

Q3 2015 Earnings Call

Company Participants

- Ivan de Souza Monteiro
- Lucas Tavares de Mello
- Solange da Silva Guedes

Other Participants

- Anish Kapadia
- Bruno Montanari
- Caio Carvalhal
- Diego Mendes
- Felipe Dos Santos
- Gustavo Allevato
- Luiz Felipe Carvalho
- Pavel S. Molchanov
- Pedro Medeiros

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen. And welcome to Petrobras Conference Call with Analysts and Investors for the presentation of third quarter 2015 results.

We would like to inform you that participants will only be listening to the conference call during the company's presentation, which will be conducted in Portuguese with simultaneous translation into English. Following the presentation, a Q&A session will begin in both Portuguese and English.

Present with us today are Mr. Ivan de Souza Monteiro, Petrobras' Chief Financial and Investor Relation Officer; Ms. Solange da Silva Guedes, Chief Exploration and Production Officer; Mr. Jorge Celestino Ramos, Chief Downstream Officer; Mr. Hugo Repsold Júnior, Chief Gas and Power Officer; Mr. Roberto Moro, Chief Engineering, Technology and Procurement Officer; Mr. João Adalberto Elek, Jr., Chief Governance Risk & Compliance Officer as well as other company executives.

I would like to remind you that this meeting is being recorded. And please be mindful of slide number 2, which contains a notice to shareholders and investors. The words believe, expect and similar ones related to projections and targets are mere forecasts based on the expectations of executives regarding the future of Petrobras.

To begin, we will hear Mr. Lucas Mello, Executive Manager of Investor Relations. Then, there will be the presentation of the results of the third quarter 2015. Subsequently, the questions from participants will be answered.

Please, Mr. Lucas?

Lucas Tavares de Mello {BIO 17682021 <GO>}

FINAL

Bloomberg Transcript

Good afternoon, everyone. I would like to call your attention to slide number 2, with the disclaimer. On slide number 3, about the exchange rates, we see that the change in the first nine months of 2015 and the first period in 2014, the real has depreciated by 62%. Concerning the third quarter of 2014 and 2015, the depreciation of the real was equivalent to 28%.

Now, on slide number 4, Brent prices, we see a drop in Brent of 48% when compared to the first nine months of 2015 with the first nine months of 2014. Comparing the first and the second quarters, the Brent dropped by 19%.

Slide number 5, about highlights of the results, the first nine months of 2015, higher oil production including NGL and natural gas amounting to 2,790,000 barrels of oil equivalent per day or 6% of growth versus 2014. The free cash flow of BRL 8.3 billion is an improvement, and the trade balance that went from minus 424,000 barrels per day to minus 89,000 barrels per day in 2015.

Lower import and government take expenses and a pre-salt daily production record of 1,100,000 (sic) [1,120,000] (3:38) barrels per day on September, including our partners. And highlights for the third quarter 2015, higher oil production, as well as NGL and natural gas, 1% of growth versus the second quarter with 35 million (sic) [35,000 increased] (3:59) barrels of oil a day. A free cash flow of BRL 3.8 billion, higher domestic oil product demands and an improvement in the trade balance from minus 27 million to minus 21 million (sic) [minus 27,000 to minus 21,000] (4:11) barrels per day.

Slide number 6, speaking about the net results for the nine months of 2015, which achieved BRL 2.1 billion. In sales revenues we see a drop due to a decrease in oil product sales volume in the domestic market, lower oil product exports and lower export prices. In terms of cost of sales we also see a drop in the costs, especially due to lower oil and oil product imports and lower government take expenses. With that the gross profit was BRL 71.7 billion, 23% above the same period in 2014.

In terms of operational expenses, we see a drop in the expenses, reminding you that in 2014, we had a write-off of overpayments incorrectly capitalized, impairment in trade receivables from the electricity sector, write-off of Premium I and II and the Voluntary Separation Incentive Plan. In 2015 we had lower dry/subcommercial well expenses which compensated for REGIS agreements, provisions for legal contingencies, higher expenses with pension and medical plans due to actuarial revision and impairments. With that the operating income was BRL 28.6 billion, 149% above of what we achieved in 2014.

Concerning the financial results, that's a quite negative line, and negative BRL 23.1 billion, when compared to 2014 which was minus BRL 2.1 billion. And that was due to higher exchange rate loss over foreign currency debt and higher financial expenses due to the increase in debt and lower interest capitalization.

With that the net income was BRL 2.1 billion in period, versus BRL 5 billion in 2014. The adjusted EBITDA was BRL 56.8 billion, 45% higher than BRL 39.1 billion from 2014. BRL 55.5 billion were the investments in 2015, 11% lower than the BRL 62.5 billion in 2014. And the free cash flow was BRL 8.3 billion, versus negative of BRL 12.3 billion in 2014.

Now slide number 7, operating expenses without special items. On the left hand side you see that there is a decrease in the income of 8% that went from BRL 46.9 billion to BRL 43.1 billion. And on the right hand side of the slide you can see this operating expense without special items. And there you see an increase of 6% in those expenses. And this increase is lower than the inflation in the period and aligned with the company's activities.

Now on slide number 8, the EBITDA without special items. EBITDA in the 9 months of 2014 achieved BRL 39.1 billion and achieved BRL 56.8 billion [in 9 months of 2015]. Without special items in 2014 the EBITDA was BRL 45.8 billion and BRL 62.9 billion in 2015, with an increase in 2015

without special items. On the right-hand side of the slide you can see the margin, the EBITDA margin, that was 15% in 2014 and 24% in 2015. And without special items it was 18% in 2014 and 27% in the first 9 months of 2015.

Now slide number 9. The net results of the third quarter 2015 was negative BRL 3.8 billion. The sales revenues went up in 2015, especially due to the higher demand for domestic oil products and due to higher oil export prices. The costs also went up due to higher oil import costs and due to higher oil product sales. With that we achieved a gross profit of BRL 23.8 billion on third quarter of 2015, versus BRL 25.6 billion for the second quarter of 2015.

In terms of operational expenses they went up for the third quarter due to legal contingencies and higher dry/subcommercial well expenses. With that we achieved an operating income of BRL 5.8 billion in the third quarter versus BRL 9.5 billion in the second quarter.

The financial results are much lower in the third quarter, [negative] BRL 11.4 billion, as second quarter was negative BRL 6 billion, due to higher exchange rate losses over foreign exchange-denominated debt. With that we had a loss of BRL 3.8 billion versus [a gain of] BRL 500 million in the second quarter of 2015.

The adjusted EBITDA was BRL 15.5 billion versus BRL 19.8 billion in the second quarter. Investments, BRL 19.3 billion versus BRL 18.3 billion in the second. And the free cash flow was BRL 3.8 billion versus BRL 5.7 billion in the second quarter of 2015.

Slide number 10. Now talking about exploration and production in Brazil. The total production of Petrobras during the first 9 months of 2015 achieved [an average of] 2,790,000 barrels per day, a growth of 6% versus the first 9 months of 2014. It's important to highlight that the pre-salt represented almost 24% of the total production of the first nine months of 2015.

On the right-hand side of the slide, we see the results without - for the production in Brazil of oil and gas growing by 8% between the first nine months of 2015 and first nine months of 2014.

On slide number 11, moving on with exploration and production. Now with pre-salt production that's been growing steadily since 2008, achieving a monthly record in August this year with 859,000 barrels per day. The daily production record was on September 15 this year with 901,000 barrels per day and the record including oil was 1,120,000 barrels per day also on that date. It's important to highlight that this production includes Petrobras partners.

Slide number 12, now speaking about the connection of new wells in Brazil. From first nine months in 2015, we connected 52 wells, of which 35 were production wells and 17 were inductor wells, and we expect connect another 20 wells off shore with a total of 72 wells for the year.

Slide number 13, about Downstream and the oil products output in Brazil. When we compare the first nine months of 2015 versus the same period in 2014, we see a decrease of 6% in the production of oil products. When you compare with third quarter of 2015 versus the second quarter of 2015, we see a drop of 1% in the production of oil products.

Slide number 14, still on Downstream, now speaking about sales volume in Brazil. We see a drop of 8% between the first nine months of 2015 versus the first nine months of 2014. And when we compare the third quarter of 2015 versus the second quarter of 2015, we see a growth of 1% in the sales of products and that's due to seasonal variation.

Slide number 15, still speaking about downstream, now about the trade balance of oil and oil products. And at the top of the slide, you see that exports of oil and oil products went up in the first nine months of 2015 reaching 501,000 barrels per day versus 389,000 barrels per day in

2014. There was a decline in imports to 590,000 barrels per day versus 813,000 barrels per day in 2014. And therefore, the balance went from minus 424,000 to minus 89,000 barrels per day in the first nine months of 2015.

At the bottom of the slide, we see that there's a quarter trend towards an improvement in the trade balance evolution of oil and oil products. And in the third quarter of this year, we achieved minus 21,000 barrels per day versus minus 27,000 barrels per day in the second quarter of 2015.

Slide number 16, we have the net income evolution between the first nine months of 2015 with the first nine months of 2014. We start the graph with the net results in 2014 with BRL 5 billion, and we observed a drop in the sales revenue due to less volume of sales of products, less price of exports and fewer exports of products.

We can also see an improvement in the cost line due to fewer imports of oil and products and lower government take. The operating expenses also improved. Bear in mind that in 2014, we had additional costs which were capitalized duly and losses with the electrical sector and also the voluntary incentive layoff program. And in 2014, we had fewer expenses with dry wells.

The financial results has an impact due to exchange depreciation debt, the financial expenses and an increase in the debt and also less interest rate which was capitalized. So, that way, we reached a net result of BRL 2.1 billion in 2015, in the first nine months.

Slide 17, we have the operating income evolution between the first nine months in 2015 and 2014 per segment. We start with an operating income in 2014 of BRL 11.5 billion. We noticed an improvement in the Downstream because of a better margin, trade margin, of the products. The E&P segment had a worsening result due to the result of the lowering of Brent cost. The Gas and Power has an improvement because of the better trade margins of natural gas and electricity. And the Corporate segment, we see it has dropped because of an increase in tax expenses. At the end, our operating income in 2015, that's BRL 28.6 billion, 149% above the first nine months in 2014.

Slide 18 now, the operating income evolution per segment between the second quarter and the third quarter in 2015 per segment. The operating income in the second quarter is BRL 9.5 billion and we observed a drop in the Downstream because of the tax expenses.

In the E&P segment, there was also a drop because of the price of Brent. In the Gas and Power, better trading margins of natural gas and electricity. And in the Corporate, there's an improvement because of less tax expenses in the quarter.

So the final operating income at the end of the third quarter 2015 was BRL 5.8 billion in relation to BRL 9.5 billion in the second quarter.

Slide 19, costs of lifting and refining. We have the lifting cost at the top part of the slide. We can see that the lifting cost in reais increased 17%, but in dollars it dropped 16%. The reason for this increase in reais were a higher cost with interventions in the wells and subsea engineering and maintenance in Campos Basin. So without the exchange rate, this increase would have been up 4%, if we included the impact of the exchange rate.

The cost of refining cost, we have the same situation, an increase of these costs in reais, 18% increase, although in dollar terms, it presents a 15% drop. The reason for the increase in reais was lower throughput in the refineries and higher personnel expenses.

Slide 20, talking about the indebtedness of the company. The net debt between - December 31, 2014 was 31.6, and in the September 30, 2015, it was BRL 402 billion, mainly because of the

exchange rate, which we had because most of our debt is in hard currency. Now, this net debt measured in dollars presents a drop going from BRL 106.2 billion to BRL 101.3 billion in the period.

Slide 21, we're talking about the financial ratios between the second and third quarters increased because our debt in reais also increased as we saw in the previous slide. The leverage went to 58%. Before, it was 51% in the second quarter. And the net indebtedness EBITDA went from 15 to 4.2 times in the second quarter of 2015.

Slide 22, bear in mind the adjustments which were made in the business and management plan of 2015-2019. On the left hand side, we have our assumptions. The Brent in 2015 in our plan was \$60 a barrel, was updated to \$54 in October. In 2016, it went from \$70 to \$55. And the exchange rate that in 2015, when we launched our plan, was 3.10, and now it's being updated to 3.28 in October. And in 2016, it was 3.26 and it was updated to 3.80 in October. So investments CapEx, measured in dollars, also was updated in relation to the plan. It had a forecast of \$28 billion for 2015 and that was updated to \$25 billion in October. And in 2016, it was \$27 billion (sic) [\$27 billion] (22:10) when the plan was announced, and it was updated to \$18 billion in October this year.

Slide 23, we're talking about the free cash flow in billions of dollars. We can see that between the first nine months of 2015 and nine months of 2014, we went - left 2014 with a negative cash flow of \$5.3 billion and the first nine months of 2015, we have a positive cash flow of \$2.5 billion. This is operating cash flow less investment. And when we compare the second quarter to the third quarter of 2015, the second quarter, we had \$1.9 billion and in the third quarter, \$1 billion in free cash flow.

Slide 24. We have an update of the cash flow for 2015 in billions of dollars. We start with an initial cash position of \$26 billion in 2015. Operating cash flow, our expectation is \$25 billion. We've already achieved \$21 billion. We have excluded, of the \$21 billion, the tax contingencies which are in another line, the investments of \$23 billion (sic) [\$23 billion] (23:42), we have already invested \$17 billion.

It's important to mention that we are not changing any assumption of the plan, but we are pulling the best analysis for the 2015 cash flow. The interest, amortization, tax contingencies and other lines was \$26 billion. We have already realized \$20 billion (sic) [\$20 billion] (24:05). Divestments \$0.7 billion, so far \$200 million - \$500 million. Rollovers, \$5 billion. Funding needs, \$14 billion, and we have realized \$11 billion. And we hope the final cash position for 2015 is to achieve \$22 billion in cash.

That is my presentation. And now I will go to the Q&A session.

Q&A

Operator

Now we will have the Q&A session. Be informed that the questions in English will be translated into Portuguese for the executives of Petrobras, and their answers will be translated into English.

Our first question is from Mr. Luiz Carvalho from HSBC.

Q - Luiz Felipe Carvalho {BIO 16117456 <GO>}

Good afternoon. I have two question. In relation to a comment that Ivan made yesterday during the conference that there would be \$25 billion or something around that as credit available for the company that had already been map. I would like to understand with the leverage that we have of 5.2 times and 58% of total leveraging, this might solve a problem of short-term liquidity. But in the terms of indebtedness and in the side of the equity holder, that could be very bad if the cash

generation doesn't offset this - rolling over the debt in the future. So I'd like to see how you understand the effective availability of the debt in the market in relation to the capital structure of the company.

My second question is also in relation to a comment made yesterday during the press conference that you mentioned a possible impairment in the fourth quarter. I would like to understand if you already have anything you can say about the size, if it is related to the level of oil that we see today? Or there might - something that's not related to impairment, but a write-off due to corruption with the federal police. And also how do you believe that this can impact the payment of dividends in 2015? Thank you.

A - Ivan de Souza Monteiro {BIO 16420543 <GO>}

Thank you for your question, Luiz. Just let me correct a few of your comments. First of all, the comment we made yesterday about the \$25 million (sic) [\$25 billion] (27:15) are as options available for the company, which are being analyzed. The company can consider this from \$0 to \$25 billion if it deems adequate. The company concentrates its majority in the first quarter of 2016, and we expect to cover all the funding needs for 2016 up to the end of 2015.

So doesn't mean that the company will use the \$25 billion. It might use just to pay some of the existing debt if that improves its profile and the cost of its financing.

In relation to the impairment process that's a natural process that occurs always at the end of the year. There was no declaration from the company saying that the company has planned or has defined something about this. It will have its normal impairment process at the end of the year. And it will see if there is enough to support it. (28:09) If the company - the company will acknowledge it. If not, it won't acknowledge it.

The comment about - you mentioned the Lava Jato operation by trade rate that the company informs that the information that we have till we arrived here for this teleconference of the adjustment made for the third quarter. There's no alteration. Bear in mind that there are two types of adjustment. One is the specific cost of corruption, and the other one is done through the impairment process of those additional values, which were added artificially to the assets of the company because of the cartel. Thank you very much.

Q - Luiz Felipe Carvalho {BIO 16117456 <GO>}

Thank you, Ivan.

Operator

Our next question is from Mr. Diego Mendes, Itaú.

Q - Diego Mendes {BIO 16313486 <GO>}

Good morning to all. I also have two questions. The first question is just to understand, as Lucas mentioned, there's a difference of \$2 billion in CapEx in this year, and I'd like to understand why there's this possible delay? And also looking towards next year, the \$17 billion that were given as guidance. So which are the cut-off lines that you have given in relation to the previous year?

And also in relation to the managerial costs of \$21 billion for next year, that when you consider the exchange rate that's also included in the assumption, there is a great drop from one year to the other. So I'd like to really understand which are the main line of costs, because this will be a significant drop.

A - Operator

Diego, speaking specifically about CapEx, the previous plan - or the plan that existed before the beginning of the new administration, the CapEx should be of \$45 billion. We plan - the CapEx was reviewed, so, \$28 billion, and then to \$25 billion. And what Lucas gave you was not a review. The plan is still in the \$25 billion range. The execution is showing us that the lowest numbers of the company would achieve \$23 billion. So, there are no revisions concerning the 2015 numbers but we're finishing the year with an expectation of achieving a CapEx of \$23 billion for this year.

Concerning the costs, all opportunities that we may have to reduce our costs is being pursued in many different ways. Yesterday, Director Solange Guedes was able to present several items, showing as we advance in the production of pre-salt and as a production of the pre-salt advances towards the total production of the company, there are objective gains and productivity, and we're very happy about that. And you can expect for the next quarters and next years, in advance, in terms of making Petrobras a much more efficient company.

Our next question comes from Mr. Bruno Montanari.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon. Thank you. I have two quick questions. Concerning the fiscal provisions that we've seeing for the last two quarters, do we - should we expect the continuity for - of those agreements for the next quarters? That's the first question.

And secondly, maybe to Solange, could we have an update on the completion status of the platforms that will start 2017 with P-66, P-68 and P-74, just to have an idea. Thank you.

A - Operator

Thank you, Bruno for your questions. Now starting with the fiscal contingencies, these processes are dynamic processes where our decisions are made both at the administrative sphere and the legal sphere, or when there are problems such as the case that happened with debt being paid with very good discounts. The company always looks at that and then judge that those two processes deserve to be dealt with the way we ended up dealing with them. We have no expectations regarding that subject, but we've been monitoring constantly what occurs in terms of decisions both at the administrative and the legal levels.

Now, I'd like to pass the floor to Director Solange.

A - Solange da Silva Guedes {BIO 16088234 <GO>}

Good afternoon. We've been making huge efforts to complete in platforms and the systems that you mentioned that are in our business plan for 2017. We've been making some negotiations especially in terms of platforms because you have mentioned the platforms, but there are also well construction factors as well as subsea equipment and installations.

Our adjustments, that we are discussing now has been made after the adjustments already published concerning investments by the company, can lead to an adjustment be made to these systems in 2017. However, this is an ongoing work, and so far, our best efforts are being very effective in terms of completing these units by 2017.

Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you very much, Solange.

Operator

Our next question is by Mr. Felipe Santos from JPMorgan.

Q - Felipe Dos Santos {BIO 16391255 <GO>}

Good morning, everyone. First question concerns are made for provision as a result of the forecast of oil reserves for last year. The scenario was low during the year and the rules require company to annually review the reserves and see if that could cause an impact. Have you studied that and how much are we going expect in terms of reduction and provision as a result of that?

And the second question is about an update about the Mitsui's operation and leaseback operations, is there any chance that these operations will not be completed by the end of 2015 and carry over in 2016?

A - Operator

Thank you, Felipe, for your question. I will now give the floor to Director Solange about the research and then I'll comment on Mitsui and leaseback.

A - Solange da Silva Guedes {BIO 16088234 <GO>}

Good afternoon. As it occurs with other processes, the estimates of reserves are a regular process that companies execute at the end of the year and we already done in Petrobras according to the SEC criterion and also according to the local criterion of the countries where we operate. The SV (35:19) criteria applied - that are applied differently in different countries. And this study has not yet been completed. It's still ongoing. And we will publish the results at the end of January 2016.

A - Operator

Felipe, concerning the Mitsui and leaseback processes, both processes are doing very well. Mitsui depends on regulatory authorizations especially by Cotti (35:45) and other regulatory agencies, all of them are being monitored very closely by the company. And it could tell you that our best expectations is that we're going to be completing that by this - at the end of this year. Concerning leaseback, our expectation is that we'll be completing all of the stages and the contractual stages by November. Thank you.

Q - Felipe Dos Santos {BIO 16391255 <GO>}

Thank you.

Operator

Our next question is by Ms. Liniani (36:13).

Thank you for the opportunity. About the asset sales, where you intend to gain \$15 billion by the end of next year, I'd like to know if you still think that this is feasible? And could you illustrate or could you talk about the biggest difficulties that you've come across in the sales process. Are they more related to regulatory aspects or more to negotiation of prices? The second question is about the status of the contract for the rigs of such Brazil with Petrobras. Could you give us an update about that? Thank you.

Well speaking about the asset sales. The company's goal is to have a cash result of \$15.1 billion and we've realized \$200 million. And in 2015, we will realize the difference for \$700,000 and the difference for - to \$15.1 billion will be left for 2016. We're still fully focused on achieving this goal and according to - our best expectation is that we'll be able to achieve at the end of 2015 this amount of \$15.1 billion, concerning offset (37:28) Brazil, the company always speaks about any relevant facts, any additional information to be given about that will also be provided through relevant facts.

Could you comment on whether you see the negotiation from the perspective of prices as a challenge for the sales of assets? Thank you.

You're welcome. Concerning the regulatory aspects, at the beginning, Petrobras defined which assets will comprise its divestment plan, and obviously that involves the entire board of directors. And once that's been defined, which assets will be included in the process, all of these perspectives, our regulatory and pricing perspectives, are taken into account. But invariably, when you look at the process from day one (38:17) to valid and nonvalid proposal, at the end, in spite of the previous content and the previous analysis from the legal perspective of the impact of that divestment and the regulatory agencies, you have a formal process, regulatory process, but that has all been considered and that a \$15.1 billion number that the company has been committed to and has published to the market. Thank you.

Our next question is by Mr. Pedro Medeiros from Citigroup.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Good morning, everyone, and thank you for taking my question. I actually have three questions. The first question is a follow-up on the goal of reducing manageable costs and the CapEx reduction for 2016. Ivan, could you give us an estimate on how much of that goal has been reached, in your opinion, in terms of manageable costs? And have you delivered part of it in the third quarter?

Concerning CapEx, when we look at your numbers, the CapEx numbers and the federal budget, where the numbers are published monthly. The numbers for August, I know that this methodology is wrong but it seems to point towards the \$19 billion having been reached and keep the same expenditure rate. Does that information apply or do you think you still require additional efforts in terms of efficiency in cutting costs versus what you're doing today to deliver this \$19 billion?

The second question is speaking a little bit about PBD, we had an important change in the power sector in the third quarter and the replacement of Cigás with Amazonas distributor. The impression I had was that your PBD is a little bit higher than the PBD of the electricity sector, the reversal of allowance for impairment trade receivables. Is there anything specific in the third quarter that you can comment on that? And if this mess that's occurring, in spite of it, is there any promise of reversal for the fourth quarter?

And the third question is, usually in the third quarter we see the company provisioning the collective agreement with the unions. I know that you're negotiating with them and we usually see an amortization rate that is usually stronger than - or higher than the one that you've been reporting. Vis-à-vis, what you're negotiating and the results that you're seeing, is it possible for us to have a provision level much higher during the fourth quarter? Thank you. Those are my questions.

A - Operator

Thank you, Pedro. I'll give the floor to Director Solange to speak about manageable expenditures and then I'll comment on the electricity sector and on the provisionments that you spoke off. Thank you.

A - Solange da Silva Guedes {BIO 16088234 <GO>}

Good afternoon, Pedro. Concerning the manageable costs, the company's E&P sector is an area that gives an important contribution to the company as a whole. And that scenario where there are some ongoing actions you referred to our plans for 2016, for instance.

Initially, we already have a forecast for this process of cost optimization. We've been doing a very intense task in 2015 that will be seen in the 2015 results, and some other aspects will be included in the 2016 results. We've been working in several aspects in optimizing processes as a whole wherever we have the opportunity to do more with less.

We did something good that we worked in renegotiating contracts where we dealt with the major contracts of the E&P area with a significant progress in cost reduction that will, in turn, have an important impact that will allow us, in turn, to meet the operational expenditures goal for 2016. In addition to that process of hibernation of our own system, so to speak, that are not in line with our strategy of cost optimization. So, these are the ongoing activities that I can use an example to you.

A - Operator

Pedro. Concerning the PBD of the electrical sector, there was no news at all. We believe that as the bills for consumers are becoming higher and higher. The liquidity is higher in the sector, so there is no perspective of worsening in the sector and no facts caught our attention in this quarter.

Concerning the negotiations with the unions, we had a provision in the third quarter for that. And if there is any complementation, it will be residual for the fourth quarter. So, the biggest amount has already been provisioned.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you. And as a quick a follow-up - Solange, thank you very much for the information and for commenting on the initiatives. But objectively, is there any information on how much the company has been able to achieve vis-à-vis the 2016 goal? Can you give us a number or a range?

A - Operator

Pedro, we prefer not to give you any ranges or numbers. But what I can tell you is, as Solange explained to you, several initiatives and several areas of the company are being undertaken to help us achieve the goal that we published to the market, and we're confident that we are going to achieve the goal. Thank you.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you.

Operator

Our next question is from Mr. Gustavo from Santander.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Good afternoon. I have two questions. The first one is in relation to the funding that you mentioned yesterday during the press conference. I'd like to understand if you could give me some additional information. Which of these options and at what cost would it be aligned with the Petrobras bonds or at a lower cost?

And my second question is linked to the reduction of CapEx of the company. I'd like to understand what is the impact, especially as from 2017, in the production curve of the company if you have this target of 2.8 billion (sic) [2.8 million per day] (45:18) barrels by 2018, even with the reduction of the CapEx. Thank you.

A - Operator

Gustavo, thank you. Talking about the (45:27) are only attractive if they are below to our secondary of our 10-year bonds. So you can have as a reference the price of the secondary, and these operations would be lower than that price.

The first option that we considered was the said leaseback, it sought \$2 million. The best expectation is that we will finalize this operation still in November. We're working towards that. And other options the first that we discussed was to reduce the need of resources that Petrobras needs. So we have to review the CapEx, reduce costs. All this follows that line.

And also trying to find operations which are not linked to any risk of increasing the cost of financing, because of the loss of the grading by the agencies. So everything is following these lines of this leaseback of \$2 million.

In relation to the CapEx I will now – and its association to the oil production I will give the floor to Ms. Solange.

A - Solange da Silva Guedes {BIO 16088234 <GO>}

Good afternoon, Gustavo. As I mentioned before when I was asked about some platforms which are being built and would start operating in 2017, the reference is the same. Today we are discussing this optimization, this balance between revenue and our business plan.

Our assumptions of our business plan is the same. So we are doing these updates with our capacities and also with the success of our investment plans. So that's how we are adjusting these projections.

In the terms of E&P 2017 can be considered today. It's not something that's too far, because measures, which are underway to deliver the production in 2017, is already underway. It's not something that we can change, because they're already being done. Some fine tuning will not bring any significant changes or relevance in a period of less than 2 years ahead of us.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Okay, Solange. But the target of 22.8 million (sic) [2.8 million] (48:15) barrels is maintained?

A - Solange da Silva Guedes {BIO 16088234 <GO>}

That is being assessed. Our target I always draw our attention, because of our assumptions and business plan. Our assumptions and business plan is deleveraging our income and remunerate our shareholders. So our adjustments will be done always with these assumptions.

2020 is different to what I mentioned about 2017. Some adjustments can be made in our future during 2018, 2019, and we might make some adjustments for the projection in 2020. I was referring to only the year of 2017.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Thank you very much.

Operator

Our next question is from Mr. Caio Carvalhal.

Q - Caio Carvalhal {BIO 16605563 <GO>}

Good morning to all. I apologize if you've already mentioned this in the call. I'd like to know if you gave any information in relation to the volume of oil that was sold but not acknowledged in this quarter? So that I just have an idea of the volume and value. And especially if you can tell me the price that this will acknowledge. Will it be the September price as you indicated or the October price as if it's in the fourth quarter? That's my first question.

A - Operator

Caio, it's a very specific question, so I think the – we'll contact you. But it's important to see what's going to happen in the fourth quarter if it's positive and to see how much we can estimate.

Q - Caio Carvalho {BIO 16605563 <GO>}

I will speak with people of Investor Relations about that. My second question, I have other things to ask, but when we're talking about the production of 2017, obviously I understand that 2020 is some way ahead of. And I understand that the production of 2016 is consistent. And that 2015 I think we will have some interesting figures. My question is very specific, Solange. Can we run a risk of having a reduction, even though it might be a small reduction in 2017? Or is it too early to talk about that?

A - Solange da Silva Guedes {BIO 16088234 <GO>}

Good afternoon. I believe that it is a bit early. The only thing that I can anticipate, and I will repeat this, because I tried to detail it before, is that the variations increase as we get further and further away from 2015. And you mentioned it very well, and I'm very happy that that's understanding with - and 2015 is almost over. There are a few variables, but very few in relation to 2016.

2017 there might be a variation, but it won't be significant. And the adjustments and possible comments for the other years are still being analyzed. We are studying this, because of the margins and adjustments can still be done in the years 2018, 2019, and 2020. But I insist if you have a look at the projects that we listed as those that guide our production in 2017, they are projects which are already being executed. And we have a margin which - of changes, which isn't very big for 2017.

Q - Caio Carvalho {BIO 16605563 <GO>}

Thank you very much. If you allow me a third question, because the first one I'm going to clarify later. I would like to know about the other funding options. I know that the sales leaseback seems like an excellent option for the company especially when there's an implicit rate less than the collateral. But do you have other options? Are you considering securitization of reserves or is this something that maybe yes, maybe no? It's totally ruled out. How do you this possibility, Ivan?

A - Ivan de Souza Monteiro {BIO 16420543 <GO>}

It's totally ruled out any reserve securitization. But what the company might explore are securitization of export flows. Securitization of any reserve transactions is ruled out. Thank you very much.

Operator

We have a question in English. Mr. Pavel Molchanov from Raymond James would like to ask a question.

Q - Pavel S. Molchanov {BIO 15007228 <GO>}

Thank you for taking the question. When you talk about the \$15 billion of asset sale proceeds, can you give a sense of what specific assets - upstream, downstream, domestic or international - you are most in favor of selling?

A - Operator

Pavel, thank you for your question. It's not profit. It's cash. It's like this is cash. It's not profit. And in relation to the assets, the company publishes a relevant aspect with the business and the percentage that they want to discuss with the market in relation to this divestment, but the company does not supply through - relevant fact in relation to its specific process.

Q - Pavel S. Molchanov {BIO 15007228 <GO>}

Okay. I suppose (55:40 - 56:12)

Operator

Ms. Sarah, you can ask your question.

Hi, thank you for taking my question. I had two parts for the question and they're both related to previous questions. One is about the financing options that you have talked about, particularly the ones that you're going to be pursuing in the short term and I wanted to know what your thoughts about issuing secured debt might be. We've seen some headlines about that. So, any guidance regarding volume or sources for that secured financing would be helpful.

And the second is regarding your CapEx. You talked a little bit about what some of the implications of that reduction in CapEx might be going forward, and I was specifically wondering what the implications for your drilling fleet would be. What the current rig fleet looks like and what your anticipations for future developments would be. And if you can include in that also sort of how you would optimize your costs regarding renegotiating some of those day rates or terminating some of those contracts, that would be helpful. Thank you.

Thank you, Sarah. Answering your question, in relation to securitization, what we mentioned is that one of the options that the company might explore in the future would be the securitization of commercial contracts of oil exports. We rule out any possibility of securitization of its reserves.

The second part of your question, I will give the floor to Ms. Solange Guedes.

A - Solange da Silva Guedes {BIO 16088234 <GO>}

Good afternoon, Sarah. With regard to the association between the adjustments in CapEx in our investment projection and the consequence in the drilling fleet, this adjustment is something that is being done by the company since 2013. So, we have successively been reducing the CapEx in our CapEx of annual expenses, and consequently, the non-renewal of contracts.

So, in practice, what we are doing is our drilling fleet has been reduced by the non-renewal of the contracts which have matured. And there is no opportunity within our business plan of renewing these contracts, and also not going to the market to obtain new opportunities. We had some specific and unique cases where there was a reduction of contracts which was supported by contractual clauses. Petrobras doesn't sign a unilateral center of contracts. We do a continued adjustment of our fleet as these contracts are maturing.

If in the future there's a return of the projects or a need, the market today has a lot to offer and the prices are very interesting and Petrobras has a restricted access to this market of services for drilling wells and we will do that when necessary.

Operator

Mr. Anish Kapadia would like to ask a question.

Q - Anish Kapadia {BIO 5788754 <GO>}

Hi. A couple of questions, please. The first one relates to your CapEx. I was wondering if you could explain where you've got your CapEx in 2016 and what the impact will be on your 2016 production target of 2.2 million barrels today of oil. So just trying to find out what impact that CapEx cut is having on maintenance-type drilling and if you're going to see acceleration at decline rates in the mature areas like the Campos Basin and onshore oil.

The second question relates to the Libra appraisal wells, it seemed to me like the second and third Libra appraisal wells were somewhat disappointing. I'm just wondering if you can give your expectations to the discovery given the second appraisal well contains a high amount of CO2 and the third appraisal well, you found poor-quality reservoir. Thank you.

A - Operator

Good afternoon. Thank you for your question. First part of your question refers to the impact of CapEx on some activities. And according to what we have is, our reduction was the elimination or the postponing of some projects that we had approved or started or approved for a start in 2016.

Yes. It assumes a reduction in the drilling activities with consequences that I mentioned before when I spoke about the drilling fleet. Concerning the maintenance, since the business plan defined that we are going to maintain, in our portfolio, the assets that it is comprised of today, the maintenance remains in line with what we plan before.

We don't forecast any reduction or delay in our maintenance activities, given what has been happening in 2015 where all of our downtimes for maintenance of production systems were executed absolutely in line with our plans. And that will also be the situation in 2016.

Concerning the decline rate, yesterday, I had the opportunity to talk about a very interesting situation where the decline of the Campos Basin is being well managed. It's one of our most productive areas, and there's no short-term impact being forecast for our results.

Now, speaking about the Libra assessments, we've published our assessment of our Libra wells and I must remind you that Libra is still starting its exploratory campaign. We're still beginning our activities in terms of knowing more about the field. And it's too early to say that the results are higher or lower than expected. These are the typical exploration results. And we and our partners are looking to implement and execute the tests planned for this stage. And we're fully aligned with the plans.

Thank you, everyone. With that, we are now finishing the Q&A session for the Petrobras conference call. Mr. Ivan Monteiro will now make his final remarks. Please, Mr. Ivan.

A - Ivan de Souza Monteiro {BIO 16420543 <GO>}

Once again, I'd like to thank you for your participation and I wish everybody a great day.

Operator

Thank you, ladies and gentlemen. The audio of this conference call for replay and slides presentation will be available at the Petrobras IR website at www.petrobras.com.br/ir. This concludes today's conference call. Thank you for your participation. Please hang up your telephones and have a great day.

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