in the past.

The second question is much more difficult to answer. We all know that it is very important to create institutions—not organizations alone, but the set of rules that we all follow. By doing that, you create institutions that by themselves will make [political interference] difficult. We have in place a new set of rules, including this new law in Brazil, but we want to practice these rules over the next two years in a way that demonstrates that this is the best way to manage the company. This creates a situation in which it would be very difficult for anyone to push for a return to the old times when political influence was very strong, to the detriment of Petrobras.

Q: What is your assessment of the prospects for continued progress in Congress on President Temer's reform agenda, and if it will be embraced by the public?

A: What I see is that President Temer has been very tough and very transparent in showing the



Pedro Parente at the Wilson Center (November 16, 2016)

need for reform, including social security system reform—which has not been the case for other leaders in the country. This is a very difficult reform and I’ve heard that no political team has survived social security reform in any country. But President Temer is not seeking reelection. I am sure that this expenditure cap constitutional amendment will be approved by the Senate before the end of the year. The discussion of social security reform will be more difficult, because it will be changing expectations of future rights—making popular reaction more likely. And social security reform also needs a constitutional amendment.

Q: How do you see your challenge at Petrobras within the context of the larger political and economic challenges Brazil faces?

A: I think that by turning around the company—by doing our job—we will significantly help the situation in Brazil. Of course, there are many other things that need to be done, I don’t want to exaggerate. But Brazilians love our company, and that they would very much like to be proud of Petrobras once again.

“...by turning around the company—by doing our job—we will significantly help the situation in Brazil...Brazilians love our company, and they would very much like to be proud of Petrobras once again.”

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