

Q4 2016 Earnings Call

Company Participants

- Hugo Repsold, Head-Human Resources
- Isabela Mesquita Carneiro da Rocha, Investor Relations Executive Manager
- Ivan de Souza Monteiro, Chief Financial & Investor Relations Officer
- Jorge Celestino Ramos, Chief Refining & Natural Gas Officer
- Luiz Nelson Guedes de Carvalho, Chairman
- Solange da Silva Guedes, Chief Exploration & Production Officer

Other Participants

- Bruno Montanari, Analyst
- Caio Carvalhal, Analyst
- Diego Mendes, Analyst
- Eduardo Vieira, Analyst
- Gustavo Allevato, Analyst
- Lilyanna Yang, Analyst
- Luiz Felipe Carvalho, Analyst
- Osmar Cesar Camilo, Analyst
- Pedro Medeiros, Analyst
- Regis Cardoso, Analyst
- Rodolfo de Angele, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Petrobras Conference Call and Webcast with Analysts and Investors for the Presentation of Information Regarding the Results of the Fourth Quarter of 2016 and the Full-Year of 2016. We would like to inform you that participants will be in listen-only only with simultaneous translation into English. After the presentation, we'll have a question-and-answer session, when further instructions will be given for you to participate.

Today, with us, we have Mr. Ivan de Souza Monteiro, CFO and Investor Relations Officer; Ms. Solange da Silva Guedes, Chief Exploration and Production Officer; Mr. Jorge Celestino Ramos, Chief Refining and Natural Gas Officer; and other executives of the company. 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 assumptions based on the expectations of the company management regarding the future of Petrobras. In order to start, we will listen to the Executive Investor Relations Manager, Isabela Carneiro da Rocha, who will make a presentation about the results of the fourth quarter and the full-year of 2016. Afterwards, we will have a Q&A session.

And now, Ms. Isabela Carneiro da Rocha will take the floor.

Isabela Mesquita Carneiro da Rocha {BIO 19730664 <GO>}

Good afternoon. I would like to thank you very much for your attention. And we will start with the highlights of the period, and then we will get into the full-year results. Starting on slide number 4, we start with the highlight of last year with important information about the reduction of total recordable injury frequency rate, and we reached 1.63 at the end of the year. And this is a main highlight emphasizing the safety of our processes and our facilities.

In relation to the financial and economic results, we would like to highlight net income in the fourth quarter of BRL 2.5 billion, representing a reversal of the loss that we posted in the third quarter of 2016. In terms of operating income also a reversal vis-à-vis the loss that we posted in 2015. We reached BRL 17 billion in operating income compared to BRL 12 billion loss that we had in 2015. So, these two reversals were very important, highlighting the effects of the fourth quarter especially.

In terms of EBITDA, it was a big highlight as well with an increase of 16% in the adjusted EBITDA, and then we will be talking about that in detail and about the impact. And the EBITDA margin delivered 31%, which is very high if we compare to the other companies in the sector. Free cash flow, a positive free cash flow for the second consecutive year and the seventh quarter in a row and much higher in comparison with the previous year.

All this having an impact on the company's de-leveraging, which is a clear objective in our strategic plan, and we can talk about the 6% decrease in the gross debt in U.S. dollars and the reduction was even higher 22% in reais because of the exchange rate effect. But it was also very important in dollars, because of the pre-payment and debt amortization that we made using the proceeds from divestments as well as proceeds from the operating cash flow. And with that, we were able to reduce by 31% our net debt/EBITDA ratio that dropped from 5.1 at the end of 2015 to 3.54 at the end of 2016.

Going to the next slide, we talk about the records in our operating performance, production records. We reached our target for the second consecutive year of production of oil in Brazil 2,144,000 barrels per day, and the performance of the fourth quarter was especially important. In December, we reached a record of production reaching to 2.9 million barrels of oil equivalent per day.

And this made - if we consider oil and gas, Petrobras, with this increase in production, became a net exporter, with exports growing by 12% in the last quarter. In terms of efficiency of investments and costs, we can see also a reduction of 32% in investments, a

reduction of 6% in manageable operating costs, 6% in SG&A, and also a reduction of 20% in our workforce, being 12% our own employees.

These are the highlights - summarized highlights of our result, and I would like now to better explain the operating highlights on slide number 7 about our production, the behavior of our production curve in 2016, highlighting the start-up of three large units, two in the Lula field and the other one in Lapa field, an increase of 10% in production between the first quarter and the fourth quarter of this year. If we consider Brazil only, this was 13% increase in production. So, we reached 2.94 million barrels per day in December, breaking many different records as we said before, both production of oil in Brazil, as well as the production of oil and gas in Brazil and abroad.

In pre-salt, I would like to talk about the performance of pre-salt. We reached two important landmarks in pre-salt this year, which was 1 million barrels per day in production of oil operated by Petrobras, lifting and (6:47) 1 billion barrels already recovered in the pre-salt layer. For this year, 2017, we expect the start-up of three large systems, two in the Lula field and the other one in Tartaruga Verde. It's also the - about the EWT, the Extended Well Tests in Libra and also new area being drilled in Libra, and we continue with our activity in this field. And we are also reaching important landmark both in time and completion of wells.

On the next slide, we talk about the increase in production, accompanied by a cost efficiency reduction in the lifting cost. We reached by BOE (7:38) \$10.6 in Brazil and \$5.4 per barrel abroad, highlighting the lifting cost that was lower than \$8 per barrel in the pre-salt. And this shows our competitiveness and high productivity in this layer. This reduction is also driven by the efforts that we made in cost reduction regarding reducing our helicopter fleet 21% versus 26%, rigs 24%, and we continue to reduce the time for the well construction, having reached 94 days in 2016.

Now, going to the next slide, I would like to mention the higher integration among the areas and the synergy that we have in the whole chain of Petrobras, also due to the higher production of pre-salt and our oil profile was lighter, that is to say our production of medium oil has increased, and this matches our refineries, because it allowed for an increase in the participation of oil processed in the refineries and 92% on average of domestic oil throughput and 94% in the fourth quarter alone.

With that, we were able to reduce the import of oil at a minimum level, very important for the production of lubricants. And we also reduced the logistics cost by doing that for the company, and increasing the yield of the more noble oil products that are diesel, gasoline and also jet fuel. So, we had 70% conversion, which matches the profile of the Brazilian consumption.

Slide number 10 now. We would like to highlight a reduction in the sales volume. There was a lower demand in the domestic market, 2% in the year, and our sales were reduced by 8%, because we had the effect of imports by third-parties.

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Now, slide number 11. With the lower volume of sales, our profile of imports and exports. Exports 634,000 export barrels in the fourth quarter with the net balance of 329,000 export barrels between oil products and oil. On the next slide. Our perspective is that we will continue to be net exporters with the increase of production that we will achieve in a few years' time.

Now let's talk about the results or the indicators. In spite of a lower Brent, 17% lower than 2015 and lower sales volume in spite of all that we can see our gross income undergoing a reduction because of the lower sales of oil products and lower generation of power as well due to the hydrologic system that was more favorably produced during this period, and we reduced the sales of gas and fuel oil. However, there was an increase in exports on the other hand with the lower Brent price, and this caused the drop in the gross income.

If we look at the operating income, we can see the reverse of both from the third quarter to the fourth quarter and from one year to the other. And this is due to many different factors. The first one, at the higher margins, the oil and gasoline and diesel that we saw during the year stemming from the pricing policy that was set by the company and another important point were the lower expenses with impairment much lower in 2016. We still had a large amount in impairment, but this was concentrated on the third quarter. And another point was the sale of assets mainly Carcará which contributed to the operating income and also lower expenses with imports and government take. And with the higher participation of domestic oil in our feedstock, which allowed us to reduce our imports and increase our exports in terms of net financial results.

Although, we saw an improvement, this figure is very high still because of our interest expenses, because the company debt is still high. Nevertheless, we see that in the fourth quarter, the operating income was enough to exceed this so we had a net income in the third quarter, but if we consider the year, this was not enough to offset all that. So we had BRL 14.8 billion in our net income as a loss for the year.

On the next slide, we would like to talk about EBITDA. And there is a big highlight here, a consistent increase in our EBITDA figure reaching BRL 24.8 billion in the fourth quarter and BRL 88.7 billion in the year. The 16% growth vis-à-vis 2015 and the EBITDA margin of 31% are driven by the higher margins for gasoline and diesel less expenses in imports and government take and higher participation of the domestic oil in our processed feedstock and also increase in exports as we said during the operating highlights.

Now going to the next slide. We would like to mention the free cash flow, positive free cash flow for the seventh consecutive quarter, stemming from the higher operating cash generation and reduction in investment because of our capital discipline that the company has been adopting. And you can see a very impressive increase in free cash flow in 2016. It was enough to cover our interest expenses and still be used to deleverage the company.

On the next slide, we can see the behavior of our debt. We had prepayment and debt amortization, which allowed us to reduce our net indebtedness in dollars. We also

reduced below \$100 billion and we have \$96.4 billion. I would like to also to mention the behavior of the average debt cost, a small reduction in the fourth quarter and also an extension of the debt, 7.46 years, 55% leverage.

And on the next slide, you can see that this stems from the liability management - active liability management shows, the blue bar shows our current position in terms of maturities for the next few years. And as we said before, without an increase in the average cost of debt, if we look at the third quarter - the last quarter only.

Now, our projection regarding cash flow for this year with an operating cash generation of \$30 billion (15:51), expected judicial guarantees of about \$3 billion, amortizations and interest \$16 billion and \$6 billion in the tender offer already carried out with \$8 billion (16:13) expected, around \$20 billion investments, divestments \$8 billion, cash flow borrowings that have already been done at the beginning of the year \$4 billion and we should close the year with a cash position around \$20 billion - or \$19 billion. So a good projection as well in terms of our liquidity.

Now regarding our business and management plans, our BMP. We would like to track the results from the plan going back to the four pillars. First of all as we said, the total recordable injury frequency rate that is being consistently reduced and reaching the target that was established for 2017. We reached it in fact in 2016.

The next pillar of the plans are the competitive prices and we would like to inform you that in October 2016, Petrobras disclosed its pricing policy or the beginning of an active pricing policy and we have already made six reviews since then for the prices of diesel and gasoline, both upwards and downwards. And this is being done by observing the level of imports and also the commitment of never having prices below the international parity and the behavior of imports of diesel and gasoline by third-party, in the case of diesel (17:48) we saw a reduction over the last three months of the last year and in the case of gasoline, it was not possible yet.

And we would like to mention that there is a gap of about two months between the decision to importing - the effect of imports, this analysis in the quarter is not really conclusive. It will be more conclusive over time. It's important to mention that we made available for the first time a report about our pricing policy both for gasoline and diesel, and this is available on our website as promised and it will be made available on a quarterly basis giving (18:28) rationale for the changes in prices of gasoline and diesel.

On the next slide, we have another pillar, which is CapEx or CapEx efficiency. And we have announced \$74.1 billion in the five years of the plan. And we adjusted that to \$74.5 billion due to what we achieved in 2016. In 2017, the investment will be \$19.8 billion (sic) [\$19.5 billion] (18:57) expected in partnerships and investments. As we said, we are adjusting to \$21 billion between 2017 and 2018, because we had \$13.6 billion in the 2015-2016 period, and so we have \$1.5 billion still remaining vis-à-vis the target that was announced.

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We reduced our expenses, manageable operating cost. This is another pillar of the plan, which is our efficiency in OpEx and we were able to reduce our SG&A by 6% in the year, with a reduction to number of employees into system our own 12% and we closed the year with 68,829 people in our workforce besides what was said regarding the reduction in the lifting and logistic products (19:55) and we reached a reduction of 6% in manageable operating costs.

On the last slide, we have all these still converging to the metric that was established in our BMP of net debt/EBITDA for 2017 to 2021, 2.5 in 2018 so we reached 3.54 already in 2016 and this is an evidence of the behavior over all the quarters last year, in which we can see a consistent drop.

Thank you very much and now we will start the Q&A session.

Q&A

Operator

We will now begin the Q&A session. Each participant will be limited to at most two questions. Questions should be made consecutively so that executives may answer them afterwards. We kindly ask you not to use the speaker phones. Questions asked in English will be heard by all of the participants in the original language. The management will answer them in Portuguese, simultaneously interpreting into English. And our first question comes from Mr. Luiz Carvalho, UBS Bank. Luiz Carvalho?

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Good afternoon, everyone. Thank you. I have two questions and one follow-up question. My first question perhaps to Ivan or Celestino. Now the TCU, the Federal Accounting Court has approved the sale of assets. I'd like to understand what is your rationale and which of the process has evolved? ANP held a workshop in Rio in the beginning of March about the Brazil Fuel program launched by the Federal Government, and the perception we had in terms of the monopoly of Petrobras in refining will depend on how Petrobras see that it should perhaps leave this segment. I'd like to understand what is the model you have in your mind. How is this evolving?

My second question is perhaps geared to Ivan. I'd like to know your opinion, your take regarding the Transfer of Rights with the government. The government has been saying that the ANP value should be ready in the coming weeks, and I just want to understand the time horizon you're considering for that? And secondly, how is Petrobras - which form of payment Petrobras feels is the most adequate at this point? And my follow-up question has to do with the leverage that you presented in the (23:03) quarter. When we look at net debt to EBITDA ratio, apparently you are not including liabilities related to pension funds. And I would like to know whether the 2018 target takes these liabilities of pension funds into account or not. Thank you.

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

Thank you, Luiz. This is Ivan speaking. Well, starting with the last question, it does not consider liabilities of pension funds. As for the first question, our strategy regarding refining, I will turn the floor to Jorge Celestino. For the Transfer of Rights, Solange will answer your question.

A - Jorge Celestino Ramos {BIO 19059339 <GO>}

Hello, Luiz. Regarding our program of partnerships in refining, this is in our Business and Management Plan for 2017-2021 horizon. It is one of the strategies.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

This makes sense.

A - Jorge Celestino Ramos {BIO 19059339 <GO>}

When you look at the whole oil chain, looking at the upstream, E&P, downstream, I always like to highlight this aspect, which is extremely relevant. We have the participation of 78 companies in Brazil in upstream, also in retail. There are companies operating more than 150 distributors. Some distributors are participating in partnerships with Ipiranga and other companies, and Petrobras is very concentrated on refining. So, our strategic plan has been clear. We will be seeking partners for refining. From the business standpoint, this is very good. We see that this will bring great advantages. What we are doing at this point is cascading down the model. There are some regulatory impacts, tax impacts, and we need to factor in all of the restrictions and we have to approve the model by the management and with the board, so that we can move ahead.

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

This is Solange. Hello, Luiz. As for the Transfer of Rights, it is indeed a concern and have a great interest, and the government and the market are all interested regarding the events for 2017. So, yes, as far as we know, report from ANP, National Petroleum Agency, might be made available in the end of March, beginning of April. And this is going to be an extremely relevant landmark. As soon as it is disclosed, the parties involved in the signing of the contract will be sitting at the table to discuss the values.

As you'd probably know, in the contract, it is set forth that if there is any credit on the part of Petrobras, the forms of payment that the government has in the contract are payment in cash, payment in Federal bonds, and also the possibility that we can agree on a different form of payment. Petrobras will definitely explore all of these possibilities that are set forth in the contract, so that this will be not only a good negotiation in terms of amount. We believe strongly that we are entitled to a credit in this renegotiation, but also we can perhaps tap into another possibility. This would depend on legal adjustments, and perhaps this other form agreed by the parties could be some additional volumes to those already contracted.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Thank you. Just a quick question for me. Regarding the timing, Celestino, when do you think the management would be able to approve the new model? And Solange, do you

expect that this negotiation to happen this year in the second half of the year? Do you think it's feasible?

A - Jorge Celestino Ramos {BIO 19059339 <GO>}

This is Celestino. Well, Luiz, I cannot give you a precise date, because we are still closing the model, fine-tuning the model, taking into account regulatory impact factors. This doesn't depend only on us. We do need some fine-tuning here. But we want to do this as quickly as possible. We took on the commitment to do this as fast as possible, and we are sparing no effort to do this as fast as possible.

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

This is Solange. Regarding the renegotiation of the Transfer of Rights, as I said before, we haven't got anything defined yet. There is no definition regarding amounts, credits or debits, nothing of that sort. But in our assessment, we believe it is possible and we will try to finish this discussion along 2017.

Q - Luiz Felipe Carvalho {BIO 18040760 <GO>}

Thank you, Solange, Ivan and Celestino.

A - Operator

Thank you, Luiz.

Our next question comes from Mr. Caio Carvalhal with Brasil Plural.

Q - Caio Carvalhal {BIO 16605563 <GO>}

Hello, everybody. I'll ask a question and a follow-up question on the Transfer of Rights. My first question has to do with the discussion at CVM, the Brazilian SEC, if Petrobras is eligible or not to use the accounting hedging mechanism. Could you share with us perhaps the timing of that process? I imagine that Petrobras has filed an appeal and this appeal is being assessed by CVM. I'd like to understand the timing for this to be completed at CVM. And if possible, if you could give us some color on the part of Petrobras, if Petrobras loses in CVM's position, if there is any expectation of appeal to higher instances and when would this be finalized?

The second part of this question, is there a deadline for a retroactive impact on the 2016 results, because CVM, as I understood, requested Petrobras to resubmit the results for 2013, 2014 and 2015? So, what was done in the past would - but what was done in the past will not change. So, my question is to what extent can this impact 2016 results, and I mean a real impact and not just a simple resubmission of the figures? Is there a deadline and any expectation that this could happen? So, this is one question.

And my follow-up question has to do with the Transfer of Rights. Supposing that Petrobras is entitled to a credit. The credit will be paid in cash or perhaps in other forms of payment. You said barrels would be the most natural alternative. So, my question is what kind of

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control does Petrobras have when you demand the payment be made in cash or in barrel? I understand Petrobras likes the alternative of being paid in barrels, but perhaps cash would be more interesting, particularly for Petrobras' balance sheet. To what extent does Petrobras have control over the solution? And more importantly, if it's barrels, what would be the legal implication? Would this be going back to Congress, or in Petrobras' understanding, Petrobras could have additional barrels unilaterally without involving the legislative power?

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

This is Ivan, Caio. Well, to answer the question on the hedge, Petrobras has filed an appeal to the technical area of CDM and we will be awaiting their reply and their decision. We do not have a deadline. And this is CDM's internal procedure. We have no control over these internal deadlines that CDM will be using.

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

Caio, this is Solange. Well, to try to give you a little bit more color on what may be coming ahead. We still have very little definition regarding the terms of payment. I told you what is in the contract. And what we did in recent months was to create, at the board, a committee of minority shareholders and the moment we have the record, we will try to validate this form of reimbursement, if any. Again, I am limiting myself to what is written in the contract. We will try to step into all of these possibilities as set forth in the contract with payment in cash, with federal bonds or even barrels, as you mentioned. If we were to be reimbursed in barrels, this will require some legal adjustments yet.

Q - Caio Carvalho {BIO 16605563 <GO>}

Thank you, Solange. One final follow-up regarding the accounting hedge. I understand that now the ball is in CDM's court. From what I understood, you have no deadline to get a respond, there's no deadline. So still they have like 30 days or 60 days to reply or can they take as long as they want to reply? And the second part of my question is, is there any risk that CDM's decision will be applied retroactively. What is Petrobras' take on that? I mean again Petrobras could always feel so higher course if an unfavorable decision is reached. So can we have a mutual active impact on the 2016 results?

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

This is Ivan again, Caio. We filed an appeal last Friday. The appeal was addressed to the technical area of CDM. We have to await their response to see what are the measures Petrobras will adopt, but we do respect CDM's technical department. We will wait for their reply. I cannot tell you anything regarding what their reply will be. We have to wait and see what will be the measures to be adopted by Petrobras, but first we have to hear from them.

Q - Caio Carvalho {BIO 16605563 <GO>}

Okay, it's clear now. Thank you.

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

Thank you, Caio.

Operator

Our next question comes from Mr. Bruno Montanari with Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you. My first question is about SG&A. The first quarter reduction was quite interesting. Do you think that this was the effect of the manageable cost reduction. And looking at this 11% reduction in the quarter, can this pace be maintained in 2017?

My second question to Solange. What is the schedule for first oil for P-66 and P-67 and in the case of P-64, P-65, P-66, could you give us an update on the fiscal progress, I think, units for 2017. Thank you very much.

A - Hugo Repsold {BIO 19059342 <GO>}

We'll now turn the floor to Solange first.

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

Bruno, hello. Well, as Isabela shared with all of you, these P-66 is already in production. First production well is already interconnected and we are waiting for the coming days, the completion of the assessments that are being laid by IBAMA environmental agency regarding the process of sale, the common licensing process and we're ready, just waiting for the license.

P-67 for the year end, it will leave China in the second half and our target is to accelerate the work so that it will be practically ready. All of the wells are ready so that - I mean this is going to be a challenge, but we are going to pursue the start-up of the second directly, (36:25) still in 2017. I haven't got the figures here with me in terms of the physical progress for our units for 2018, but the progress of all of them particularly Búzios 1, Búzios 2, and Búzios 3. Those are the expectations particularly for Búzios 1, and Búzios 3 the expectation is that we'll be able to interconnect the platforms in the first half of 2018.

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

Bruno, this is Ivan speaking. The expectation is not having the same order of magnitude, but this is one of the pillars of the plan. In our business plan, I'd like to remind you, we have competitive price, discipline in CapEx, efficiency and in partnerships and divestments. So this OpEx efficiency came, we had goals. We applied a zero-based budget approach. All of our goals and targets were cascaded down to all employees down to supervision levels. They all know what the targets are to be pursued for 2017 and you can counter this that is pursuit of SG&A inefficiency will continue.

Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you. Perfect.

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Our next question comes from Rodolfo Angele, JPMorgan.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

Good morning. Perhaps, Ivan could elaborate a little more on TCU's decision, the Federal Accounting Court's decision. What were the more relevant facts agreed with TCU? You're obviously continuing with the divestment approach for the next two years. Perhaps, is this going to be back loaded for 2019? This is my first question.

And my second question has to do with cost. Quarter after quarter, we see the company's lifting cost reducing. And I'd like to know from you, what is your expectation for this year? Is there any more room to reduce these costs even further? Thank you.

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

Rodolfo, good morning and thank you. Thank you for the question. I think that we had a great lesson learnt in 2016 regarding the partnerships and divestment program. We have a specialized team in the financial area and a specialized team in the legal department. And in every process, you have lessons learnt. What TCU approved now was a change in the system approved by Petrobras as a response was amended by TCU. If you ask Petrobras to make changes, and Petrobras understood that these changes will be beneficial to the process meeting the request of TCU. When we have an asset or a company in the partnerships and divestment. This has to be approved by the executive management of the company and the management follows the process all the way to the end. And whenever necessary, we submit approval to the board or to the general meeting. What is going to happen is that in the beginning of the process approval by the management finance that oil company to participate in the program and its completion, when divestment is approved these things happen with intermediary phases. These phases would be reported to the management and to the advisors to the board.

Now we will require formal approval, which to us, is not a problem at all because instead of being just their report, it will be a formal approval. Now obviously, there will be greater administrative work, but we completely understood the request of TCU. TCU understood our allegations, for example, the choice of advisors, the criteria we use to change advisors, the criteria we use to prepare the procedures and (40:36) who we invite and all of this is debated with TCU, the Federal Accounting Court. And now we have a process which is validated by TCU. They corroborated the proposals by Petrobras, and I think the lesson learnt from last year will speed up what we will need to do again this year for some of the processes that are already underway.

And then another example, if we had a process where we have the seizures (41:00), we had the NDAs approved if we have to include a different group of potential candidates just these new potential candidates will need to sign the disclosure agreements that normally require internal approvals by Petrobras and the prospect candidates, but for those who have already signed an NDA, we want - need to make them through (41:27) the whole process again. So, I think that we can speed up the process.

And now, I turn the floor to Solange.

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

Your question regarding our lifting costs, as presented by Isabela, we are working strongly on our logistics costs, offshore logistics, E&P logistics, because that's where we have room to work better with even more competitive costs. In terms of forecast, I think that we are going to have some improvements in the area and the start-up of new systems as it happened in the end of 2016. As FPSO Cidade de Caraguatatuba and some other events, it is only natural to have a slight rebound when the unit starts operating, because there's all costs and little production, but this reduces over time with a ramp-up. This is what happened with all of our units and will happen again, but at the moment when we have a large concentration of new units starting up, this can happen. In the mid-term however, we intend and we announced that in our business and management plan, 2017 to 2021, that we would be operating with lifting costs under \$10 a barrel.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

Thank you, Solange. A follow-up question to Ivan. Ivan, regarding still the Federal Accounting Court process, is it different, if we have a complete sale of an asset or a partnership? I mean, how do you see this? Does it go through the same type of formality or is it different?

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

No. It is different. A partnership involves a long-term project and process, and not simply a sale of assets. It involves a lot more than that. It involves technological differentials, the power (43:40) example is very clear about this. And there will be mutual benefits to be captured by both companies including Petrobras for a very, very long-term. So it's different than simply selling an asset. For example, we sold our redistribution in Chile, simply different. A partnership is a common long-term vision of investments made in Brazil with a fundamental characteristic to have a differential, in the case of Total, it was quite substantial in terms of technology to reduce the future cost and exploration cost, for both companies in Brazil.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

Thank you.

Operator

Lil Yang, HSBC.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you for the opportunity. I have two questions. One, about the partnership with Total. There's \$2.5 billion in the partnership, seemed to be quite low. What is the value of the reserve and how much will this partnership impact your production curve for 2021. And if this partnership does have a carry of CapEx in the areas in this partnership where

Petrobras has a participation, and what about the access of Total to the gas pipeline and LNG?

And the second question is about your contingencies. R\$31 billion in the quarter, much higher besides the expenses with the pension funds. So could you give us some color about that? Are you concerned with the contingencies because I understand that you don't have a high probability of becoming provisions or generating provisions, but how are you managing that? Have you been changing anything in your legal area in this regard? Thank you.

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

I will give the floor to Solange, and then Jorge, and I will answer about the contingencies. Thank you.

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

Good morning. The agreement we took down that Ivan had already explained to you very well is as follows. We value the fact that those companies are very happy with the deal, with the strategic agreement, because of the potential of very high synergy between the two companies in many aspects. In the exploration activity and that both companies share very similar portfolios in Brazil and in Africa, and this allows us to explore synergies and tap into synergies for this business in which we are partners.

There is no assessment yet regarding palpable, concrete benefit or visible benefit. And this is just starting. This is something very recent. It's a very recent fact. So we still don't have this assessment and anyway we wouldn't be able to share some of them right now. And I would like to stress the strategic importance of this partnership because partnerships make things happen. Things like, risk reduction in our activity in upstream and the delivery of values that only when we really go into these synergies and study them, we will be able to define. So could I say that the partnership with the delivery of the controlling some assets are not included in the curve that you delivered to us in 2021, no, we remodeled. Some other divestments are included, however, these partnerships are not included.

Now regarding the participation in the access of the regasification terminal and the gas pipeline and the thermal power plant. There is an estimate for certain period of time, I would just say this should be done by means of a contract with the payment of rate with the right to participate in the assets as we consolidate our studies about this partnership. So it starts with a tariff and afterwards, we have a partnership in asset. You don't have this in the \$2.5 billion. No, no it's already factored in, in this amount.

Now regarding contingencies. We have a very clear criterion of being transparent and a very rigorous analysis of any contingency regarding establishing or not some level of guarantee or the probability of success. You can see that when growth occurs, it occurs not in new events. They are exactly the same events in different years. So we have some amount as we provision for, and have others that we don't. So what you can read in our report today is a total transparency regarding liabilities and the constant tracking of each

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one of them. There are always administrative decisions and of course afterwards you have judicial decisions to be made and you have changes in the jurisprudence as well. Everything is taken into account quarter-by-quarter and there is a very detailed study by the area.

So you have not changed the methodology. In fact, the dispute that you still have are because contingencies have increased. What normally occurs and this is what you can see are some events or some discussions in which you have situations that repeat themselves and repeat themselves for some years. So what we have is a certain year, you have certain decision and then you have another one in another year regarding that same one that was incorporated in the audit that was made, but you do have a diversity of themes and you continue to have this tracking. It's important to say that you have to track from the administrative viewpoint at the carve (50:33) and then from the judicial viewpoint as well. If a decision occurs, the judicial decision occurs and that changes the jurisprudence the understanding about the system (50:43) matter, the legal area is the first one to expect to tell regarding that and guide us regarding provisioning or not for that situation.

Q - Lilyanna Yang {BIO 14003234 <GO>}

One clarification about this increase. Could you put this into context, because there would be a reclassification now and where does this amount come from and how can you assure that there will be no future negative amount?

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

What happened was the following. There was an increase in the actuarial liability because of the discount rate, the difference in the discount rate, this is the only reason.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. Thank you.

Operator

Next question Diego Mendes, Itaú BBA.

Q - Diego Mendes {BIO 16313486 <GO>}

I have two questions. The first one to Celestino regarding the use of the capacity of your refineries. We have been seeing utilization rate drop inconsistently, and how much does it have to do with maintenance stoppages, and how much do you intend to have in 2017 in terms of program stoppages and what is due to a lower market share in the domestic market? And the second question is to Solange about production in 2017. The target that was disclosed in your plan for 2017-2021, you considered the divestment of assets and now probably because we might see a delay in that, but could you tell us which is your target including the disposals of asset? And also another question in the cash flow that you have on slide 19, you're considering all \$48 (52:43) and exchange rate 3.55 or has any of these assumptions changed?

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A - Isabela Mesquita Carneiro da Rocha {BIO 19730664 <GO>}

Jorge, please.

A - Jorge Celestino Ramos {BIO 19059339 <GO>}

Regarding the use of refinery capacity, it does not have anything to do with an increase in stoppages. Of course as the market is bigger now, there are two ways you can do maintenance stoppages or schedule stoppages based on time or cost. When you have a higher market or a bigger market, you use the stoppages of the refineries to have a trade-off, but the biggest effect is the market effect. It has nothing to do with an increase in maintenance stoppages or corrected maintenance or scheduled maintenance which is different from preventive maintenance.

A - Operator

Good morning, Diego. We closed our business plan with a very firm premise of use of the divestments announcing 2.06 target - (54:04) total production Brazil and abroad and we are adjusting. I don't have the precise answer to give you now because of the recent moment of the TCU of the Federal Court of Accounts, but this event has already happened and it was not included here and this is the reason why we have to review our production, but we maintain our forecast according to the divestment point that I talked about before.

Diego, the values both of Brent and exchange rate are different from the plan. You are correct in this regard. So we have Brent which is higher \$55 to \$58 range and the exchange rate is lower between R\$3.25 and R\$3.30. So this is what we use for these projections.

Q - Diego Mendes {BIO 16313486 <GO>}

Thank you very much.

Operator

Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, everyone. Thank you for receiving my questions. I have two questions. The first one has to do with deleveraging and the second one the construction time in Libra for the wells in Libra. About deleveraging, it seems to me that the company it is really going towards deleveraging with the net debt/EBITDA indicator, which reached 3.5 times in reais and higher in dollars, but part of that is due to a cleaner EBITDA. But looking ahead, how do you see the possibility of reaching 2.5 times net debt/EBITDA ratio before 2018, because of the cash inflow that you already have contracted because of the divestments that were announced over 2016, and also because of the current pipeline of your assets disposal?

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And what about the renegotiation of the Transfer of Rights, could that play in your favor and also regarding achieving the target or net debt/EBITDA ratio, is there a level of oil price that you believe will help you reach this? And the second question is about the construction of wells in Libra, the one that was drilled and completed, seen in 45 days is rather impressive. And the doubt that we have is how this compares to the average of the other wells that was in other pre-salt areas, as Isabela mentioned 94 days on average in 2016? Thank you.

A - Operator

Regis, there are many variables that lead Petrobras to place at a target 2.5 times in December 2018, we do not have any indication right now and we wouldn't like to speculate about that about reaching this before the target, but the target is December 2018. You have the four pillars of the plan that help us reach this target. And what you can expect to see is - or resolve in the sense, always looking after that and always reminding you that our safety target is much higher and much more important than anything. There is no amount of the Transfer of Rights. It is - nothing is considered regarding the final result of the negotiation, because we don't have this result. So there would be no way for us to place in this indicator any contribution coming from this renegotiation.

Good morning, Regis. I apologize, because maybe our material was not quite clear in this regard, but there are two ways we use to refer to the construction of wells for instance we are talking about two activities, the activity of drilling the well and also of equipping the well, that is to say leaving it ready to produce. As Isabela said, in our increases in productivity from the previous year to this one, we saw a reduction in the construction time for the pre-salt wells, 128 days to 94 days, 27% reduction in this time the time spent to carry out those things.

And when we refer to Libra specifically, that was a highlight that had happened in the second half of 2016. We refer only to the second stage which is equipping the well for production. They had already been drilled before, they were not drilled in 2016, but we only equipped them now. So we took a 65 days plus 53 days in the other and 47 days in the third. So these are the figures that we shared with you, because in the short span of time - in a few months, between the second half of 2016 and February 2017, in only a few months in three operations alone, we were able to reduce by 28%. Carrying out the same activity in three different wells, so we have different metrics. So we are not drilling and equipping wells in 45 days, we are doing this in 94 days, which is our metric for 2016.

Q - Regis Cardoso {BIO 20098524 <GO>}

Very good. Thank you very much. Very clear. Just a follow-up question, Ivan. Let's say there is a situation in which the company reaches the deleveraging target before December 2018. Does it change your business plan? Because you had some activities like going back to petrochemical activities and you have this in a timeframe, would you consider maybe shrinking the divestment plans or maybe resuming these activities sooner than expected?

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

I will give the floor to Nelson now. But the answer is no, the short answer is no, but he will get into details with you.

A - Luiz Nelson Guedes de Carvalho {BIO 7487095 <GO>}

This is Nelson Guedes. Just to remind you that we have variations in external factors, as you know Brent exchange rate. And in fact, at the beginning of this year, we benefited from a favorable exchange rate; more favorable than it was that went into plan. The average exchange rate BRL 3.48 and slightly better than we had in the plan, better in the sense that the real appreciated, but we see many big oscillations in the price of oil, when we see \$55, we see a strong reaction in the U.S. bringing the price down close to \$50, \$52. So we cannot waiver this effort that we make mainly in terms of cost control.

And the scorecards work that we do, we had over 7,000 scorecards over 30,000 target and sub target, so target cascading 1,100 action plans, and we are very firm in the execution of the same with a lot of discipline in the execution. And in the first quarter it maybe created a sensation of relief that is very much related to the Brent price higher than we had, which was \$48, I would like to remind you. So we must not waive our control in the execution. And in the first three months, when we compare to the plan, things are going very well, both regarding OpEx and CapEx. And we are just beginning of the year, and it's too early to say anything, and we will continue to have a very strong focus mainly on cost control.

Q - Regis Cardoso {BIO 20098524 <GO>}

Very clear. Thank you very much.

Operator

Our next question Gustavo Allevato with Santander.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Good afternoon. I have a couple of questions. The first is related to the partnership program. Given the developments we had last week from TCU, perhaps Petrobras would be using more of this model, as the company understands then it might be easier than selling some assets, but also because Petrobras might think partnerships are more interesting, looking at the long run.

My second question is related to the payment of dividends and PGR. Are you going to be paying for the employees a profit sharing? And my third question has to do with 2017 CapEx. Given the oil prices, as Nelson mentioned, they are little lower in the short term, will you be reviewing your investments for 2017 at BRL 19 billion or is it too early to review the CapEx plans? Thank you.

A - Operator

Okay. Let's talk about sale of assets and partnerships, so these are two completely different universe. Sale of assets are related to Petrobras' need to reduce leverage, but

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also this is due to a strategic decision of the company to focus on our main assets. We are an integrated company. We are going to focus on E&P and refining, these are the main drivers. What's not? Petrochemical, bio-fuel, et cetera, the company will be selling. In here there is a clear indication of what we intend to do.

Partnerships are much more comprehensive as you stated yourself, these are long-term deals, Petrobras and partners with a common vision. But the partnerships are done very thoroughly, analyzed very thoroughly. In the case of Total, it seemed obvious, they have experience out of Brazil and the African coast, there is an effective gain with a clear cost reduction in the future, when we share these technologies and these prior track record of Total but (01:05:02) very different than just selling assets.

We have two MoUs signed, one with Galp, one with Statoil. And we're so careful that we want to have a joint vision, regarding the future of both companies in Brazil. And if we get to consensus that we have a common situation, if we have common technological knowledge that can generate a higher value for both companies acting together than isolatedly this is taken into account in our final decision. Okay. As for the payment of profit sharing, dividends, dividends obviously not. And as for profit sharing, I will turn the floor to officer Repsold.

A - Hugo Repsold {BIO 19059342 <GO>}

Thank you for the question. Well, profit sharing payment for employees is the result of attaining a set of indicators that are part of the economic clauses at the collective bargaining agreement, which is negotiated every two years, every odd year. And when we look at the set of items, it would not met. And so we will not be paying the profit sharing plan to our employees. Gustavo as for your last question, it is too early to have discussion about CapEx revision. So it is not possible. We have estimated BRL 19 billion, this is what we intend to invest this year, okay.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Thank you. Thank you for the answers.

A - Operator

Thank you.

Our next question comes from Osmar Camilo with Bradesco BBl.

Q - Osmar Cesar Camilo {BIO 17227387 <GO>}

Hello, good afternoon, everyone. I would like to have an update on the class action, what is the current status? What are the next steps and what is the timeframe?

A - Operator

Osmar, thank you for the question. The status remains the same. The appeal was accepted by the Court of Appeals. There is no deadline for a ruling. The oral statements

have been made and now we are awaiting the ruling from the Court of Appeals. We have made agreements with a so-called opt out with individual plaintiffs that did not join the class action. And wherever there is an opportunity, Petrobras is always focusing on risk reduction we settle. But at this point, we're simply waiting for the ruling from the Court of Appeals, the appellate court.

Q - Osmar Cesar Camilo {BIO 17227387 <GO>}

All right. Thank you.

Operator

Our next question comes from Mr. Pedro Medeiros with Citigroup.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Hello. Good afternoon. Congratulations on the results. I have a couple of questions. Some of them are follow-up of prior questions. The first to Ivan or Solange, perhaps you could elaborate a little more about the CapEx guidance of 2017? Because in a comparison with what we had in 2016, we see an expectation of growth over 40%. Could you detail perhaps which segment will enjoy this kind of growth, and how much of the CapEx already factors in new investments and acquisition of new blocks, given that we have a vast (1:08:33) agenda of auctions expected for Brazil?

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

Pedro, I will have Solange answer your first question. And then, you ask your other questions, okay.

Q - Pedro Medeiros {BIO 16187063 <GO>}

All right.

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

This is Solange speaking. Pedro, we continue doing the same thing that we talked when we disclosed our business and management plan. Our investments are strongly focused on developing production at the pre-salt, if I could summarize everything in one sentence. And in the case of these investments and a little while ago, I was asked about the platforms and Transfer of Rights and platforms starting operations in 2018, it will be a great moment for the company. And we have a lot of investments in anticipated wells. You will remember all of our budget today is geared to complete our platforms, to complete all of the systems that will be starting up. And there are some excellent exploration opportunities out there. This is the focus. You asked, how much of the budget is linked to bids auctions - upcoming auctions, we haven't got a provisioning for bid. If an opportunity arises, Petrobras will allocate capital accordingly. Now you may continue with your other questions.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you. My second question is actually building up on what Solange said. I want to understand, in this quarter, there was a big revision in total provision to negotiate the building of hulls (01:10:20) and platforms. So, I would like to understand, can you give us any guidance regarding how we should approach this topic looking forward? In this revision, do they impact anything at the company?

A - Operator

Pedro, what we have here is actually great news. Currently, we eliminated our risk that we had. And this was one of the most brilliant renegotiations by the company, which now allows us to have control. We have very good control regarding the finalizing of these vessels and they are fundamental for our upcoming cash flow in the coming years, so we entered a new reality, I should say. But this doesn't - we are not considering now new bids or the ability of our suppliers that will be delivering the new vessels. Now we have some alternative. We shared with you - Isabella mentioned, the FPSO of Tartaruga Verde and Mestiça is at a final stage of its interconnection of modules here in Brazil.

In the second half of the year, we are expecting the arrival of P-67 and we will be completing the works there too. In other words, there are no limits. Today, we're not restricted in terms of completing our vessels, neither are the chartering companies. And I stress that, that is very important. We have clarity. We have definition and control, which allow us to be very realistic regarding the deadlines that we are announcing. Do you have any additional questions?

Q - Pedro Medeiros {BIO 16187063 <GO>}

Yes. Actually, I have two follow-up questions. The first, under the business and management plan for 2017, do we expect an increase in the average price by ANP and any impact on the total taxes saved by the company? And secondly, Ivan if you can characterize the strategic partnership that you have with Galp and Statoil, could you give us more detail, please?

A - Operator

Pedro, I'll turn the floor to Jorge Celestino, who will speak about the business win and Solange will speak about the partnership.

A - Jorge Celestino Ramos {BIO 19059339 <GO>}

Pedro, regarding the PMR - they are ARP actually, we continue with our partners and other companies operating in Brazil, with the government and ANP. At the moment, in the short-term at least, according to the discussions that we are having, we don't see any relevant impact on the reference price ARP. But we are still discussing with all of the players. This is not finalized yet. Solange, over to you.

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

Pedro, actually thank you for the opportunity to share with you the strategies which I value so much and that we're building with specific partners. And as mentioned, regarding Total, Statoil has a very specific strategy. It is a company recognized for recovering mature

deals. We have a brilliant portfolio of offshore deals that are at an intermediate phase of production and have the true intent to look for synergies, competencies and financial capability to help us expand the useful life of these fields. And Statoil, I mean, it's part of this exercise. Galp has been a great partner for many years now. They're a true partner, they made several Petrobras projects feasible. And we want to use this integration with Galp to explore synergies to make some projects viable.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you. Excellent and congratulations on the results.

Operator

Our next question comes from Eduardo Vieira with Deutsche Bank.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Thank you. Thank you for the opportunity. I have two questions. One has to do with the target of 2.5 times of leverage and another question about divestment. Could you confirm, which Brent price is being used for a net debt over EBITDA ratio of 2.5 times? And as for your divestments, you have \$8 billion to receive along 2017 and about \$6 billion accounted in the current assets. And I believe that most has to do with the sale of NTS. So you're considering just \$2 billion of cash coming in this year. In terms of announcement, as I said, company intend to announce other assets this year and the cash impact would be felt in 2018, that has to do to the divestment reduction for 2017. And I would like to understand how much EBITDA should be lost with the assets sold so far and assets expected to be sold in the future? Thank you.

A - Operator

Eduardo, no, actually the amounts we are posting are forecasted by the company, subject to market conditions, but we're expecting cash flowing in along 2017. A lot of it will come related to assets whose deals were completed along 2016, but this is the amount, \$8 billion. There is nothing else expected in the balance sheet and this is cash that will be coming along 2018. As for the leverage, we consider the data in our business management plan, the Brent price in the business plan and the exchange rate in the business plan.

Now what we did was an update. Since September, we've gone a long way. So we updated our expectations, nothing different than that. And then for EBITDA, not only of assets sold or finalized, but also for future ones that will be incorporated as the deals come through. When we have an expectation and this was taken into accounting the forecasts for our business plan, the EBITDA value of these projects will be divested. For example, CapEx obligations will be removed, cash coming in or flowing out, or all will be taken into account. But you have to remember Eduardo that this is all dynamic, it changes over time and it requires some updating, but all of that was considered taken into account in our goal of deleveraging for 2018.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Perfect. Of the BRL 19 billion that you still want to divest, how much is related to operations that generate the EBITDA today in comparison to – that do not generate EBITDA, I just want to have a sense of it?

A - Operator

We work with our portfolio. The goal (01:18:43) for 2017-2018. So, let me give you one example. The sale of Carcará, Carcará did not have any EBITDA linked to it, first oil is expected for 2023, but there was a big CapEx linked to it. So the risk has taken into account the month the deal pulls through (01:18:59). It's very hard to specify because sometimes, we have situations such as the situation we had in the Federal Accounting Court or in the Judiciary branch (01:19:12) and other situations that we weren't imagining and that arose due to demand and things that were not in our radar and arose. So it's very hard to specify. The best information from the management at the moment of the business plan includes this forecast on slide 19.

Q - Eduardo Vieira {BIO 3087009 <GO>}

All right. Perfect. Thank you very much.

Operator

Thank you very much. We are now closing the question-and-answer session of this webcast and conference call. I now turn the floor to Mr. Ivan de Souza Monteiro to make his final statements. Please go ahead, Mr. Monteiro.

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

Again, I would like to thank you all for participating in this event. I'd like to thank my colleagues, who joined me, and all of your questions. If you have any further questions, please reach out to our Investor Relations department. Thank you very much and have 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 very much for your participation. Please hang up your telephones and have a great day.

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