

Q1 2015 Earnings Call

Company Participants

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

Other Participants

- Andre Sobreira
- Anish Kapadia
- Auro Rozenbaum
- Christian Audi
- Felipe Santos
- Frank McGann
- Lilyanna Yang
- Luiz Felipe Carvalho
- Paula Kovarsky
- Pedro Medeiros

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Petrobras Conference Call with analysts and investors for the presentation of the information referring to the results of the first quarter 2015.

We'd like to inform you that participants will only be listening to the conference call during the company's presentation in Portuguese with simultaneous translation into English. Afterwards the Q&A session will begin and further instructions will be provided. This broadcast is being recorded.

Present with us today are Mr. Ivan de Souza Monteiro, Petrobras Chief Financial and Investor Relations 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. Antônio Sérgio Oliveira Santana, Chief Corporate and Services Officer; and other company executives.

We would like to remind you that this meeting is being recorded. Please be mindful of slide 2, which contains a notice to shareholders and investor. Words believe, expect and similar ones related to projections and targets are mere forecasts based on the expectations of the executives regarding the future of Petrobras. To begin, we will hear Mr. Lucas Mello, Executive Manager of Investor Relations.

Lucas Tavares de Mello will then give us a presentation of the results in the first quarter 2015. Next questions from participants will be answered. Please Mr. Lucas Mello.

Lucas Tavares de Mello {BIO 17682021 <GO>}

Good afternoon everyone. We will now begin the presentation from slide three where we make a comparison between the results of the first quarter 2015 and the first quarter 2014.

The net result remained steady. However, we can see that the operating profit grew 76% reaching R\$13.3 billion compared to R\$7.5 billion in the first quarter 2014. The main lines that drove this result are related to the net operating income that fell 9% because we had lower sales of oil products, lower oil price which affected our exports in this period and also the cost of goods sold, 17% drop due to the lower unit cost of imports and a smaller government stake both from a lower oil price.

Now, regarding operating expenses, we've had a strong drop, 22% and this drop in operational expenses is due to the provision of R\$2.4 billion in the first quarter 2014. This provision was related to the voluntary separation incentive program in that period of time.

Now in 2015, we reversed the provision for losses in the electric sector, R\$1 billion. After this operating profit, we can see a negative financial result in the quarter which was a result of foreign exchange devaluation. Higher indebtedness and less interest capitalized in this period because we have fewer ongoing projects. I want to highlight the adjusted EBITDA in this period, 50% higher reaching R\$21.5 billion in this period. Also, our investments that dropped 13% reaching R\$17.8 billion, especially because of lower investment in the downstream segment.

Now, in slide four, talking about the international or the external environment - the exchange rate, as we already mentioned, we had a depreciation between the first quarter 2014 and the first quarter 2015 and when look at the final exchange rate, this depreciation is even higher. Now, Brent oil prices, we can see on the right side, a drop - a significant drop from R\$108 million in the first quarter 2014 down to R\$54 million in the first quarter 2015. That was is a 50% drop.

If we move on to slide five, highlights of our result in the first quarter 2015, on the financial front, we see our gross profit 17% higher than in the first quarter 2014. Gross margin grew 7 percentage points. Our adjusted EBITDA, I've already mentioned, R\$21.5 billion, growing 50% as compared to the first quarter 2014. EBITDA margin up 11 percentage points.

Operating highlights in this quarter, our total oil and natural gas production reached 2.8 million boed, 11% therefore higher than the average in the first quarter 2014. Let me also highlight our pre-salt layer production in March reached a record level of 672,000 bpd. But in April, we hit a new record, 715,000 barrels per day.

In this quarter, we had three new systems starting up, the extended well test in Búzios. P-61 in Papa-Terra field operating together with the P-63. And also, we had production starting up in the Gulf of Mexico in the U.S. Gulf Coast in Hadrian South Field.

Now on slide six, we want to highlight the third OTC award given to Petrobras now in April 2015 with Iracema Sul project. As I said, it is our third OTC award, the first was back in 1992 in Marlim project. The second OTC award was given to us in the year 2000, thanks to Roncador field. And the OTC award is given to oil and gas companies that contribute the most with technological innovation in oil explorations in ultra-deep water.

Slide seven, we are talking about the pre-salt layer. It's a very impressive chart because in seven years of production in the pre-salt layer, Petrobras reached 800,000 barrels per day, this was on April 11. And I would like to highlight that we achieved 800,000 barrels per day with only 39 wells, 20 in Santos Basin – and 39 in Santos Basin.

So, as a comparison, Brazil took 40 years to reach this production of 800,000 barrels. And using more than 6,000 production wells. But in Campos Basin, we reached this production of 800,000 per day in 24 years. That is we took 24 years to do that and more than 400 wells. So now, we feel very happy with the pre-salt layer production because in seven years, we were able to attain this record level of 800,000 barrels per day.

Next, slide eight. Still talking about pre-salt highlights. So, on the left-hand side, you can see that between 2010 and 2014, we've had a reduction of 54% in the time needed for well drilling and completion. Again, this is a significant achievement in the oil industry. On the right-hand side, we see the lifting cost, \$9 per barrel in the pre-salt layer, way below Petrobras' average and, again, below the average of other world-class producers, about \$15.

Now, moving on to slide nine, talking about exploration and production, our production in the first quarter 2015. We attained 2,803 – or 2.8 million, that is 10% above the average in the first quarter of 2014. And we've been able to maintain our guideline for 2015. The target is 2,796 barrels of oil equivalent a day, 2,125 in Brazil. Operational efficiency in our production has reached 92%, which again is very good for the company.

Now, again, about exploration and production, we're now in slide 10. We see a comparison of oil and gas production between Petrobras and other major producers – other major world-class producers. In the first quarter 2015, Petrobras is among the largest producers, especially talking about oil production. We are behind ExxonMobil only, which is the largest oil and gas producer in the world.

Now, slide 11. And, again, talking about exploration and production. Production is not just a matter of starting up new production systems, but we also have to interconnect new

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wells. As you can see, in 2012, we were able to interconnect 42 wells. In 2014, we doubled the number. And now in 2015 in the first quarter, we were able to interconnect 22 wells, 14 producing wells, and 8 wells. And we will interconnect another 47 until December, adding up to 69 wells interconnected in 2015.

Now, as we go on to the next slide, talking about oil product sales in Brazil, this is downstream segment, oil product sales had a drop of almost 6% reaching 2,230 - or 2.2 million. This can be explained by lower economic activity, also an increase in the percentage of ethanol in gasoline and diesel or biodiesel and an increase in ethanol sales, that is, some drivers prefer to use ethanol to using gasoline. Now, the mix of imports fell 2 percentage points also in this quarter.

In slide 13, the production of oil products followed suit and fell 8% in this period, reaching 1.9 billion or 1,964 barrels per day. And this is because we had a scheduled stoppage in our RLAM Landulpho Alves, whose nominal capacity is very large, more than 300,000 barrels per day. Now, the first train of RNEST in Abreu e Lima partially offset this scheduled stoppage in RLAM. The utilization factor fell from 96% to 86% in the first quarter 2015 because of the scheduled stoppage in RLAM which is a refinery of high capacity. However, the yield in refinery operations continued very high.

Slide 14, one more time we talk about our operating results. As we said before, we went from R\$7.6 billion first quarter 2014, and we reached R\$13.3 billion in the first quarter 2015, that is up 76%. And this can be explained basically by higher sales margin of oil products in the downstream segment. We had a negative result in the first quarter last year, R\$7.4 billion and now we have a positive result, R\$9.3 billion. That is the difference of R\$16.8 billion this period.

Looking at exploration and production, we've had a drop of R\$11.4 billion because of lower oil prices, lower Brent oil prices on the market. Gas and power, we've had a R\$1.5 billion result higher than in the first quarter because of higher demand for natural gas. For thermal electric generation and that was supplied by Brazilian - by domestic gas instead of imports.

Now going on, we are now in slide 15. The consolidated net income evolution, we've already spoken about this as we looked at slide three. But here, we will talk a bit more about this. Now this result has remained steady, R\$5.4 billion in the first quarter 2014, R\$5.3 billion in the first quarter 2015.

In the chart, we can see a drop in net operating revenue because of lower oil price sales and a lower Brent oil price on the market which affected our exports, basically, in this quarter. However, we can see that the cost of goods sold fell even more. So, it helped in our result, that is, we have a lower import cost in the first quarter because of lower Brent oil prices and also a lower government stake, which again is related to a lower Brent oil price.

Last year, I'd like to remind you that in the first quarter, we had provisions of R\$2.4 billion for the voluntary separation incentive plan and another factor that impacted this quarter's

net result was the financial risk of negative R\$5.6 billion compared to R\$0.2 billion and this is in the first quarter last year, and this is due to foreign exchange evolution.

Now, in the next slide, slide 16. We talk about lifting and refining cost. Lifting cost up 15% between the first quarter 2014 and the first quarter 2015 because of, wells workovers we had in the first quarter 2015. Now, the refining cost went up 26% because we had a throughput reduction in the first quarter 2015, again, because of the scheduled stoppage of RLAM which has a very high production capacity. But the light blue bars, these are the indicators in U.S. dollars. As you can see, they remain steady.

Slide 17, looking at general and administrative expenses. We could see a growth of 6% between the first quarter 2014 and the first quarter 2015. Now, this increase is in line with the inflation measured during the same period.

Slide 18, we have two indebtedness indicators. The top line, the blue line shows the net debt over net capitalization. It is a growing line basically because of the Brazilian exchange depreciation which affects our indebtedness. Most of our debt is dollar-denominated, and so therefore it is converted into the domestic currency, it goes up because of the FX devaluation.

In the lower curve, we can see net debt over EBITDA. This curve has fallen because of the generation of operating cash measured by EBITDA in the period which was very relevant, R\$21.5 billion in this period. This was the EBITDA in this quarter.

Slide 19, we look at our total debt, from R\$351 billion the end of 2014 to R\$400 billion in the end of the 2015. And this is basically the effect of the foreign exchange depreciation. Our adjusted availabilities remained steady and so the net debt went up in line with the total debt. However, as we look at our net debt in U.S. dollar we can see that the number is actually lower because it is not affected by the foreign exchange depreciation.

Finally, our last slide looking at cash flow in 2015. US\$26 billion was the initial cash position in the beginning of this year, and we plan to generate operating cash of US\$25 billion. And we had payment of interest, amortization will be US\$21 billion. Investments, we will maintain the same level, US\$29 billion. Divestment US\$3 billion; rollovers US\$ 2 billion, and we will need additional funding US\$13 billion to keep a cash flow position of US\$20 billion in the end of this year. All of this used the oil prices at US\$60 per barrel and exchange rate R\$3.10. And total production, the target we've already published 2.796 - or 2,796 barrels per day. This is the end of our presentation. And I'd like to give the floor to the operator to begin the Q&A session.

Q&A

Operator

So now, we will begin the Q&A session. Our first question comes from Luiz Carvalho from HSBC.

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

Good afternoon, everyone. Thank you. I have two questions. My first question is about the recurring EBITDA distribution. This first quarter, obviously, it was heavily affected by the increase in price with imports and very high premium last year and also over this period. So I'd like to have a better understanding about the recurring EBITDA for distribution. What could you consider in the future?

Second point, I think Lucas mentioned amazing pre-salt results. A high rise in recent times, but there is a significant drop. So, do you consider - you still consider 10% drop and when we see a breakdown of the margin, we can see a drop around 13% to 14%. I think this is the strongest impact for production, growing according to expectations. What about going forward? You mentioned in the press conference an impact of 12.5% due to maintenance. Is this already included in the goal of the year of 4.5%?

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

Luiz, thank you. Ivan Monteiro speaking. First, Solange is going to answer your question and then followed by Celestino.

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

Good afternoon, Luiz Carvalho. Specifically about the two points you addressed, when it comes to the decline or drop, I maintain the information that I shared in our last meeting. It's true. We are projecting for this system, which are not pre-salt as you mentioned. We are maintaining - on average, our drop is around 10%. That's what we have in mind. And this is included in our forecast for 2015.

Answering your second question, you want to know with the amount that I mentioned before on Friday to what extent they are included in the 4.5% or about 1%. The answer is yes. Those amounts are referenced amounts we have of the percentage of our output, which is affected by our scheduled maintenance for 2015. Up to the first quarter, we were working on maintenance, and this is absolutely in line with our plan. And the best forecast - the best scenario is that we will have the number of scheduled maintenance that I mentioned before, and they are included in our goal. Just highlighting what I said on Friday. So, we still give signs that we are going to meet the growth of 4.5% over 2015, as I mentioned before.

A - Operator

Officer Celestino is going to speak now.

A - Jorge Celestino Ramos {BIO 1647841 <GO>}

Luiz Carvalho, good morning. With regards to downstream, I think there is no recurring effect that is worth anticipating. We are keeping an eye on the major market moves and also checking how margins will be behaving, particularly distribution margins, and also the progress of the share of biofuels or to what extent biofuels will be competitive vis-à-vis all your products. In other words, we're keeping an eye on these big figures and the behavior of refining margins worldwide and the impact for instance with the summer in

the U.S., gasoline prices, so we're keeping an eye on all these moves and doing the math so we can have a good forecast of our results.

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

Thank you, Jorge. Just another follow up. RLAM, what about the return?

A - Operator

RLAM is already at the maximum production.

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

So, until the second quarter, it will be normal again?

A - Operator

Yes, it will be normal in the second quarter.

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

Thank you.

Operator

The next question is from [Helges Cardozo] from Credit Suisse.

Q - Andre Sobreira {BIO 16337358 <GO>}

Good morning, everyone, Andre Sobreira from Credit Suisse. I have two questions, if I may. First question about OpEx cut down. What do you think is the relative G&A - recurrent G&A for the business, and any OpEx inefficiencies that you believe you might address as soon as possible?

And about the cash flow slide. In the previous slide of the previous quarter, increased amortization and others amounted to US\$18 billion. And now, this has increased to US\$21 billion. So, what is the reason, what justifies this delta and what does others mean? Because in the past, we thought others might be dividends. But now you mentioned that there will be no dividend payout and the number has increased. So, I'd just like to understand this change better. Thank you.

A - Operator

Thank you, Andre. When it comes to OpEx. Well, OpEx is always a region of strong attention considering the company's PIDV or the voluntary separation program that we started last year. We have a very interesting slide showing the progress, particularly the company's ability to work on technologies with the lowest cost and as soon as possible. We'll go deeper into that discussion this week during our discussion of the new business plan. We'll be reviewing the business plan and this is an item that will draw more attention. You're absolutely right.

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And you're also right when you talk about cash flow. We re-visited the potential amounts of cash use for legal claims - or provisions for legal claims and maybe Lucas and the team can contact you to give you more detail on the process, but this is precisely due to legal claims.

Q - Andre Sobreira {BIO 16337358 <GO>}

Thank you.

A - Operator

Thank you.

The next question is from Auro Rozenbaum from Bradesco BBI.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

Good morning, everyone. I have two questions. The first question, I just want to double check about financial expenses, interest expenses. Based on the numbers, we can see an increase. And I believe the bulk is related to the fact that Abreu e Lima is now up and running.

So, just to confirm, Abreu e Lima, as it's running now, do you have the full financial expense included or any expense that was capitalized and that should be included now? And is there any other activity or G&P development that is still going to drive this capitalization to turn into results this year?

My second question along the same lines. Is there any forecast for adjustment in the pension plan? I can see it is in line to what it was before, and there was a deficit. So, is there any adjustment for pension plans considering the transfer of rights in terms of oil price? Or should we expect another significant adjustment vis-à-vis oil prices that might happen over 2015?

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

Auro, Ivan speaking. Could you repeat the last part of your question? We had a problem - audio problem.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

What about your forecast for adjustment this year for your 2015? Do you expect to see a more significant adjustment for pension plans considering the drop in the share price or also transfer of rights or other assets directly related to oil prices?

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

Thank you, Auro. Your first question is about capitalization. If I understood it correctly, I will ask Jorge to answer it. When it comes to RNEST train one, it is already under operation, so we don't have more interest to be capitalized vis-à-vis this project. There is a

number of other projects that also started up over 2014, and they justify a lower percentage of capitalized interest today.

A - Operator

Thank you, Mario (sic) [Auro]. As to pension plans, we don't have significant adjustment under way, but Jorge now is going to answer your question. When it comes to the pension plan, an important variation is always interest rates when it comes to liability. So, we have to keep an eye on interest rates, the behavior for the future, and based on this behavior the variable might have a positive or negative impact on the actuarial liability.

Officer Solange is going to talk about transfer of rights now.

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

Good afternoon, Auro. If I understood your question correctly, you are referring to the renegotiation under way, which started by the end of the last transfer of rights for sale that we had in 2014. The answer is, we don't have any forecasts or provision or expenses for any possible credit that might be posted this year due to the negotiation of the transfer of rights. Did I understand your question correctly?

Q - Auro Rozenbaum {BIO 1702415 <GO>}

Yes. This was my question.

A - Operator

Auro, there are no other highlights related to this topic.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

Perfect. Thank you.

A - Operator

Thank you.

The next question is from Paula Kovarsky from Itaú BBA.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Good morning. I have two questions. The first question is about refining. There was a significant rise in margin. Naturally, it is through a higher realization price. However, the market has changed a little. Chances are we are not going to have the same premium level in the second quarter. But more important than that, there is significant stoppage at RLAM. We couldn't find in the figures where the maintenance cost is vis-à-vis this refinery.

We had this discussion in the past, whether it was being capitalized or not, just to have a better understanding now. What do you mean by the recurring refining cost going forward, considering the fact that we have RNEST going on but not other refineries, not to

mention all the other write-offs? So, we want to better understand how this has been addressed in the refining sector.

Second question is about gas and energy – gas and power, we still have a significant number, R\$3 billion or R\$4 billion of the electric system and ADA and further reduction planned for future years.

A - Operator

Paula, thank you. Now, Director Jorge Celestino will answer your question about refining margins.

A - Jorge Celestino Ramos {BIO 1647841 <GO>}

Paula, good morning. Now, about the accounting treatment of scheduled maintenance, this is capitalized during the unit's campaign, so that we do not have the full impact in a single month. These costs, they're usually accounted for along the new campaign, along the new campaign period of time.

Now, Paula, about the electric sector, we had a concession of debt that is why we had that reversal of R\$1.3 billion, but this is related to the standard procedure. We always keep this discussion, you know, the quality of receivables, the quality of trade receivables. If we see there is a change in quality compared to the initial provision, we make a change. Otherwise, the provision remains there until the payment is received.

Now, I'd like to go back to a previous question. When we compare the cash flow slide, also in operational cash generation, there was a difference in numbers, US\$23 billion to US\$25 billion. I'd like to understand whether you changed the assumptions or if this change is an adjustment of non-recurring items because if we look at the FX evolution, there was no change.

A - Operator

Well, this was an improvement we considered relevant so that we added that considering the full market situation, not only Brent prices and foreign exchange but also other factors. I mean, this was so relevant. We decided to include it in our projection.

Q - Paula Kovarsky {BIO 15363001 <GO>}

But the assumptions remain the same, right?

A - Operator

No. The assumptions remain the same. What has changed is, for example, the government stake. This number generated impact, a good – a positive impact. Actually, it was a bigger effect. I mean, why when we look at a lower government stake and when we compare the Brent oil price in the fourth quarter and in the first quarter, we had a drop of 20% and the drop in government stake was 30%.

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Q - Paula Kovarsky {BIO 15363001 <GO>}

Why do we have this difference?

A - Operator

Well, I'm looking at the numbers here; the explanation has a series of factors. So we will contact you later on to provide further information on all of these items.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you.

A - Operator

Thank you.

Our next question from Mr. Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Hello, Ivan. I have two questions. Looking at the business plan and what you have just mentioned that there were a few changes in the number after the last call. So going back to a topic you have already clarified, that is the expectation on production growth for 2015 and 2016 and CapEx for these two-year, and also the sales of assets. Looking at all of these factors, do you believe the targets will remain as they are, or do you still have, let's say, a leeway to change before June? So, do you believe these targets will be reviewed?

My second question deals with deleveraging. Could you please - I mean, this is a clear objective. You said it is very relevant for the company, but I'd like you to give us some more comments on how to reconcile this objective with - for example, which you've announced on Friday that the board - I mean, that you may issue debentures. So, how would you reconcile these two things? Because on the one hand you try to deleverage, on the other hand you're considering the issue of debentures to obtain more funding.

And along the same lines, could you please elaborate about the cost of debt? I mean, looking at everything if already negotiated for 2015 and what you believe may happen in 2016, does that make a big difference in the cost of debt? Would you see it going up or down, or do you think it will remain stable?

A - Operator

Thank you, Christian. Well, until the time I came here, the bonds responded very positively after the announcements on Friday. And every time we see improved information or improved performance by the company, this is very quickly reflected on the numbers. One of them is the cost of debt. The assumptions we're working on have not changed substantially. We have a relevant challenge ahead of us in terms of deleveraging. And one of the drivers here would be divestment.

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The numbers, R\$3 billion this year and R\$10.5 billion for next year, they remain the same. These processes are very careful. We are very careful as we model the assets trying to find the best or the highest possible value for that asset for Petrobras' shareholders. And then we go to the market and try to see whether we have potential buyers or potential partners, or perhaps someone that can add expertise that Petrobras has not yet developed. So, we are careful, but we have a very clear goal to deliver the targets.

The targets, as I said, remain the same. But this is a dynamic process. Sometimes you have assets that has been identified that could be interesting for this process, however, in a strategic discussion, because this process is led by the financial area, but together with the other departments of Petrobras, so because we may have relevant factors, because projects may go through changes and sometimes we look for replacing certain assets, but what we have very clear is the targets, R\$3 billion this year and R\$10.5 billion next year.

Now, in terms of the cost of debt, you know that today the world is highly liquid. I mean, we have a lot of liquidity because of the U.S. program first and now because of the European program. So, that's good news about liquidity on the international market. And that's also good news for the cost of debt.

Petrobras had problems looking at its price on the OTC, the historic average - I mean, compared to the sovereign bond, we had a very large spread. Now, the spread has been reduced. And as we are able to provide more transparency and more information especially in the next move, which is going to be the reviewed business plan, we believe we will have a further reduction of the spread and a more positive situation.

Q - Christian Audi {BIO 1825501 <GO>}

Now, considering that you have already disclosed to the market your expectation in terms of CapEx, sales of assets, production growth. Now, can you give us an idea of your expectations regarding debt? What would be your target for debt? I mean because most of the variables you have already disclosed you spoke about providing more transparency to the market. So, what would you expect in total cap and EBITDA for the end of this year?

A - Operator

Well, unfortunately, we cannot talk about these numbers yet because they depend on the process of reviewing our business plan. So, first, the executive officers will discuss and there will be a debate with the board of administration. And so we would like to disclose these numbers only after these two events, these two meetings.

I apologize for that. But you have clearly identified that our number one concern from the first day would be well first, fundability. There was a concern because there was a moment when we did not have a defined date to publish the balance sheet. But after the publication date, we gradually go back to our normal, to our standard fundability.

You have probably seen on Friday the board approved a possible issuance of debentures and this is important because it's been 15 years that the company does not go to the fixed

income market in Brazil. And we've been talking about this. The company must have alternatives to obtain funding.

However, the discussion on deleveraging is a deep discussion. And no doubt, it will be discussed in the first meeting with CEO Bendine, and then we will have a broad debate with the board. After these two events, we will feel much more comfortable not only to explain the new business plan but also to address deleveraging.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. I have a follow-up question. You spoke about your confidence in company's capacity when we discussed price increases. Where does this level of confidence come from? I mean, are these conversations you've had which make you more optimistic in terms of well when it is necessary then you will be able to increase prices or I mean is that any other kind of information that you received from people that provide you this level of comfort. So, I'd like to understand where this certainty comes from that you will be able to increase prices when needed.

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

Christian, we have said it before and I'll say it again, the company is free to establish prices and we will be active in keeping competitive prices. We are a publicly traded company. We have our duties facing the market and we have to provide yield, we have to provide a return to our investors, people who buy our debt or people who invest in equity of Petrobras. This has to be our behavior. We cannot behave in any other way and this is what the board can expect from its executives but. I have said it before CEO Bendine said and we also said it in a press conference, we again said it on Friday, last Friday that is the company will have competitive market prices.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you Ivan.

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

Thank you.

Operator

Our next question comes from Mr. Felipe Santos from JPMorgan.

Q - Felipe Santos {BIO 16391255 <GO>}

Hello, Ivan. Good morning. Like to insist on a topic. What are the initiatives you've adopted and that you could, perhaps, further elaborate on to reduce your leverage and to go down to your target or below your target? This is something rating agencies are very interested in. And how can you deal with, I mean, prices? You're talking about the historical average, what will - do you believe may happen to prices on the domestic markets? I'd like to hear more about this.

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

Thank you, Felipe. Well, the deleveraging will not happen with just a single measure. We have a number of measures being taken and we believe the most important is the review of our business plan. I believe it's only natural for analysts and investors to ask about this, but this review has already started. We already have a debate – a broad debate in the company about this. This debate will be intensified. The officers and the technical experts will discuss about this, already this week, so that we will be able to present the conclusions to the board. After that, we will discuss with the board and then, we will disclose to the markets.

I'm not going to repeat what we've already said about prices. The current prices and future prices, all of this is going to be included in the deleveraging process. And these prices, as I said, will be competitive market prices, as I said before.

Q - Felipe Santos {BIO 16391255 <GO>}

Thank you.

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

Thank you, Felipe.

Operator

The next question is from Lilyanna Yang from UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you for taking my questions. I have two questions. First question, I would like to know what the studies of the US\$5 billion of the transfer of rights. The study is underway, right? And should we expect to see another evaluation by yearend? And what about the status of the surplus of the transfer of rights?

And the other question has to do with the impairment that you had in 2014. And now that you have 20-F, the rate of discount used, for instance, for refineries was 7%. So, my question is about this. Would you be revisiting these assumptions year-after-year or going forward would you have an impairment test every two years, for instance? And what about the 7%, where does it come from? Could you give us some color? Thank you.

A - Operator

Officer Solange is going to answer your first topic, and then we'll be talking about impairment test.

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

Good afternoon, Lilyanna. Answering your question about the renegotiation of contracts of the transfer of rights, as I said in the beginning, they are underway. My evaluation is that that's quite a complex topic. We might not even come to the end of this discussion

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over 2015 because the topics are very complex and both parties are paying keen attention to the negotiation.

You also mentioned the surplus of the transfer of rights. That's another item that is even part of this discussion that we will have about our full annual business plan. We have a very comfortable position when it comes to reserves. And this negotiation doesn't have to be urgent or immediate. Chances are it might happen after the discussion of the transfer of rights, or we can even anticipate it before the end of 2015.

A - Operator

Thank you, Solange. When it comes to being annually or not, yes, it'll be annual unless there is something very different that is going to change different assets. As to the discount rate, the IR team can contact you later just so that you know there are several variables, and maybe we can let you know how we got to this number, 7%.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you. Perfect.

A - Operator

Thank you, Lilyanna.

The next question is from Pedro Medeiros from Citigroup.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Good morning. I have three questions. They're very straightforward questions. First question, I know you addressed this already. But I would like to understand if the company has any forecast or any kind of initiative to speed up the recovery of receivables from the electric sector?

Second question, when you look at CapEx of the first quarter, particularly in dollars, approximately 20% of the guidance of US\$29 billion for the full-year.

A - Operator

That's because the company has tried to lower CapEx considering guidance of the amount to be invested over 2016, not to mention that exchange rate was from 5% to 10% lower than current.

Q - Pedro Medeiros {BIO 16187063 <GO>}

So, could you comment on how you envisage CapEx for the first quarter, what energy loan in the project vis-à-vis the schedule for the quarter? Do you expect to see the numbers going up in the future, or any chance of seeing 2015 slightly better than the US\$29 million in the guidance?

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Third question, I would like to understand better about the increase in oil sales for exports, vis-à-vis brands. Is this increase structural or only temporary? When we consider what we already seen in the second quarter, is the discount going up? Or can they be recovered to levels in 2014? Thank you.

A - Operator

When it comes to recovery of receivables, electric sector, the company always expects to try to recover amounts. I wouldn't like to mention all the data I mentioned before, Pedro, but that's a negotiation. Either you have it or you add guarantees that change the perception that led to the provision in the past. So, this process is ongoing and we'll always try to have 100% of all our provisions.

Answering your question about CapEx, Solange is going to answer your question. Because E&P has the majority of investments that are prioritized to the area. Solange, would you please?

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

Good afternoon, Pedro. Answering your question about realization and your question about our investments over 2015. Particularly in E&P, we are trying to fix our expenses and we didn't have a striking difference vis-à-vis our projections or budget. Our realization was 6% higher compared to what we realized in the first quarter of 2014.

In reality, we might have or see what you mentioned in terms of any the possible delays of construction works in Brazil. And they might bring a lower realization compared to the \$29 billion for the year. But at no time will these events be related to our cash generation for 2015, 2016.

E&P is a long-term investment area, and any possible delays in payments due to delay in construction works, they will not have any impacts on our projection which remains in line for 2015 and 2016.

A - Operator

Thank you, Solange. Jorge Celestino is going to talk now.

A - Jorge Celestino Ramos {BIO 1647841 <GO>}

Pedro, could you clarify or elaborate more on your question please about Brent?

Q - Pedro Medeiros {BIO 16187063 <GO>}

Sure. If you look at the sales discount of export oil in 2014, it was about, if I'm not mistaken, around US\$11 per barrel. This discount increased to US\$11.70 in the first quarter, there was an upward trend. Is that structural, temporary and specific of the first quarter?

A - Jorge Celestino Ramos {BIO 1647841 <GO>}

Percentage wise, it's even a higher discount due to drop in Brent in the first quarter. When it comes to the first quarter, there was an increase in inventory levels on a global basis due to the drop in oil prices. And some traders started to work on some strategies, which includes storage of oil, and also putting pressure in the market, VLCC. And then there is a trend to lower discounts but we can see an impact from the moment inventory level started to go down.

So, April, May and June are much better compared to Q1. So, if we consider that Brent already has a change in price, and inventory levels are going down. This discount is expected to come back to normal levels.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Great. Thank you.

A - Operator

Thank you, Pedro.

We have a question in English. Mr. Frank McGann from Merrill Lynch wants to ask a question.

Q - Frank McGann {BIO 1499014 <GO>}

Hello. Good day. Thank you. Just two quick questions, if I could. One is for an update on the expectations for production trends at the P-55 and P-62 units in Roncador. And then, secondly, if you could perhaps give us some information on the quarterly costs you're seeing for the ongoing investigations related to the diversion of funds at the company.

A - Operator

Solange is going to answer the question about production.

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

Good afternoon, Frank. Answering your question about Roncador outlook for production, we repeated information about an adjustment in the projection for 2015 and this happened in our meeting last year in 2014. At that time, we had a projection for the year. And we informed Roncador Module 3 in which we have P-55; Module 4, we have P-52 or P-62 and that review was being made due to evidence of heterogeneous behavior in the reservoir. We also informed that we will have a remodeling of the reservoir contract in the company to better identify additional opportunities.

So, two-thirds of the action had already been performed by consultants. We have more evidence that our projection and adjustment was absolutely right and we are carrying out production today just as we announced our target for 2015. So, there is no kind of restricted production in P-62 in the first quarter. And in the beginning of the second quarter we are concluding the remaining one-third about opportunities for the export project. Thanks to the evidence identified over 2014.

A - Operator

Frank, thank you for your question. Answering the second part, there is no identification of any additional costs up to now for the second quarter.

The last question is from Anish Kapadia from CH (sic) [Tudor, Pickering, Holt & Co.].

Q - Anish Kapadia {BIO 5788754 <GO>}

Hello? Hi. Yes. Sorry. It's Anish Kapadia from Tudor Pickering. I have three questions, please. Firstly, I was wondering, can you give an update on the construction of the replicant units for the pre-salt, in particular the P-66, P-67, P-74 and P-75 units?

The second question was on your rig requirements. I was wondering if you could run through how many deepwater rigs you now expect to need versus your original expectation as a result of your significant CapEx cuts as well as the improved efficiencies or the quicker drilling. Just wondering what that - what impact that has on your rig requirements.

And the final question was on the impacts of the CapEx cuts. So it sounds like in terms of the upstream, a majority of the cuts are going to be coming in the more mature areas like the Campos Basin. I was just wondering what impact do you expect that to have on your medium-term decline rates in areas like the Campos? Thank you.

A - Operator

Thank you for the question. Officer Solange will answer.

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

Good afternoon. Now the first reference you made was about some specific units. The units being built here in Brazil. You mentioned two transfer of rigs, 74 and 75, and then 72. This unit is also part of the same package. These - I'm going to give you a more general information. These units, they have some delays in the physical progress, in the physical advance. These delays are being mitigated and they are being addressed by trying to identify other alternatives which are also present in our current portfolio.

But the final impact and opportunities of mitigation will be discussed during this week, that is they will be the object of our discussions and studies during these weeks. We will have a clear view, a more clear view of when these units will be delivered.

Yes, there will be a delay, but we've taken important action, I mean, on the side of Petrobras' partners and suppliers, so as to try and reduce and minimize the delay. About the rigs, the issue is easier to answer. You touched a very relevant point because not only do we assess our productivity, and so we look at productivity and faster completion of wealth but also that is related to a smaller demand on the rigs.

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And this is materializing. So, we will have a certain setup looking at rigs and the investments needed so that we will have a more adjusted fleet of rigs that is more adjusted to our demand. Again, this is going to be discussed in the review of the business plan, and it's going to be clear after this discussion.

Our portfolio is not split between more mature or less mature fields or greenfields. But as we already explained on previous occasions, they are split by the premises of cash generation, and that is related to our current focus, which is to generate cash flow in the short term. And also looking at funding, as we analyze funding, we also look at marginal contributions. Now, during this exercise to analyze our portfolio, as I've said, everything is very much related to cash generation.

So, the more mature fields of Campos Basin, if they are competitive in terms of cost, they're very important because they help us generate net cash flow – net positive cash flow. And that's just how we will deal with these decisions as we discuss about investments.

Q - Anish Kapadia {BIO 5788754 <GO>}

Thank you, Solange.

Operator

So, we have a question in Portuguese. Mr. from Agora Brokerage Firm has a question.

I would like to know about the utilization factor or occupation. I believe that it started with the utilization of 78% and I'd like to know what is the current utilization factor. And also if you already have news about the supply of naphtha to Braskem?

Thank you for the questions. Now, Officer Celestino will answer.

A - Jorge Celestino Ramos {BIO 1647841 <GO>}

Good morning, . Now, about RNEST, we are still processing 74,000 barrels per day. So, that's approximately 70% of the utilization factor of the first train of 115,000, right? So, yes, it remains okay.

About the naphtha supply to Braskem, we're still negotiating this contract. We have an amendment until August, and we expect to close the final deal, the final supply deal until the end of July.

Q - Operator

Thank you. Now about utilization factor, do you have a deadline to reach 100%? If I'm not wrong, you needed some additional equipment or equipment to be licensed to come up to 100%?

Yes. Exactly. We have a plan for that. It will achieve full capacity as soon as we have the new SNOx or the sulfur unit operational. Right now, we are receiving proposals for this unit and preparing the schedule for these units to become operational. This is where we stand today.

Okay. Thank you.

Thank you.

Thank you, everyone. At this time, the Q&A session of the Petrobras conference call is over. Mr. Ivan de Souza Monteiro will now make his final remarks. Please, Mr. Monteiro.

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

Once again. I would like to thank you for participating media, analysts, investors and I want to thank my colleagues in this meeting. Thank you all very much.

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/ri. 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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