

Q1 2016 Earnings Call

Company Participants

- Hugo Repsold
- Isabela Mesquita Carneiro da Rocha
- Ivan de Souza Monteiro
- Jorge Celestino Ramos
- Solange da Silva Guedes

Other Participants

- André Natal
- Anish Kapadia
- Caio Carvalhal
- Diego Mendes
- Felipe dos Santos
- Frank McGann
- Gustavo Allevato
- Pedro Medeiros

MANAGEMENT DISCUSSION SECTION

Operator

[Foreign Language] (00:00-00:02) Good morning, ladies and gentlemen. Welcome to the Petrobras Conference Call with Analysts and Investors for the Presentation Concerning the First Quarter 2016 Results. We would like to inform you that participants will only be listening to the conference call during the company's presentation. Will be conducted in Portuguese with simultaneous translation into English. Following the presentation, a Q&A session will begin in Portuguese and English. At which time, instructions on how to participate will be provided. [Operator Instructions]

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 Refining and Natural Gas Officer; Mr. Hugo Repsold Júnior, Chief Human Resources, HSE and Services Officer; Roberto Moro., Chief Technology and Production Development Officer; and Mr. Adalberto Elek, Chief Governance and Risk and Compliance.

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 the projections and targets are mere forecasts based on the expectations of executives regarding the future of Petrobras.

To begin, we will hear Mrs. Isabela Carneiro da Rocha, Executive Manager of Investor Relations, who will present the results of the first quarter of 2016. After that, we will answer the questions coming from participants.

Please, Isabela, you may proceed.

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

Good morning and good afternoon, everyone. I would like to start the presentation by mentioning slide number two, which has a disclaimer to analysts and investors.

Now going on to slide three, we talk about the exchange rate. The average exchange rate in 2016 was BRL 3.90, which is 30% higher than the average exchange rate in the first quarter of 2015. But when comparing it to the fourth quarter, there was a drop in value vis-à-vis the end of the period.

Now moving to slide four, who shows Brent performance. We see a very low amount of \$34 in the first quarter of 2016, which is down by 37% when compared to the first quarter of 2015 and also a decrease when compared to the same period of last year. This Brent price is very low, and it hasn't been like this until the first quarter of last year.

Now looking at the results highlights, I would like to start by referring to gross income. We had BRL 21 billion, which is down by 6% when compared to the first period the year before. The main differences is a drop in the sales of oil products and lower sales of gas and power due to demands coming from the electric sector and prices of electric energy. There is also a drop in the oil and gas production of 7%.

The drop in Brent prices also led to lower amounts of export prices of oil products, and we had an increase in cost due to depreciation. Depreciation because of reserves drops and also impacts from the drop in oil prices. This is due to our depreciation method, which includes production products. This was due to lower margins of gasoline and diesel, lower export volume of oil products. We had a 14% increase in imports and lower costs from production taxes and imports.

Now looking at the operating income, we had BRL 8.1 billion in terms of results, which was down by 37% when compared to the same period of the year before. Here, we see higher expenses with the idleness of equipment, particularly drilling rigs, and more expenses with healthcare plans due to increases in interest rates according to a higher actuarial liability. And we also had decreases in Salema. In the first quarter of 2015, we experienced a reversal in terms of impairment in the electric sector.

Going to net financial results, which is minus BRL 8.7 million, here we see an additional expense of BRL 3.1 million due mainly to decreases in interest expenses due to exchange

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rates and lower indebtedness. If we compare it to the first period of the year before, a higher effect coming from exchange rate variation, and also a different reclassification of head accounting in terms of shareholders equity vis-à-vis the results. This minus BRL 8.7 million surpasses the overlap to the operating results, which lead us to a loss of BRL 1.2 billion.

Now going into the next page, page number six. Here we have a cash position of the company. And here we have important adjusted EBITDA figures of BRL 21.1 billion. This amount represents a slight drop vis-à-vis the year before. If we exclude non-recurring items, EBITDA would be BRL 22 billion. Now, looking - and the EBITDA margin is 30%, which is a very high margin considering the very low oil price environment.

Looking at the operating cash flow, which was BRL 17.3 million, up by 5% vis-à-vis the year before. And this was due to higher margins for diesel and gasoline, and a reduction of expenses with production taxes and imports, which were in part offset by lower crude oil exports and a drop in the sales volume.

Now looking at investments, we had an important reduction in the first quarter. We had BRL 14.9 million in investments, 16% lower than the year before. And I would like to highlight that 88% of these investments are concentrated in E&P.

Now looking at the free cash flow slide, which is operating cash flow minus investments, we see a free cash flow of BRL 2.4 billion in the first quarter of 2016. It is positive for the fourth quarter in a row. This is a very significant number because it reflects our efforts to deleverage the company, and also our pursuit towards a discipline to reduce investments and capital. So the Brent price environment is down, and so this free cash flow result is very important.

Now moving on to slide number 7. Here, we have the indebtedness evolution and the position of the debt of the company. There was a reduction in total indebtedness, which is coming down since the third quarter of 2015. But in this last quarter, we experienced a drop of some BRL 492.8 billion to BRL 450 billion, and this also impacts the net debt. That was a 6% drop. In terms of dollar exposure, we have \$126.4 billion of gross debt and \$103.8 billion of net debt, and this is an increase of 3% vis-à-vis the last quarter.

In this quarter, we amortized BRL 24.7 billion in interest and principal. And in terms of borrowings, there was just a leaseback with CBC (08:33) amounting to \$1 billion. Therefore, here we see the behavior of the cost of debt and the average tenor showing the possibility of expanding the debt. In terms of debt KPIs, we see a drop in net debt over EBITDA margin from 5.31% to 5.03%, which is down by 5%, and leverage as well was down by 3%.

Going to slide number eight, this is just a summary of all the variables that have been mentioned. I would like to draw your attention to the investment line that talks about the competence, which is a bit different from the numbers presented on slide number six, which brought us the cash view.

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Now moving on again and talking about operating results on slide number nine, when we refer to E&P. In Brazil and abroad in the first quarter, we had 2.6 million barrels a day of oil equivalent, which is a 7% drop vis-à-vis the year before, which is explained by the concentration of maintenance stoppages and scheduled stoppages that we had last quarter. There was an increase of 5% in production. These scheduled stoppages happened in the Campos Basin and Parque das Baleias in Espírito Santo and Golfinho. All of these units that stopped already resumed operations, and this effect was mitigated by the ramp up of new platforms that are now in the pre-salt and also the ramp up of Itaguaí and Mangaratiba.

I would like to highlight that the production in April already showed signs of recovery. We had 2.69 million of BOE in April, and we hope that before the end of the year, we will have a lower scheduled maintenance occasions going to 2.655 million barrels of oil in Brazil. Here in the quarter, we see that that was 1.980 kboed.

Now, moving to the next slide, I would like to highlight pre-salt which is shown on slide number 10. We now highlight an increase of 29% in pre-salt production since the first quarter of last year until the first quarter of this year. Therefore, in terms of operating position, we are at 159 (11:22) a day. We have Petrobras' share and the partners' stake, and in terms of oil plus gas, we already surpassed 1 million barrels a day since July of last year.

I would also like to highlight the platforms that started up in the first quarter, and they should be in operation by the end of the year. We have Maricá in Lula Field. And pre-salt, due to the high productivity of those stations, the lifting cost is lower by \$8 per barrel. And we expect to see another unit in Lula, in Saquarema and another FPSO in Caraguatatuba. I would like to highlight this pre-salt operation. And in addition, our production in the Campos Basin experienced a 12% increase from March to April due to the operation of the platforms that we're not operating.

The next slide, slide 11, we have lifting costs. Our lifting cost in Brazil experienced an important reduction. Now, we have 10.49% per barrel, which is down by 21% when compared to the first quarter of 2015, and this also is due to higher expenses in the Campos Basin. And the impact of pre-salt in Petrobras' total output. The pre-salt lifting cost is lower which reduces the production margin of Petrobras.

In reals, this lifting cost was stable. In terms of lifting costs abroad, there was a drop, which is explained by the sale of Campos and the Austral Basin. They had higher operating costs. And then also the startup of new fields in the Gulf of Mexico that had lower costs. And then we also have to consider the depreciation of the Argentine currency. And so the cost of Petrobras, including Brazil and abroad, is \$10.13 per BOE, which is very significant for the oil industry.

Now moving on to slide 12, we see the production of oil products. The oil products' output in Brazil, and despite the fact that the market is on a downturn, the output is stable because we reduced the share of imported goods. And then we had 66% to 84% but - from 85% to 86% but in terms of yields in our refining area went back so we had an increase to 70% for diesel and gasoline. This also includes an increase in diesel output

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It was 42% of the total production was diesel when compared to 40% of the year before, and this can be translated into an improvement of our efficiency in refinery. And in Hines (14:29) 80% of the total output is diesel. And within the diesel production, the share of diesel S10 which has 10 ppm of sulfur, so it's a high quality diesel. So the stake of the S10 diesel and the total amount of diesel produced increased this year. So we have a better adjustment to the production profiles, adjusting it to the Brazilian demand, and also the quality of the products delivered.

On slide number 13, we show sales volumes in Brazil. There was a drop due to drops in demand because of the current economic situation. So from 2.56 million barrels a day in the first quarter, 758 diesel barrels and 564 gasoline, so that was a 5% decrease. And this drop was due to naphtha. There was a 10% decrease in naphtha because of lower demand, mainly from Braskem. There was also a very important demand of oil fuel of 33% which is explained by lower thermoelectric demand. And in diesel, we experienced a 12% drop explained by lower demand. There was also increase in sales by third parties and a loss of market share in refining and the lower generation by diesel thermal power plants. So as I said, there was a reduction in demand, but our output profile is now more adjusted to the Brazilian demand profile.

Now moving to slide 14, we have the trade balance, imports and exports showing a reduction, and this was due to reductions in demand. That's why now we have lower imports and higher exports. So there was an increase in exports of oil and oil products. We exported gasoline, naphtha and LPG. So we see an improvement in the total balance vis-à-vis the same period of the year before when it comes to net balance of liquids.

Going to slide 15, we have refining costs. In Brazil, our refining cost in Brazil is \$2.27 per barrel, which is down by 20% vis-à-vis the same period of the year before. In terms of - in denominated in reals, there was an adjustment due to the collective bargaining agreement, and also due to the reduction of processed feedstock.

And this cost is really - this charge is very important because of the refining costs in Brazil. Abroad, the refining cost is higher, about \$4 per barrel, and there was an increase vis-à-vis the year before, mainly due to higher expenses for E&P in the Pasadena refinery. They were offset by the depreciation of the Argentine currency because here, we also include the Bahía Blanca refinery located in Argentina.

Now, moving on to slide 16, we have an overview of the general and administrative expenses. They were down by 2% when compared to the first quarter of 2015. And despite that inflation of approximately 10%, this reduction stems from several initiatives to reduce costs. Even though several initiatives also had an impact on the cost of goods sold, they also impact G&A expenses. Here, we have lower expenses with third-party services, offset by higher expenses with personnel costs due to the collective bargaining agreement. And this also impacted reduction in costs, which is quite important for Petrobras.

Now, going to slide 17, we have the operating income. I would like to highlight that Petrobras is an integrated company and very balanced in terms of oil production, oil

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products, output and sales. So there is a natural hedging, which is quite interesting if we look at an environment with very low oil prices. So the operating income considers internal transfer operations, and also because the company is fully integrated, and that brings about a better balance.

Therefore, we had BRL 11.5 million for downstream, and then we had a lower amount of E&P and up by 1.1%, gas and power distribution was down by 0.05% and operating income was 8.1% as a whole. In terms of E&P, we had BRL 0.8 billion of losses – minus 0.8. In fullness, there was a drop in the oil prices, lower crude oil production, and that was also due to a depreciation effect and the idleness of the equipment which were offset by lower production taxes.

If we include idleness, the result alone will be enough to bring about a positive result of about BRL 1 million. In terms of Gas & Power, there was a positive result of BRL 1.1 billion given to higher commercialization rates and acquisition costs, both for LPG and Bolivian. In the Bolivian product as well, there was a drop in G&P and a reduction in sales of gas.

Now moving on to distribution and here we are referring to distribution both in Brazil and abroad, their result was negative by BRL 50 million explained by lower sales volumes due to the economic downturn. There was a reduction of 59% in the sales of diesel and diesel oil to thermoelectric biofuels. There was a drop from 33% to 32%. A part of this decline is also explained by the repositioning of BR, which is privileging (21:19) not volumes but quality. And this is also related to losses in receivables from the thermoelectric plants in government.

If it were not for the non-recurring numbers to BR, we would have a result close to BRL 800 million in the distributing company.

In terms of biofuels, there was a reduction of BRL 100 million. And in the corporate segment, we still have the same levels of the same period of 2015 which was minus BRL 4.0 billion. The final result, the operating income was BRL 8.1 billion as we mentioned before.

Slide number 18 brings our current cash flow view for 2016. It also incorporates some expectations for the end of the year. Our initial cash flow was \$26 billion. It's all denominated in U.S. dollars. Operating cash flow is better, so we expect to have BRL 24 billion.

And also we have judicial guarantees. These are the necessary guarantees referring to cases that leaves our administrative scope and go to the judicial sphere. And so these are cash guarantees, and we associated to them \$6 billion as the amount for judicial guarantees. In the same period of the year before, this was only \$100 million.

Now, speaking about dividends, interest and amortization, we expect \$20 billion, divided into financial expenses and amortizations due to the interest zero. Investment was \$19 million. And in terms of divestments, we continue to pursue our target of \$14 billion, which was announced to be part of our plan of \$15.8 billion, and we just announced the signing

up of the sale of the Argentine plant. And so divestments are happening, are taking place, and we are just reinstating our target. In terms of rollovers and borrowing, this has already occurred. So without the leaseback with SCPT (23:58) and some rollovers, the final cash flow is \$21 billion.

I would like to thank you for your attention, and now we can go the Q&A session.

Q&A

Operator

We will now initiate the Q&A session. We would like to ask each participant to ask at least two questions slowly and clearly, and please ask them one after the other. We also would like to ask you that you do not use the speaker phone. Questions in English will be translated into Portuguese for the executives of Petrobras who will answer them back in Portuguese, and the answers will be translated into English.

Our first question comes from Caio Carvalhal from Brasil Plural

Q - Caio Carvalhal {BIO 16605563 <GO>}

Good afternoon, everyone. I have two questions. The results, like you said before, you had very interesting operating factors and also non-recurring factors. I would like to focus on something going forward, about upstream. Actually, two questions. Firstly, I understand the first quarter had to do with maintenance. And I think there was dramatic drop, particularly in Campos Basin. Do you have any outlook? Could you give us some guidance about the depletion this year vis-à-vis the previous year specifically for Campos Basin, not only in order of magnitude or something closer to 10%, but about Campos.

And second question about costs going forward, I understand the lifting cost of result. You mentioned it's lower than \$8 naturally, considering all fields, particularly those in production. What about the lifting cost of a pre-salt field today, which is still in the development phase or just about to be developed? Very Specific upstream questions, so if you could give us more detail, it would be great.

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

Caio, thank you for your question. It's Ivan Montero. Solange Guides is going to answer your question.

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

Solange speaking. Good morning, Caio. I perfectly understood your questions. The numbers - actually, you gave me a great opportunity to clarify a couple of points. Points related to this very dramatic reduction in the production in Campos Basin in the first quarter 2016. You're right. It did happen and I tried to clarify yesterday with additional data in our interaction with journalists.

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In reality, we had a stoppage strategy over the first quarter, and it was very aggressive. We stopped very important units of Campos Basin for maintenance purposes. So the impact in the first quarter, and I think you followed up our numbers, we had stoppage in production in Caratinga, Leste, more than one in Marlim. We stopped another two units. So all these units are above 100,000 barrels per day of capacity, not necessarily production and this was the impact. So our strategy was to stop, and this is not related to the numbers that you're asking. I understand you have a clear distinction in your question about depletion, which is precisely the production capacity of the reservoirs, which are not usually related to scheduled maintenance.

We had something around 10% of decline or drop in production in our reservoirs in Campos Basin. However, it was very much affected by positive events or return of some wells back in production, new systems like Papa Terra. So my perspective assessment, based on the turns you mentioned, I would say that over the coming years, we'll have a depletion not related to factors like scheduled maintenance but amounting to 12% or 15%, which is our reference from the industry for such maturity and also for this environment, which is offshore deepwaters that mostly applies to Campos Basin.

Well, Caio, it is in this context that we are revamping and scheduling revamping at Marlim Field so we can have better operating conditions to better manage that asset. So with the extension of Marlim contract, it gives us the chance to work on the production program again, and then we will start planning better recoveries. So this is the answer to your first question.

Now second question, you want to know about lifting costs that we announced, the excessive reduction in lifting costs about pre-salt. Naturally, this is related to the startup of increasingly more high-production wells. In the first quarter, we had a ramp up of units that started up the second half of last year, and Cidade de Maricá started in 2016.

Now something very important to mention, which has to do with the outlook for the future that you asked about pre-salt, our view about this is very bullish in terms of a more aggressive reduction because as of 2017, we will be starting up our own units? And this has a direct impact on our operating expenses and also our lifting costs.

So how will that happen? Our chartered units, freighted units have a direct impact on our lifting costs. And this is due to the freight or chartering cost we pay for these units, and the opposite happens whenever we have our own units. So we expect to have positive effects in the coming years. I believe our yields has reached the limit and we'll keep on working hard. And we expect to see cost reduction, optimization of projects, but also positive impact because we'll be working more with our own units rather than leased or chartered units in pre-salt. I hope I've answered your question, Caio.

Q - Caio Carvalho {BIO 16605563 <GO>}

Perfect, Solange. Thank you very much for your answers.

A - Operator

Thank you, Caio.

The next question is from André Natal from Credit Suisse

Q - André Natal

Good afternoon, everyone. Thank you for taking our questions. Ivan, firstly I would like to better understand something. The company has been very vocal in terms of stating that for the first time in many years, it is generating operating cash above its investment commitments again. For many years, the company was investing 1.5 times its operating cash generation ability. And now, it managed to move to a different level with more cash after investments. But based on the numbers and figures, there is not cash enough left to honor the debt. The company still has cash used last year, and based on the numbers mentioned today, the same will happen this year.

So could you clarify, considering the assumptions that you plan, in which year we will expect to see the company becoming positive net cash generation again, including the debt service and not only coping investments?

My second question is for Solange. I would like to have a better understanding of the rig fleet you have today. Solange, could you give us more visibility about the number of rigs you currently have, deepwater, ultra-deepwater, and how many would be necessary and how would you compare to what you need for the current plan?

What about the idleness level that we see this quarter? Will this be recurrent for the coming quarters until the contracts expire, or is it something non-recurring because you have a more severe cash position and you decided to use the rigs less often and save cash as a result, and that would not be recurrent going forward?

And if I may, if I can ask another question. Jorge, I have question for you. We can see that last year, your downstream result is very significant. Well, last year, by the way, it was historically high, if I'm not mistaken. It was a record level at Petrobras downstream. You have \$12 billion. But if you check the price ratio considering domestic, and foreign prices, on average for the year they were in line with the international prices.

And when do you think about Petrobras in line with PPI, we expect the downstream to have \$5 billion of EBITDA rather than \$12 billion. And maybe one reason is that gasoline abroad were much higher than historical figures; it was \$12. And the same goes for this year and this quarter. So despite drying season, on average it is very high. So our question is what about sustainability? Is it something out of this current scenario, or do you think it would be sustained? If we think about PPE in the future, do you think we'll have \$12 billion or \$5 billion as EBITDA? I think it varies.

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

André, thank you very much. I will answer your first question. Ivan speaking now. It is very hard to predict anything. Now what's particularly striking in the management's decision is that rather than focusing on production, we focus on profitability. And rather than starting

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our budget based on a production goal, we start our budget preserving our company's liquidity and predictability level. So the mental motto is different. Not only one initiative, André, but a whole set of harmonious initiatives starting with more stringent capital use, cost reduction, be them administrative or business oriented, and an important component,. And this may accelerate the deleverage process and contribute for cash generation to cover all investments, including the debt service. Undoubtedly, it is divestment.

As you followed up, we had three announcements, one in Argentina, another in Chile, and another of exclusivity with Brookfield with gas pipelines. And we are making all efforts, \$1.5 billion for 2015-2016, and our goal for this year is \$14 billion. So the whole set of initiatives, in my opinion and according to the management's opinion, we expect to speed up, reaping the results over 2016 so we can reach the horizon that we so much desire.

Now, Solange is going to answer your second question.

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

Good morning, André. I realized, based on your comments, you did your homework about our idle equipment. You want to know about recurrent levels and out of quarters. This adjustment is still being performed over the first quarter of 2016. So more objectively, you're right. We are going to have very similar results in this item due to the same reasons, driven by idle rigs.

There are several issues of different natures being addressed at Petrobras and they may lead to a reduction in recurrent items over the second half of the year. And as I said yesterday during the press conference, we expect to work within 30 and 35 rigs. That's what I said yesterday. We don't have a fixed number. We don't have a set number because it will vary precisely due to our vision considering our future investments.

André, I don't have here with me a distribution of water depth of deepwater or ultra-deepwater. I have the numbers you want, but its excess resource will be balanced by the end of 2016 and our plan is to be slightly above 30 rigs by the end of 2016. Maybe later on, the Investor Relations department can give you more detail, a breakdown between deepwater and ultra-deepwaters.

Our fleet is nearly all oriented to ultra-deepwater, shallow water rigs where we've been successfully going down considering our investment demand and operation demand in our portfolio, and pretty much focused on exploration for pre-salt Libra and also pre-salt development, which is the focus of our business plan.

Jorge Celestino is going to answer your last question, André.

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

Hi, André, Celestino speaking. Good morning. I'll be breaking down your question and our answer in three topics. Firstly, our performance and cash generation, downstream

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more specifically. We work with three different perspectives. First perspective, how do you see the progression of cap spread? 2014, 2015, that is a decoupling of crack and gasoline vis-à-vis diesel, particularly in dry season. We only saw this in the 1990s \$15 or \$20 per barrel above Brent prices. When you compare with diesel, around \$14 per barrel. And in the winter season, that crack is decoupling.

So in our horizon up to 2017, this behavior is expected to remain and to be similar in annual average. There is something around \$10 to \$12 per barrel cracked diesel, and that's what we expect to see in the market by 2017. We are not including here a higher number of stoppages in the U.S., for instance, but we're considering an average and a trend. So this is the best number we have today and that's what we are confident to consider in terms of price forecast.

Now the second point, we've been working very strongly in order to improve our product portfolio. We are working to improve our mid and light products. Gasoline, diesel are very consistent and consistently increasing their corresponding yields. So if you think about - well, we have - 3%, which is of significant value. And RNEST is performing better and better. The diesel position is quite sustainable, and Cubatão also improving our performance.

So we are really making efforts in order to include net and gross margin. We want to improve margin efficiency and better planning our supply chain, which is extremely valuable to our integration operation in Brazil.

And lastly, today we work with competitive prices. We understand price to be a very significant commercial aspect to Petrobras, so first we have to understand what we mean by commodities and the risk of the operation. And Petrobras has competitive edge in Brazil. As a result, we've been managing to have significant margins in our business operations. As a result, we can envisage that in our results - well, our results are quite sustainable when we design our business plan.

Q - André Natal

Great answers. Thank you very much.

A - Operator

Thank you, André.

Our next question is from Felipe dos Santos from JPMorgan.

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

Good morning, everyone. Actually, I have two questions. Firstly, about operation and production. I have a question about the amount on the slide. As to operation, the major stoppers happened in the first quarter of the year. Do you expect to have platform stoppages with the same level that we had in the first quarter, also in the second quarter or from now onwards, something that might have an impact on production?

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Second question, so the platform that will be started up in Lapa Field, will startup happen in the third quarter or by the end of the fourth quarter? And what about the new platforms that are just being started up, were the wells drilled beforehand? This is my first question.

Now the second question. I understand you have cash projections by the end of 2016. Now we're almost in the middle of the year, so possibly you're already considering 2017. Do you think that 2017 cash would be similar to the levels we'd see in 2016? So as your guarantee, investment plans had some slight changes, was it due to anything more specific or just due to exchange or dollar impacts?

A - Operator

Felipe, good afternoon. Solange is going to answer your questions, and then I'll come back and talk about cash position.

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

Good morning, Felipe. Solange speaking. One of the metrics that I usually talk about concerning production stoppage, I tend to talk about 2.5% and 3% of our stoppage as reasonable numbers so we can adequately meet all requirements and adjustments in our equipment so they can be in compliance and operational.

In this sense, we announced that our stoppage volume that had an impact on the first quarter of 2016 was 5%. This volume of 5% was planned beforehand. Ivan and the top management have mentioned red flags about our predictability in order to strengthen the importance to have predictable processes. The result of 5% of production stoppage in Q1 2016 was planned beforehand, like I said before. So we are in line with our projections.

And likewise, we've been planning and we'll be performing stoppages lower than 2% for the rest of the year. The best scenario today is that the impact will be less than 3% over 2016, and our production would be 2,145,000 barrels of volume in Brazil. So this is the answer to your first question.

Lapa. You asked about Lapa. And so Caraguatatuba will be installed in Lapa Field, and also Saquarema. They're both expected to take place third quarter of 2016 and not fourth quarter of 2016. And lastly, if I understood your question correctly about the wells, so what do we do? Before the unit reaches the location, we have some wells prepared so they can be sequentially interconnected, bringing the best ramp up possible. It is not immediate due to technical reasons, and the sequence and the interconnection of the wells in the FPSO, but we have allocational resources that is enough to provide wells ready for a sequential ramp up.

Itaguaí and Cidade de Maricá, those are just about to be in the ramp-up phase, and they follow the same rationale. So we pre-prepared these wells, but some physical interconnection works of the production lines take place following a sequence, and this is what we mean by a ramp up. Sometimes they happen in both units, and in the third quarter, this will also apply to Saquarema and Caraguatatuba.

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

Perfect. Thank you.

A - Operator

Felipe, as to cash projections, clearly, the company is already trying to bring solutions for funding solutions up to 2018. When we drafted our budget, the average Brent was \$45 per barrel for 2016 and exchange rate way above what we have in the market today. So, the combination of both factors, Brent and exchange rate, brings better operational performance which is clearly shown in our slide. Our expectation, the numbers may be slightly higher by year end.

And as to cash at the end of the period, the minimum cash is \$15 million, but we also have or expect to close around \$20 billion or \$21 billion by the end of 2017. Please bear in mind there are several things that are being identified by the company and followed up by the company, and they may bring higher benefits. For this number of \$20 billion or \$21 billion by year-end would be extremely conservative in the numbers of fundings. And we have a challenging number for divestment, but even if we consider the combination of both numbers, \$21 billion and \$20 billion by the end of 2017 seems to be pretty reasonable.

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

Okay. Allow me to just make a follow-up. With operating improvements and a better cash position or higher cash positions with the divestment, would it be reviewed or you would still pursue the same target?

A - Operator

The target will be the same.

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

Thank you very much.

Operator

Our next question comes from Gustavo Allevato from Santander.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Good morning, everyone. I had two questions. The first relates to Papa Terra and whether you could give us an update about all of the activities you are working on to recover production.

And my second question is about CapEx. The annual CapEx is about \$60 million. Is that below what you had anticipated earlier in the year? Should we expect that CapEx would be below that target or it's still too soon to tell?

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A - Operator

Gustavo, I'll give the floor to Solange, and then I will refer to CapEx.

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

Gustavo, good morning. The consortium that operates Papa Terra consists of Petrobras, and they are working hard to redefine the project. And the target is for the last quarter of this year, we will have then a new project. For the few, there will be a different well geometry in a different drainage grid.

The project was topped this year of 2016 so as to allow an integration of both companies, and they will now be focusing on the re-optimization and the review of all the tasks to be conducted. So by year end, we will have a new continuity planning to continue and develop Papa Terra hub.

A - Operator

Gustavo, about CapEx. What you see on the slide, in the first quarter there was slow performance from the supplier chain. You know that the government's internal process for payments, and as this - the deliveries were not done according to schedule, that's why we had this decline in terms of what we envisioned for the first quarter. But this does not change our forecast of output for this year. This is something that we talked about earlier even with the stoppages mentioned by (52:39) and lower CapEx. We have - I mean, the CapEx remained unchanged for 2016. Thank you very much.

Our next question comes from Diego Mendes from Itaú BBA.

Q - Diego Mendes {BIO 16313486 <GO>}

Good morning, everyone. I also have two questions. The first one is I would like to understand what you think in terms of the strategic plan for this year. Earlier on in the year, the crude oil prices were very low. We now see price over \$47, and then we saw some changes in the plan. Could you please tell us how you are working with the main variables in this area?

And my second question refers to the electric sector. Once again, there was an acknowledgement of PPD because of some injunctions when you did not pay beforehand. I just want to understand some injunctions, whether they are finished or not, and what could be expected in terms of trade receivables of the electric sector?

A - Operator

Thank you, Diego, very much. First, the executive board of Petrobras is very stringent and disciplined in terms of the strategic planning. All of the managers are totally in line, and they are pursued as internal targets for the entire organization.

The fact that these two variables, plant prices and exchange rate behavior, was better than what we had in our plan, and this was translated into our budget for 2016, all of those

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things are very good news, but this does not affect the strategy of the company. One example is 88% of CapEx will be geared towards E&P, mostly focused on pre-salt and production that shows that we've been giving out information and we are trying to deliver exactly what has been internally discussed by the company and what has been agreed by the board of directors. That's why we're very disciplined in this regard.

In terms of the electric sector, you said - we have to comply with some injunctions from the supply side, but we've also disputing in court all of our rights in terms of the processing. And we are working diligently to arrive at an agreement and then end with a situation where you are forced to supply just because of an injunction.

Q - Diego Mendes {BIO 16313486 <GO>}

So is there any other injunction in the horizon?

A - Operator

No. We still have some to work on there.

Our next question is from Pedro Medeiros from Citigroup.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Good morning, everyone, Solange and Isabela. Once again, thank you for all the answers so far. I have a question and a few follow-up questions. Could you please comment on the performance to-date of your management and governance program in terms of personnel costs in non-operating areas? And you reduced 30% of some jobs in non-operating areas, and this could generate savings of almost BRL 8 billion a year. And you also announced some new things in terms of voluntary dismissal. Can you tell me about the performance of these programs and when could we expect to see more robust results in the company's quarterly results?

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

I would just like to give you some additional information. We had anticipated 30%, but we reached about 44%. We had anticipated BRL 1.8 billion reduction and we already have BRL 0.9 million. I think the most important benefit was a higher participation of the decision that comes from the technical area all the way up to the board. We created a statutory committee, and they make the decision more robust. And they are more detached from what we have before, something that was abolished.

One of the first acts from the executive board was to do away with the individual decision-making, not only in terms of what the group decided, but also the quality of the decision. Now we have a statutory committee that has executives from different areas of the company, and therefore, the quality would be much better because all of divisions of the company are discussed in a collegiate fashion. And then it goes to the executive directors, and then finally to the board.

So in terms of cost reductions, I would like to emphasize the quality of governance, the quality of all decisions which improved substantially after we introduced the statutory committees. Now what about your follow-up questions? You may proceed.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you, Ivan. Thank you, and congratulations for your success so far. The first follow-up refers to André's question because maybe I didn't hear it well. The line of non-scheduled maintenance and operating cost in view of the idleness of the rigs, whether it should continue to be high this year or we should anticipate any drops or decline in the following quarters.

I do apologize for my questions, but it was not clear to me. The second follow-up question is to Solange. In lieu of the impairment in Lapa at the end of the year, could you please elaborate more on the ramp-up of the system. It's not very clear to me whether the impairment was geared towards a different productivity per levels. And maybe the impairment will be more similar to recent systems according to the performance of the wells. So these are my two main follow-ups.

And there's still a third one but address to Ivan. In terms of provisions of trade receivables of the Petrobras and Hines (59:33) and we still have a vast discussion about all of those judicial cases. Everything that has been provisioned in this quarter refers to sales realized in the quarter. Nothing refers to stocks from the past, right?

A - Operator

Let me try to organize my thoughts and I will start by answering your last question and then I'll give the floor to Hugo Repsold. Well, we just announced the results of the company, and then I'll talk about upstream. The amounts are exactly the amounts for the quarter. Nothing is related to stocks or inventories and we are really pursuing no differences. Last year we consolidated the debt, that was our first step. And this consolidation has a certain number of collaterals or what is not covered by the guarantees of collaterals is already provisioned.

And the first agreement is up to date. What happened, it was a second delinquency and this is still being debated and the company, in view of this discussion, is still doing it. But as we are not collecting, we have to make a provision. But the provision was done in the flow line rather than inventory. So now, I'll ask Repsold to talk about the voluntary separation incentive plan. We have two processes of voluntary separation incentive plan. There is a group of about 800 people that should leave the company until the end of this year. And next year, only on the operational side, there is lower number of staff that is about to leave.

And we have a voluntary separation incentive plan, which is still beginning. Thus far, we have about 2,500 valid subscribers. And we still have a certain time period to conclude. We hope that we will reach something like 10,000, 15,000. This is just our first initial assumption.

Now, I'd like to give the floor to Solange.

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

Good morning, Pedro. Before jumping into your question that tries to clarify André's point, I would just like to clarify something that certainly I wasn't clear enough about. And this becomes something not precise in view of what I would have said.

When I refer to pre-salt productivity, I am referring more objectively to the fact that we see wells that are producing more than 40,000 barrels a day in the pre-salt area. We plan to arrive at other areas of Brazilian pre-salt, trying to engineer solutions that will reach even higher volumes of production. Maybe I wasn't clear enough. Therefore, I must say that the impact is different.

But now speaking about idleness, we've got two questions on idleness. The answer is that the better forecast we have is that we will maintain still a very high level of idleness in the second quarter of 2016. And then in the second half of the year, we will have more things on the way but they still remain at this level. Our planning today goes in that direction.

And finally, Pedro, referring to Lapa where you associate productivity and impairment, this relationship does not exist. Well, we used the impairment in Lapa in 2015, but it was related to a geological reassessment of the field, and that shows that throughout the projects that should last between 20 to 30 years, we will have less recoverable volumes or less impairment than what we anticipated in wells when you associate it with other things.

As soon as Caraguatatuba gets into the third quarter of 2016, we assume that the productivity of the wells, meaning production will be in keeping with the plan. What the impairment says is that eventually, the volumes to be recovered by these wells throughout the lifespan of the well, which is 20 to 30 years, at the end of this period will be lower than planned. The ramp-up forecast will not affect 2016 production. And as a consequence, it will not affect 2017 production in relation to what we are planning today and what is part of our plans in terms of Lapa interconnection.

Okay. So looking at this, maybe the ramp-up will be similar than what we saw in other systems like Maricá. We will - the ramp up of Caraguatatuba will happen according to plan.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Great. Thank you very much. Thank you for all the clarifications.

A - Operator

Thank you.

We have questions in English. Mr. Harry Kaplan (01:05:47) from Barclays would like to ask a question. Sir, you may proceed. You may proceed, sir. Go ahead. Sir - Barclays, you may proceed please.

Our next question comes from Frank McGann from Bank of America Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Good morning. Thank you - or afternoon. I was just wondering if you could just give us an update on the status of the class action suits process, where you are right now and what you think the timeline will look like over the next six months or so. Also, if you could do the same for the other investigations that are ongoing, both in Brazil as well as the SEC and Department of Justice investigations? Thank you.

A - Operator

Well, thank you, Frank. About the collective bargaining agreement, we'll give the floor to Hugo Repsold.

A - Hugo Repsold {BIO 19059342 <GO>}

The collective bargaining agreement is supposed to happen in September. We are currently taking care of this restructuring of other aspects, and there are still some items remaining from last year's collective bargaining agreement, so I think it's too soon to discuss the main point. Next month, we will begin to receive reports from the union so as to help us define the profile of this negotiation.

Now in terms of DoJ, it's important to remember, Frank, that Petrobras is collaborating with the authorities, both in Brazil and abroad. The company is seen as a victim of a graft scheme that has been largely reported by the media. So our position is to voluntarily give all the information necessary to clarify the facts. There are some Brazilian authorities that are closely looking at what is happening in our country, and they see us as a victim of a graft scheme.

Operator

Our next question comes from Mr. Anish Kapadia of TPH.

Q - Anish Kapadia {BIO 5788754 <GO>}

Hi. A couple of questions please. I saw from your annual report that the (01:09:01) start-up dates have been delayed to 2018 from 2017. This is previously expected in last year's business plan. I was wondering if you could give a bit more detail on the delays, when in 2018 you expect them to start up and if you are now confident that (01:09:20) will, in fact, start-up in 2018.

And the second question relates to the gas pipeline businesses. I was wondering if you could provide the cash flow EBITDA related to the NTS gas pipeline system. And then also, in terms of the remaining NTN pipeline system if you've got some details as well about the cash flow that are relating to that pipeline system. Thank you.

A - Operator

I was unable to identify what kind of ramp up you're referring to, what unit, therefore it's difficult for us to answer that question. But in terms of what has been announced – and I imagine that it refers to the divestment process of the pipelines, Petrobras announced what was published in a material fact. We have an exclusivity agreement with the company, and we can extend this deal until 2030. And so this is all we have to give you at the moment.

Thank you very much. We now conclude the Q&A session of this webcast. And now, I'll give the floor to Ivan de Souza Monteiro for his final comments.

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

I would like to thank you very much for participating. And any additional information that, by any chance, wasn't covered in this call, you can please refer to our IR department. Thank you very much.

Operator

Ladies and gentlemen, the audio of this call for replay and slide presentation will be available on the Investor Relations website of the company at www.petrobras.br/ir. And then this concludes this webcast, and thank you very much for participating. And please disconnect your lines and have a good day.

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