

Q4 2015 Earnings Call

Company Participants

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

Other Participants

- Anish Kapadia
- Bruno Montanari
- Caio Carvalhal
- Diego Mendes
- Felipe dos Santos
- Frank McGann
- Gustavo Allevato
- John P. Herrlin
- Lilyanna Yang
- Luiz Felipe Carvalho
- Pedro Medeiros
- Regis Cardoso

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Petrobras Conference Call with Analysts and Investors for the Presentation concerning 2015 Results and the Fourth Quarter of 2015. We would like to inform you that participants will only be listening to the conference call during the company's presentation, which will be conducted in Portuguese with simultaneous translation into English. Following the presentation, a Q&A session will begin in Portuguese and in English and instructions will be provided at the time.

Present with us today are Mr. Ivan de Souza Monteiro, Petrobras Chief Financial and Investor Relations Officer; Mrs. Solange da Silva Guedes, Chief Exploration and Production Officer; Mr. Jorge Celestino Ramos, Chief Downstream Officer; Mr. Hugo Repsold Júnior, Chief Gas and Power Officer; Mr. Roberto Moro., Chief Engineering Technology and Procurement Officer; and other company executives.

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

To begin, we will hear the Executive Manager of Investor Relations, Mr. Lucas Tavares de Mello. We'll then proceed with a presentation concerning the results for the fourth quarter of 2015 and the year 2015.

Right after the presentation, we will proceed with the Q&A session.

Lucas Tavares de Mello {BIO 17682021 <GO>}

Good morning, everyone. I would like you to be mindful of slide number two which has a notice to shareholders.

Now, moving to slide number three. We will talk about the exchange rates. And we noticed that at the end of 2015, the exchange rate was \$3.90 million. There was a depreciation of 47% of the real in relation to the year of 2014. Now, when we look at the fourth quarter of 2015 when compared to the third quarter of the same year, we've seen an appreciation of 2%.

On slide number four, now we talk about the price of Brent. We noticed a drop on average Brent which was almost \$100 in 2014 to \$52.46 in 2015. I would like to remind you again that once we compare the fourth quarter of 2015 vis-à-vis the third quarter, we also saw a 13% drop in the Brent price.

Slide number five, here we have some highlights on our results. The free cash flow amounting to BRL 15.6 billion, something that hasn't been posted since 2007. Adjusted EBITDA was BRL 73.9 billion, 25% higher when compared to 2014. Total production of 2.787 millions of barrels of oil equivalent a day which is up by 4% over 2014, with a daily production record in the pre-salt of 1,173,000 of BOE at the end of 2015.

Lower expenses related to oil and oil products and production taxes. Impairment of assets was BRL 47.7 billion and investments of BRL 2.1 billion, still on the negative side. Higher net financial expenses due to foreign exchange depreciation and higher interest expenses. Now referring to the fourth quarter of 2015, we had the impairment of assets of BRL 46.4 billion and investments of BRL 1.9 billion. On the positive side, the free cash flow was BRL 7.3 billion and a reduction of 57% in our net financial expenses.

Now, moving on to the slide six, still speaking about our results highlights. Our EBITDA was up 25% in 2015 when compared to 2014. The EBITDA margin went from 18% in 2014 to 23% in 2015. Investments were down by 12% reaching BRL 76.3 billion in 2015 vis-à-vis BRL 87.1 billion in 2014. Free cash flow was BRL 15.6 billion in 2015 when compared to a negative BRL 19.6 billion in 2014.

Slide number seven, still speaking about our highlights. Our net debt in dollar terms was down 5% when compared to 2014. The average debt maturity was up reaching 7.1 years when compared to 6.1 years in 2014. Net borrowings denominated in dollars went from \$25.2 billion to \$12 billion in 2015, so down by 52% and the cost of debt went from 5.6% a year to 6.3% a year comparing 2014 to 2015.

Now, slide number eight. Consolidated net results, a negative result of BRL 34.8 billion. The net operating income was down when compared to 2014 mostly explained by lower demand for oil products in the domestic market, even though we had higher oil export volumes. Also cost of sales was also down due to lower expenses with imports, and production taxes and lower share of imported volumes in the sales mix. Therefore, gross profit was up by 26% reaching BRL 98.6 billion vis-à-vis BRL 80.4 billion in 2014.

Operating income was up by 9%, mostly due to impairment of BRL 47.7 billion. Tax expenses was BRL 9.2 billion. Legal contingencies and lawsuits BRL 5.6 billion. And BRL 1.9 billion was the impairment of trade receivables from the electricity sector. Therefore, our operating income was BRL 2.9 billion higher than 2014 but negative by BRL 12.4 million (sic) [BRL 12.4 billion] (6:53)

And in terms of our financial result line, there is a major difference when comparing 2014 to 2015, minus 20 in (8:00) – I mean, BRL 3.9 billion in 2014, mostly due to foreign exchange losses due to

the depreciation of the real, an increase in our interest expenses and higher debt and interest on tax expenses, lower interest capitalization. And this, our overall results was negative in BRL 34.8 billion vis-à-vis negative BRL 21.4 billion in 2014. This dollar denominated result in 2014 represent \$8.5 billion when compared \$7.5 billion negative in 2014.

The adjusted EBITDA, we already talked about it is BRL 73.9 billion, meaning 25% higher than 2014, and investments was down by 12% when compared to 2014.

Now moving on to the slide number nine. Here, we analyze the impairment provision from 2015 and 2014. On the left side of the slide, we have the 2015 impairment figures reaching BRL 49.7 billion. We also noticed that it was mostly concentrated in the E&P activities. Unlike what happened in 2014 which appears on the right side of the chart, the impairment in 2014 was BRL 45.4 billion, but it was mostly concentrated in the downstream operation. Now, when we look at investment in 2015, impairment was BRL 2.1 billion and BRL 0.8 billion in 2014.

Going on to slide number 10, still speaking about impairment was BRL 47.7 billion as mentioned. The main reasons for this impairment were - in the production E&P fields, we had the reductions in oil prices and geological review of Papa-Terra reservoir. At Comperj, we have the postponement of the startup of the project. And also E&P equipment, we have an expectation of future idleness of drilling rigs. And the discount rate, discount rate affects all of our projects due to a higher risk premium reflecting Brazil's loss of investment grade.

Slide number 11. Here, we have a breakdown of the main E&P projects which have been affected by the impairment. Papa-Terra, BRL 8.7 billion. So it's the most relevant one. And as seen before, this was due to a geological review of the Papa-Terra reservoir. Although the other projects are mainly linked to the lower oil prices, in conjunction with a higher discount rate utilized in the parity tests.

Slide number 12. We will now look at EBITDA - adjusted EBITDA without special items. In 2014, EBITDA was BRL 59.1 billion. In 2015, it was BRL 73.9 billion. And without all of the special items, it would have been BRL 85.5 billion in 2015 when compared to BRL 63.3 billion in 2014, which means an increase of 35%.

Now looking at the EBITDA margin without the special items, again, it would have been 19% in 2014 and 27% in 2015 when compared to the 23% when we consider special items.

Slide number 13, here we have a simulation of 2015 consolidated net income without the special items. Here, when we look at the chart, we see the result reached was BRL 34.8 million (sic) [BRL 34.8 billion] (11:34) negative in 2015. But if we go with the impairment of BRL 49.7 billion and then REFIS, legal contingencies, receivables from the electricity sector and others is BRL 14.3 billion.

Also with discount income tax of minus BRL 15.5 billion, our net income estimated would have been BRL 13.6 million (sic) [BRL 13.6 billion] (11:57), which is without the special items. This is the simulated number.

Now, going to slide 14, we talk about the consolidated net results for the fourth quarter. That was BRL 36.9 billion negative. Operating revenue in the fourth quarter was higher when compared to the third quarter because of higher prices of oil and oil products and gasoline adjustments in September of 2015 and lower oil product sales in the domestic market.

Cost was stable. There were lower expenses with imports and production taxes, and lower share of imported volumes in the sales mix. Thus, gross profit was up by 13% reaching BRL 26.8 billion. Operating expenses, that was mostly impacted by the impairment of assets, that took place in the fourth quarter of 2015.

And the financial result is better. It's better than in the third quarter of 2015 because in the fourth quarter of 2015, there was an appreciation of the real. When we look at the result, it was BRL 36.9 billion, that is the net income and loss with a negative figure of BRL 3.8 billion in the third quarter. The net income was \$9.4 billion negative in the fourth quarter, and \$1.1 billion negative in the third quarter.

The adjusted EBITDA in the fourth quarter was BRL 17.1 billion when compared to BRL 15.5 billion in the third quarter. Investments were BRL 20.8 billion vis-à-vis BRL 19.3 billion in the third quarter and that was due to seasonal increases.

Slide number 15 now. We will talk about exploration and production. We see that we are still growing our production. Production grew 5% between 2013 and 2014 and 4% between 2014 and 2015. And in 2015, we reached the goal in terms of oil production in Brazil.

Moving to slide 16. Now, we refer to pre-salt. In December, we had a production record in this region of 874,000 barrels per day. And also, a daily production record, which was reached in December 2015 of 1,173,000 boed and 942,000 bpd.

On slide number 17, well, the objective was to connect 73 offshore production wells. And we reached the target when we connected 73 wells during 2015, whereas the target was 72 wells.

Slide number 18. Now, we refer to downstream. The oil products output in Brazil was down in 2015 when compared to numbers from 2014. Even though the yield of diesel, as we see in the chart, I mean, the production of diesel since 2013 has been kept stable around 850 barrels a day. Therefore, the number is still high.

Slide 19. Now we talk about the sales of oil products. Production was down by 9% in 2015 vis-à-vis 2014, mostly due to lower demand of some oil products, particularly naphtha from Braskem. And also gasoline, there was an increase of ethanol content in gasoline C from 27% to 25%, a lower market share. Diesel, we had a lower consumption. There was lower consumption in infrastructure projects, lower market share and a higher content of biodiesel in the diesel/biodiesel mix.

Slide number 20. Here, we see the operating income evolution comparing 2014 to 2015. In 2014, we had a negative operating results of BRL 21.3 billion. The downstream unit posted an improvement because of better trade margins of oil products. Exploration and production had the opposite performance, lower margins because the Brent prices were lower and also this year, we had impairment in the E&P sector.

In terms of gas and power, there was an improvement in the results because of better trade margins of natural gas. And in terms of distribution, we see a worsening in the results due to lower market share and lower sales volume. These are the main lines that accounted for the worsening of our results. So at the end of 2015, our operating income was minus BRL 12.4 billion.

Slide number 21. Here, we have general and administrative expenses. There was a 2% decrease in SG&A comparing 2015 to 2014. In the lower part of the slide, we have the holding personnel. There was a 3% increase. Therefore, despite the salary restructuring, there was a decrease in head count. And in the upper part of the chart, we see a decrease in other lines of 5% and this stems from expenses in consulting services, data processing, and other services.

And in terms of gross profit and the percentage of the SG&A vis-à-vis gross profit, gross profit was 8%. I mean, SG&A was 8% of gross profit, and this is a downtrend when compared to years before - to the previous years.

Slide number 22, we have the indebtedness of the company. The indebtedness denominated in real was affected by the foreign exchange appreciation. When we look at the figures denominated in U.S. dollars, there was a decline between the fourth quarter of 2015 and the fourth quarter of 2014 and 2014 going to \$100 billion rather than \$101 billion.

Net debt over EBITDA on the fourth quarter of 2014 was \$34.8 billion and that was 5 times net debt over EBITDA ratio and it reached 60%. On the right side of the chart, we had the net profile (sic) [debt profile] (19:58), 50% of the debt is fixed and the remaining is floating. The cost of debt in 2015 was 5.3% a year. The average tenor was 7.14 years and net borrowings between 2014 and 2015, in 2014, was \$25.2 billion and in 2015, net borrowings were \$12 billion.

On slide 23, we have our cash flow for 2016. Early this year, we start with our initial cash position of \$26 billion. We had \$22 billion of operating cash flow. Judicial guarantees were \$5 billion. Dividends, interest, and amortization was \$19 million. I mean, the dividend line is zero. Investments \$19 billion. Divestments, \$14 billion. Rollovers and borrowings \$1 billion and \$1 billion. So, by the end of 2016, we will have \$21 billion in our final cash position.

With that, I conclude the presentation and we move to our Q&A session.

Q&A

Operator

We will now proceed with our Q&A session. I would like to ask each participants to post at least two questions very slowly and please do them in sequence, so that the executives can answer in the same sequence.

And we would like to inform you that questions in English will be translated to the company's officers that will then answer them in Portuguese and then the answers in Portuguese will be then translated into English.

Our first question is from Luiz Carvalho from HSBC.

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

Good morning, everyone. Thank you for taking my question. A couple of questions. Let me start on slide number 23, the last one that Lucas commented about. I can see some numbers that draw my attention particularly investments around \$11 billion. And, naturally, the final balance, \$21 billion. I would like to better understand the zero dividends.

Could we use this as a guidance for next year or you're absolutely not considering in this cash flow just because you don't want to give any guidance? Just to have a better understanding of how you see the dividend policy for this year and the company's understanding. If there is any loss, we will keep on not paying. What is the impact in terms of controlled corporate tax versus oil?

And the second question maybe Solange could help me out. Yesterday, during the press conference, Solange mentioned that the breakeven point for pre-salt is around \$30 per barrel or \$35 per barrel. And I think she also mentioned the first wave, so to speak, of cost reduction with a decrease of approximately 13%. The second wave might bring additional cost reduction. So, we are speaking of a reduction of 25% of the breakeven for pre-salt vis-à-vis the last guidance. So, could you give us a breakdown of all the items and the current breakeven point?

And just a last follow-up question. What about Petro's stake? Is there any kind of discussion ongoing in the sense of the company having to use a phased funding structure? And how can employees contribute to make it happen, maybe with an increase of contribution. Thank you.

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

Thank you, Luiz. Ivan speaking. First, asking about dividends. The company had a negative result in losses, so we don't have any expected dividend payout this year. Solange is going to answer your question about the breakeven point.

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

Good morning, Luiz. Answering your question about the Brent and the breakeven point, what I wanted to tell the press yesterday is that, that's something we are working on. I made reference to the first wave because our most recent planning already include those benefits that were checked for the negotiations in the agreement. However, there are other benefits, which were also included and I did not mention them yesterday.

And possibly, in the breakfast we had at a different occasion, I had made reference to it. I'm referring to yield, productivity in terms of construction of ports, which were not included at that time, with a significant reduction in the time to build wells.

Particularly in pre-salt project, I think I told you before this is the most significant share for the well building cost. This is the most significant share. So, any benefits in this regard is extremely welcome.

A second point that I also mentioned yesterday and by the way, I discussed with you in the past, in a more thorough manner. It is the fact that in those most recent analyses and planning, there is a continuity, a continuation of well production going down. That's a better behavior than we expected. And by having this included in our planning, we managed to postpone many of the well completions from the moment they won't be necessary as we planned before, but maybe only later on.

And by the way, you - analyst came to us, asking us why in our planning, we had a reduction - a significant reduction in expenses without an equivalent in the production goals, even though they were reduced but not in the same dimension.

So it is the same as we mentioned before. In terms of the inclusion of some benefits that were already considered from the operational and also contract standpoints. But all I want to do is to draw your attention to the fact that this is an ongoing process for the portfolio optimization. And this amount will reflect many conditions to future analyze our projects. And everything that we've been working very strongly through events like the one that I mentioned or also through internal individual optimization on a project base.

A - Operator

Luiz, answering the question about Petr o's, when you have the third consecutive year, showing a deficit, you should work an adjustment program. And this program requires contribution from the stakeholders and the sponsor. This is already reflected in Petrobras statements.

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

Ivan (27:35), maybe if we could go back to the dividend question. I know you mentioned the company had a negative result in 2015 consequently did not pay it, what about going forward?

For any reason, the company has another negative result in 2016, will this remain the understanding that there won't be a dividend payout or is there any kind of divergence in terms of the corporate tax showing that these companies or ordinary shares and or common stock and preferred stock?

A - Operator

If the company has dividends, they will be paid out. If there are no dividends, they won't be paid out.

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

Got it. Thank you.

Operator

The next question is from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, everyone. Thank you for taking my question. I have two questions. The first question is about what do you expect in the business plan CapEx? Solange already answered the previous question about CapEx optimization, but what about impairment that we can see this year for E&P this quarter. Should we expect a postponement of E&P projects in the future?

And my second question is I would like to know more about RNEST impairment. In Comperj, we can see a significant reduction but what about RNEST?

A - Operator

We already had a reduction, a write-off, maybe already affected by the discount rate and possibly a benefit due to foreign exchange in order to reverse the picture.

Q - Regis Cardoso {BIO 20098524 <GO>}

So, what about the influence of these factors and why is it that we don't have an impairment or another reversal of impairment at RNEST?

A - Operator

Regis, thank you. The first part of your question will be answered by Solange, and then by Jorge Celestino.

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

Solange speaking. Good morning, Regis. If I understood your question, you mentioned – you wanted to know if you're going to have any project postponement in our next project. We talked to you recently about adjustments made to our business plan. And right now or in June 2015, when we work on the first big adjustment of the plan, considering the new market scenario, we mentioned a couple of risks of potential postponements. And today, we understand that we are increasingly having these risks under control compared to the past. Now, I turn it over to Officer, Moro. He has some analysis about such risks and very important facts to be shared with you all.

A - Roberto Moro {BIO 6874823 <GO>}

Good morning, Regis, Moro speaking, Engineering Officer. Like Solange said, last year we said there were some risks involving project delivery. So now, I'll try to give you a snapshot of our status last year. Last year, we had 16 big projects for pre-salt. 16 FPSOs and platforms connected to projects, and 6 chartered and 10 own units. The 10 that were chartered or leased, we intended to deliver two last year and we did. And one of them, we anticipated terms of approximately five months in advance. And our problem in the previous year had to do with contracts for our 10 own units, 6 for pre-salt blocks for the concession block, and 4 for the transfer of rights.

These own platforms that we had to deliver are realized through 11 major contracts. So, last year, of the 11 contracts, we had 7 contracts with structural problems and they were nearly terminated.

And one of them were effectively terminated early last year. So, 4 contracts, we had no problem, and 7 with problems. And the one that was terminated affected 6 units of our own units.

So, we had to make a decision last year whether to continue to with these contracts or to start from scratch and based on the impact of non-continuity, we decided to continue and try to renegotiate and come to another balance of these contracts, and that's what we did. We bet on that at that time, but that accounted for quite a big risk because we were not assertive of the results of negotiations.

And now the status in 2016, early 2016, all contracts have been renegotiated. Of the seven, one was terminated, was contracted again. With a strategy to recover construction in nine months, it was taken abroad. And for these contracts, we'll be delivering the compression modes of two platforms that will be delivered and shipping in March, one in Thailand; the other in China, allowing us to complete and giving you a real view of completion of P-66, for instance, which is their item in the shipyard just waiting for the modules to come. So, now, we have a real possibility, a lot of assertiveness by year-end. So we can fully meet our business plan.

As for the additional six contracts, they were all aligned again related to changes to the execution plan or rebalance to the local contract or because we are in charge of our accounts with a lot of assertiveness. All of them up and running, renegotiated, and now creating a better outlook. There are inherent risks naturally, inherent to the process, to the building process, but with a far more comfortable condition in terms of delivery terms and deadlines. So that was just adding to the previous comment. So, now, we are increasing the reliability behind our deliveries.

And in terms of postponements to the contract, Jorge Celestino is going to talk about RNEST now.

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

Good morning, Regis. As to impairment test for Comperj and RNEST. Comperj, just as a reminder, it was not - well, the hibernation activities were not considered in the business plan up to 2019 - 2015-2019. It was not in the horizon. And what we are pursuing and keep on pursuing right now is the completion through a partner stake. When we rolled Comperj impairment for year 2015, there were three factors that led to impairment. Number one, postponement of Comperj to 2022 in the horizon of the business plan, the discount rate, and additionally, the diesel market, which is lower now, and also diesel margins. If we look at the horizon, these margins are also lower. At the end of the day, we generate cash flow that has an impact on PP&E.

So, this happens in Comperj, but not in RNEST. In RNEST, the second train is expected for 2015-2019, but we will continue with the work in progress. And impairment tests run with the same diesel market, same discount rate. They do not lead to an impairment of RNEST train number two.

Q - Regis Cardoso {BIO 20098524 <GO>}

Can I just ask follow-up question, please? So, there is an impairment factor, which is foreign exchange rate, I think it does help somehow to offset the higher discount rate effect. So if possible, could you make some comments on it? And then coming back to what you said about diesel margins, I would like to understand if there are any different margin projections in Comperj and RNEST?

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

In terms of diesel margins, there are no different margins in RNEST or Comperj. Diesel margins are the company's margins. And the strategy area runs under different scenarios. So, we don't have different margins.

As to CapEx, naturally, the CapEx that you have for Comperj terminal was slightly higher compared to CapEx for RNEST terminal and effectively does have an impact.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you, Jorge.

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

Thank you.

Operator

The next question is from Gustavo Allevato from Santander.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Good morning, everyone. I have two questions. First question is about the electrical system provisions. We can see they are recurring in Petrobras' earnings. What about the status and negotiation to try to lower problems? And I want to know if the agreements made with creditors are in line or as expected?

My second question is to Solange. What happened to Papa-Terra? What about the target of projection for 2016? Does it already take into account a lower production in Papa-Terra, and what about the target for 2020 and the revision in Papa-Terra? Thank you.

A - Operator

Thank you, Gustavo. With regards to the electrical system, this is routine work. Whenever the companies find lack of guarantee, actual guarantee, it has to work on provisions. You may be making reference to this first big debt we worked on and this is fully in line. But the whole company exposure that does not have an actual guarantee, the exposure is taken to provision as we did late in the year. This is routine, and it always happens not only for the electric system, but for any other exposure of the company.

Now, Solange is going to tell you more about Papa-Terra.

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

Good morning, Gustavo. All our identifications and findings over 2015 vis-à-vis changes to the project compared to our original plans were fully included in our projections. So we don't expect to see any change vis-à-vis our projections due to the fact that you mentioned. We are strongly engaged. There is real expectation, by the way, expectation that we can have a more bullish scenario to what we originally planned. We did another planning for our projections for this asset in a very realistic scenario, and we're working with targets oriented to this bullish scenario.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Perfect, Solange. Just another follow-up question to the first question. Ivan, is there any study at Petrobras in terms of diesel supply to thermo power plant with advance payment in order not to have additional provision risk? And just an update about the landslide, what about the \$5 billion of judicial guarantee? Thank you.

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

Thank you. The company adopts several procedures, both commercial procedures and collection procedures. This is part of our normal operation in the several business areas of the company, in case of non-payment of the company through the contracts that we have with those companies, puts in place all of the routine collection procedure to enforce the contract.

Now, in terms of judicial guarantees, there are still some pending legal disputes. And every time you migrate from an administrative process to a debate in the judiciary, you have to make

guarantee deposits while you continue to litigate. And so, the amount that Petrobras will be obliged or nudged (41:46) to deposit in an escrow account, to - I mean, if that is the case, to continue discussing all of these issues at a legal level.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Thank you very much.

A - Operator

Thank you, Gustav.

Our next question is from Felipe Santos from JPMorgan.

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

Good morning. I have three questions. The first is about the diesel policy. In general, diesel production was already above domestic consumption. And your competitors began to import diesel and placing this imported fuel in the domestic market, taking advantage of international prices. In case this scenario remains the same, do you want to export your surplus or sell it domestically? This is my first question.

The second question relates to borrowings from the Chinese bank. In the last slide, you showed that \$10 billion amount does not appear and that was the amount of borrowings with the Chinese bank that doesn't appear in your cash flow. And my last question refers to CARF (43:06) proceedings. I think there is one amounting to \$7 billion (43:11) or something else, and whether these provisions are not being considered by you.

A - Operator

Thank you, Felipe. I'd like to give the floor to Celestino to answer the diesel question.

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

Good morning, Felipe. In fact, our planning model, it's a linear planning model, and we run this template, offering imports and exports of oil and oil products. And this model runs so as (43:52) generate the best economic outcome for the company.

We've offered some diesel exports. We had the first one for diesel 10 and that took place in February. It was our first export activity, and this is how we intended to work. We constantly seek for the best economic result for the company, importing companies that are deemed necessary to supply the market and we will also operate refineries to reach its utmost - the best economic level.

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

Thank you.

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

In terms of borrowings, that you just mentioned, we just had this agreement with the Chinese bank. I mean, just after the outlay that we will post something, there is this \$1 billion that was just the first part of this (44:53) that we did with (44:55) and there has been an outlay. This is a very conservative position. We don't want to be surprised.

So, once the cooperation agreement is signed and then we go to the contracts. And as the outlay hasn't already been posted, it hasn't been reflected in our figures. CARF (45:17) evaluated the entire litigation proceedings at all different legal levels, and the amount that we posted is what we think is necessary to face all of the cases, both at the judicial level and in other levels. This amount

of \$7.5 billion involves a contribution to Petró in 2010 and the litigation came to a very close tie. And then in the judicial level, they were right in terms of deducting all of the taxes that were pay by Petró's.

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

Could you give me more details? I know that you cannot talk about the term sheet you have with the Chinese bank, but can you give me just a few details concerning the basic assumptions?

A - Operator

The contract is exactly the same as the contract we signed last year amounting to \$5 million, the same format. In the contract, there is a 10-year term and this is aligned with what Petrobras needs now. But we do not give out any more details. But it follows the same terms in 2009. We had our first agreement and the second one was signed last year. And the third agreement will take place this year.

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

Thank you.

A - Operator

Thank you, Felipe.

Next question from Bruno Montanari from Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good morning and thank you for taking my question. First, I would like to revisit Papa-Terra. I know that you said that you are working according to plan, but can you give me an idea of what could be expected in terms of production level, capacity utilization of the platforms?

And the second thing refers to China Development Bank. I think you have \$5 billion to \$10 billion (47:29) is this with a trigger or once you decide to withdraw, you'll have to withdraw the entire amount of \$10 billion (47:39) at once?

And the third question was about the U.S. class action. What will be the next steps? And whether you have any timing idea for the parties to begin getting into an agreement or settling this issue? Thank you.

A - Operator

Bruno, thank you. I will start by answering your two last questions and then Solange will refer to Papa-Terra. You were not obliged to withdraw the \$10 million (48:11) all at once and this is not what we want. But this is not like a revolver or a trigger. There is a contractual payment term that we have to follow.

In terms of the class action, there is nothing has been decided about that yet. We are still in the discovery phase. People are giving their depositions and we are still discussing this and getting ready for the trial and I think the judge has set a date, which is in early September of this year.

Now, I'll give the floor to Solange who will answer your question about Papa-Terra.

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

Good morning, Bruno. The consortium is leaning over a total redefinition of the project and this includes the way we operate that special unit that drills wells and the performance of this drilling is

poor and we are also focusing on the entire draining grid and I am referring to the wells. The location has to be redefined and the trajectory has to be revisited. All of this review work on the operating side and project definition will take place at the end of 2015, therefore, it's too early for me to tell you now about any ramp up decision.

In the absence of this new project, we have now our view, what is the status project, what is the performance of the wells, the performance of rigs. Therefore, using all the existing knowledge and our existing models, we ran optimistic simulations, worst case scenario, current scenarios, and we aren't getting ready to adopt a more realistic position, but the entire project will be redesigned, and I'll be able to give you a better answer - to answer your question by late October when the entire project will be redesigned by the consortium members.

Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you very much.

Operator

Next question from Diego Mendes from Itaú BBA.

Q - Diego Mendes {BIO 16313486 <GO>}

Good morning, everyone. I also have two questions. One, about impairment. When we look at the figures, you used Brent of \$72 long run, and what was the basis for that and whether we could see any reduction in this amount and this would probably lead you to further impairment. And also your cost of capital increased about a 100 basis points versus 2014, whereas at the end of the landscape was much worse and both the equity use and the cost of debt changed. How did you calculate those figures and what should be expected in the long run?

And the second question relates to your hedge account policy. If we compare at the end of 2015 to the end of 2014, you significantly increased your exports coming from \$50 billion to \$61 billion in a time when the price of oil is down in the U.S., they even extended the tenure. How should we consider all of these positions in the future and whether you still have room to increase at \$61 million further.

A - Operator

Diego, thank you. First, about Brent prices and cost of capital, this is extensively debated by all business areas of the company and this is the best view that we had and this is what we use to carried out the parity test. This is the company's view. This is a significantly lower number in the case of Brent and a higher figure when it comes to cost of capital. This is our logic.

In terms of the hedge account, we increased the denomination, but this is compatible if you compare two variables. The drop in the domestic demand for your oil products and higher production of the company which lead us to more availability to exports. The company is trying and will continue to be more predictable in terms of our results. All of the rules are well described in the guidelines of the company and it does reflect our best judgment because it also considers our own debate and also consultations from the outside market.

Q - Diego Mendes {BIO 16313486 <GO>}

So, in terms of Brent, so \$72 should also be included in your business plan?

A - Operator

Yes. This is correct.

Q - Diego Mendes {BIO 16313486 <GO>}

Thank you.

Operator

We also have questions in English. Mr. Frank McGann from Bank of America has the next question.

Q - Frank McGann {BIO 1499014 <GO>}

Good morning. Thank you. Two questions, if I may. One, in terms of the write-off, the impairments, I was wondering percentage of the write-off was attributable to the change in discount rates, and what amount was related to that, and what amount was related to other factors? And then just, perhaps, an update on the current status of your pre-salt assets?

A - Operator

Frank, good morning and thank you for your question. We do not have this amount in terms of Brent and discount rate but the IR area will send it to you. We don't have it right now, but we do have it available and we will send it to you. And regarding pre-salt, I will give floor to Solange to answer that part of question.

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

Good morning, Frank. Our pre-salt projects are very much aligned to the outlook described by model. We just started up a unit in the first quarter of 2016. There are two other units leased that are up to speed. And in the case of one of them, we may see an anticipation. So, we may start up a unit earlier than what has been anticipated. And this has been the case with some two other units when there was an anticipation, even four months prior to plan.

And in the following years, after 2017 onwards, we will then follow the rule described before where some of the delay risks have already been solved. Now, in terms of construction of wells and connection of wells, our plan is up-to-date. For years we've been working in our well connection plan, and we've been sharing the status of that with you and we are in compliance with our plan.

Also, in terms of the pre-salt, in 2015, we added four additional wells in addition to what has been planned. And the productivity of the wells and the exploration of Libra, as I said yesterday to the press, it is also up-to-date.

Yesterday, I also talked about the results. The Libra exploratory area had a magnificent performance. And, again yesterday, I talked about over 300 meters in depth. This is very relevant because very soon, in early 2017, we will install a pilot unit in Libra. It's a pilot unit. It will be our largest pilot ever in Brazil of 50,000 barrels.

And once the connection is made, that could have that capacity, we will test it. And as time goes by, pre-salt predictability remains untouched. We did not encounter any other factors that will lead us to believe that we will have delays to the target that we mentioned before.

Operator

Next question from John Herrlin from Société Générale.

Q - John P. Herrlin {BIO 16816675 <GO>}

Yes. Hi. Regarding the impairment discount rate. I may have missed it, but can you specify what the discount rate was?

A - Operator

John, thank you for the question. The discount rate is linked to risk and also linked to the activity itself. For each business unit, so for each company, we have a different discount rate. We do not have a single discount rate for all the businesses because we have to reflect a specific risk of each business unit, all discount rates that are applied for 2015 and 2014. In 2015, there was an increase even because Brazil had a downgrade in its investment grade. And what you will find that is common, it's an increase in the discount rate. But there is no such a thing as a single discount rate because each discount rate reflects the different business unit risks.

Next question from Anish Kapadia from TPH.

Q - Anish Kapadia {BIO 5788754 <GO>}

Morning. A few questions please. Firstly, we've seen a recent rise in international oil prices. I just wanted to see what is assumed in terms of increases in gasoline and diesel prices have the bump (59:47) in 2016 in your cash flow forecasts.

And second question, as well as on Papa-Terra, you have also had, it seems, disappointing production from some of your other new units in the Campos Basin, on Roncador and Parque das Baleias. Can you update on your production expectations from these fields and when you'd expect them to reach plateau? And what are you seeing in terms of the underlying decline rates in the Campos Basin? Is that accelerating?

And then, just a final one. I was wondering if you can give an update on the progress on Búzios, on the FPSOs for Búzios and the expected ramp up you'd expect further down (1:00:37). Thank you.

A - Operator

Thank you. I'll give the floor to Solange who will talk about Búzios and Campos.

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

We don't have problems in Roncador - structural problems, neither in Roncador or Parque das Baleias. Now, let me draw your attention more specifically to Parque das Baleias. We've had a unit with operational problems in the first months but these problems were solved. And now, it is at full speed with very good results.

As to the decline rate, prior to that, I would like to talk about Campos Basin. Yesterday, I talked to the press where we were mentioning the importance of the basin that we have two kinds of important - two important works there in terms of more economical assets. We've been strongly invested to revamp platforms over 2015. We invested BRL 2.7 billion in the platforms. And now, we are designing complex projects of full fields. And yesterday, we also announced - and by the way, this is also related to the question about the decline, Marlim was our first field of deep waters, Marlim is start running into 80s.

And for the third consecutive year, we have growing production in Marlim field. So our mature reservoir policy and also improved operating efficiency in these very same units, Marlim, for instance, and also in those related to Roncador and also those related to Parque das Baleias, these are programs or problems that were solved and now they're bringing quite positive results. So this was one of the main contributions that allow us to meet our goal of projection over 2015.

Just as we are working with a lot of diligence to implement the pre-salt projects, we're also extremely careful with Campos Basin which accounts for 70% of our output and our cash flow basically lies on the efficiency of the Campos Basin. Of the top 10, 8 are in Campos Basin.

And we have good news to share about the extension of concessions. These big fields, huge deep water fields whose reserve is not depleted in 2025. So we are already searching for projects and try to have investments for big concessions in the area. Once right now, we have already defined the model of the extension, the concession model and for another 27 years, we will have a big revamp process, revitalization. So we don't have a drop in protection and therefore decline is under control.

As to Búzios, I'm sorry, I still have to talk about this question about Búzios. In Búzios, we also have a campaign for the limits of the field. It is the main area of the transfer of rights area. We have extended well tests being carried out in this area, tests (1:04:43) with mid-sized vessels. And they allow us to mitigate risks once we have big projects taken place. We have already defined four big projects in the portfolio for this area. These projects are also being detailed by Officer Roberto Moro when he talked about our units. And we talked a lot about Libra, but Búzios also has amazing results in terms of reservoir and the productivity. We're very happy with the exploration result achieved in Búzios.

Now, I give the floor to Jorge Celestino to answer the first part of your question about the forecast of diesel prices.

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

With regards to diesel prices expected and according to our planning, we have the Brent price curve that the management bets on. In addition, we also add to diesel the spread or the diesel margins and also our competitive edge. So in our margin, we have a competitive positioning at the Petrobras system, which is also added to the picture and that's how we work on prices and price forecast.

If I may, I would just like to make or give more accurate information when I talked about Comperj for 2022, actually, it is January 2023. This is what we see in our plan. This is more accurate information.

Operator

The next question is from Caio Carvalhal from Brasil Plural.

Q - Caio Carvalhal {BIO 16605563 <GO>}

Good morning, everyone. Most of my questions have already been answered. If I may, I would just like to have a better understanding of two things about impairment. First thing is, is there any strategy here, because we've seen before some variations, maybe not big variations of oil prices and maybe not so strong about Brazil cost, but we have never seen such a strong impairment. My idea is, will that happen annually, if the performance of oil prices really speeds up and will change over \$72 on the longer term, should we expect to see some gain? I want to know if there are going to be an annual strategy about these fields.

Another question is what about the assets of the transfer of rights in the light of the new assumption for impairment? Does the company also intend to apply this for transfer of rights because the book value is still at BRL 74.8 billion by the end of 2014, 2015? I assume you're speaking of something slightly different in the negotiation contract, but should we expect to see something downwards in the valuation of transfer of rights asset, which might be positive for the company?

And last but not least, also about the revision. Wasn't there any value gain? Was the value small or not considered yet?

And lastly, along the same lines, the impairment test revisited the value downwards, maybe due to Papa-Terra or the discount rate and oil value and not related to the production profile.

And in the revision of the reserves, there was a big drop, 0.7 barrels or 0.8 barrels or the drop of reserve from 2014 to 2015, there was a revision or a drop of 3 billion barrels, if I'm not mistaken, 1.7 barrels, 1.8 barrels (1:08:58) due to technical and economic reasons as you posted in the report. Is there really no impact on production? Are these reserves that has not been developed yet or that will be developed in the future? Or should we expect to see another impact due to this reserve? I think I have more than two questions, but they're around the same topic. Thank you.

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

Caio, thank you. Ivan speaking. This is an annual review. It was the regular periodicity. And it included all the assets, including the transfer of rights you mentioned. And you also mentioned in your third topic about extension. Extension was afterwards. It did not include the balance sheet in 2015. If I'm not mistaken, it was discussed 10 days ago. So there was no impact on the balance sheet, on March 3, more specifically. And as to the impact on reserve, Solange is going to answer your question.

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

Good morning, Caio. More effectively and maybe I'll be redundant because Ivan already mentioned this. The provision in test or recovery of impairment test, this recovery test happens every year. And this isn't a typical year due to the magnitude of the impact of prices. So basically that's what happened. The price impact, the price in which all the companies' assets have been tested last year, we will test it again.

So not only the forecast and the drop of price in the year, but also the long-term forecast that's the basic thing. Tests will run based on the long-term forecast, 30 years, 40 years, for E&P much longer. And this year, we reduced our projection of future projections based on the analysis in the market.

So, the assets were put to the test with very different amounts, no exception, transfer of rights. Although it's a separate contract, it is subject to rules of appropriation of reserves and parity test, like all the assets in this topic.

And you also mentioned at the end to the announcement we made, a 20% reduction in our proven reserves, that's what we published. Once again, under the same impact, something unique in our trajectory and also, unprecedented specific sudden drop as we had with Brent oil prices.

Now, this revision does not have an impact or a significant impact because that's a long-term revision. It's long term. And Petrobras is also very strong in this regard, trying to increase the recovery factor. So we're working hard to increase the recovery factor even though sometimes we have a lower impact on those amounts.

And you also make reference to some technical facts. One of the technical facts that we mentioned at the time is specifically Papa-Terra. Papa-Terra is a mid-sized asset. It is post-salt from Campos Basin. And it also suffered a significant impact due to cost reasons and also associated to a different impact. So this was due to Brent price in the long term, but also, additionally, it was also affected by the performance of some wells and reservoirs for the completion well rig. And we also had a higher impact on Papa-Terra compared to other assets, but there is no impact on production.

By the way, I answered that before in the first question when we had our breakfast meeting. We also discussed the business plan. So that business plan already included our most realistic scenario

for projections and deliveries of these assets. What we are analyzing right now are the accounting aspects related to the parity test.

Q - Caio Carvalho {BIO 16605563 <GO>}

Thank (1:13:58-1:14:18) to review the amount in view of the situation involving discount rate, exchange rate and price of oils, right?

A - Operator

Yes. You're right. You got it right.

Q - Caio Carvalho {BIO 16605563 <GO>}

Thank you very much.

Operator

Next question from Lilyanna Yang from UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you for this opportunity. I have a question about your divestment plan. Do you believe that you will still sell \$14 billion until the end of the year as your target anticipates? And what kind of assets you will be putting for sale like if you have - your onshore fields that should be put for sale? This BRL 1.2 billion was due to what? And from previous answers, I notice that in addition to that, there was nothing related to pre-salt.

My third question relates to local content. What is the level of fines due to the non-compliance that were issued to you? And how many waiver requests have been already accepted in your particular case, of course?

A - Operator

Well, you have lots of questions. So I'll give the floor to Solange. But, speaking in more general terms about the divestment plans, yeah, the target is \$14.4 billion for this year. The company is working in different areas. Some of them have already been disclosed but I'd to ask Solange to answer your question and something related to selling our internal assets.

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

Good morning, Lilyanna. It's a pleasure to speak to you. Well, again, I will just change the order of my answer, starting with the fact that, I mean, you asked me to speak about the type of assets that are part of our divestment portfolio and again, I think, I recall our last conversation when we said that there is no limit in terms of the maximum amount of returns for the company and what assets will be part of that in terms of upstream and downstream. Assets that are put for sale involve 98 concessions, product concessions and six other prep (1:16:34) assets that are very much integrated, 10 production sites scattered in different areas from Serra to Lucero Espirito Santo (1:16:44). We did some very detailed work listing all the benefits to Petrobras, which involve divestments and also in terms of being more attractive to other players, small- and mid-sized players that may be interested. And in terms of risks and opportunities, these are things that are all part of a package that can be very attractive to takers.

Now, in terms of Lapa, it's more related to seismic repositioning. It's a more technical thing and that's what led us to that result. But that was not necessarily linked to pricing.

Now, answering your question on local content. I think you can notice an attempt on the part of the regulating agency about how we comply with local content requirement. The regulating agency has

clearly demonstrated its intents to promote further development, not only from foreign companies but also, Brazilian companies, with an eye on developing the industry. So as they know the difficulties encountered by some vendors and suppliers in Brazil, this new measure has been very positive. We are keeping a very good dialogue with the regulating body and, therefore, we do believe that soon enough we will see some positive results.

Now, you also had a question about the waiver and that local content debate, but I will ask the IR people to get in touch with you later. Thank you.

A - Operator

Now, just talking about Lapa, the impairment was more related to the production platform. Maybe I will make myself clear. The reservoir of the area was submitted to a seismic analysis, so it's not related to the platform neither pricing.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you.

Operator

Next question from Pedro Medeiros from Citigroup.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you. Good morning. I also have a few questions. First, Ivan, could you please tell me a bit more about the performance of programs related to manageable costs. Can we just list all of the gains that you were able to achieve related to renew of contracts or overhead or new positions? And how can this compare to your initial expectation?

The second question is a follow-up on the transfer of rights issue. I understand that the impairment test did not affect the asset base related to the transfer of rights. But could you please give me an update on the contract renegotiation, in fact, the renegotiation or the amount of the contract? And what is your expectation concerning gains or losses?

And my third question is merely a follow-up question. I looked at your financial results and you have a provision for abandonment of BRL 14.1 billion in 2015. And this should have been recognized in the fourth quarter. Was this included in the results? This is something that is not very clear to me now.

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

Pedro, first of all, thank you for the question. The reduction of these manageable expenses, I mean, are you happy with what you have so far? The answer is yes. There is - there are a lot of initiatives in many different parts of the company. You just mentioned a few. I didn't want to give you any precise information right now. But we can contact you further and give you all of the breakdown information you need. But it doesn't mean that the company will not pursue further improvements.

Solange already talked about the second wave. She talked about that yesterday. We will work hard on the second wave. And our intent is to achieve further reductions. So we do believe that the future price of Brent is now in a different level, a lower level, in the long run and this certainly had a significant impact.

And to that end, the company will have to reinvent itself. It will have to adapt its cost to the new reality. This will, therefore, be a continuous process and we will identify any possible opportunity to promote further reductions.

In terms of the transfer rights, I will, again, give the floor to Solange.

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

Good afternoon, Pedro or good morning, Pedro. We also shared with you that there are two certifying companies that were hired; one, on the part of the government, and one on the part of Petrobras. They are both working diligently to come up with the first results in the second quarter of 2016.

We've been meeting to discuss assumptions but I don't have a schedule clearly defined because everything will depend on when the certificates will be delivered. Therefore, right now, I cannot tell you anything about gains or receivables coming from the transfer of rights.

Operator

Thank you very much. We now conclude the Q&A session of this webcast and audio conference. I would now turn the floor to the company's director, Ivan de Souza Monteiro.

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

We would like to thank you very much, and if you need any additional information, please talk to our IR people.

Operator

Thank you all very much. 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 participating and please disconnect your lines. Have a good day. Thank you.

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