

## Q4 2014 Earnings Call

### Company Participants

- Ivan de Souza Monteiro
- Jorge Celestino Ramos
- Mário Jorge
- Solange da Silva Guedes

### Other Participants

- Andre Sobreira
- Auro Rozenbaum
- Bruno Montanari
- Christian Audi
- Frank McGann
- Gustavo Gattass
- Luiz Felipe Carvalho
- Marcos M. Severine
- Paula Kovarsky
- Pedro Medeiros

## MANAGEMENT DISCUSSION SECTION

### Operator

[Abrupt Start] Petrobras conference call with analysts and investors for the presentation of 2014 results.

We would like to inform you that participants will only be listening to the conference call during the company's presentation, which will be conducted in Portuguese with simultaneous translation into English. Following the presentation, a Q&A session will begin, in Portuguese and in English, at which time instructions on how to participate will be provided. This broadcast is being recorded.

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

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

We will now listen to Mr. Ivan de Souza Monteiro. Next, Executive Director of Corporate Performance Mr. Mário Jorge da Silva will present the information regarding the results of 2014. After that, we will be answering questions from participants. Sir, you may begin.

## **Ivan de Souza Monteiro** {BIO 16420543 <GO>}

Good morning, everyone. Thank you for joining Petrobras. I want to thank my colleagues and all of you participating in this call. Let me now give the floor to Executive Officer, Mário Jorge .

## **Mário Jorge**

Good morning everyone. Now I am looking at slide number 3, showing our net result of 2014. A result of minus BRL 21.6 billion. I would like to talk about the main drivers of this result. First, we had a growth of 15% in gross profit, which reached BRL 80.4 million in 2014. This is the consequence of a higher sales volume, higher market volume and more favorable costs and prices.

However, our result of minus BRL 21.6 billion can be explained by our line of operational expenses, BRL 101.8 billion in 2014, driven by write-offs of planned - PP&E, Planned, Property and Equipment.

Now if you move on to slide number 4, you can see the result of the third quarter, this is the reviewed result compared to the not-reviewed results we presented last January. The main difference is here in operational expenses, where we now have a write-off of plant property and equipment specifically because of over payments. We are speaking about Lava Jato or our Car Wash investigations. The net result of the third quarter 2014 is minus BRL 5.3 billion.

Now the main highlights of 2014 are shown in slide number 5. First financial highlights, sales revenue BRL 337 billion, net result minus BRL 21.6 billion, adjusted EBITDA BRL 59.1 billion and investments BRL 87.1. Operational results, we had a 5% growth in total oil and natural gas production, reaching 2,669,000 barrels of oil equivalent per day in 2014, proven reserves of 16.6 billion barrels of oil equivalent and refining throughput including Brazil and our units abroad to 2,269,000 barrels bbl per day which positions Petrobras as the sixth largest oil refiner in the world.

Now slide number 6, we'll go into details in the main adjustments in our plant, property and equipment posted in 2014, totaling BRL 50.8 billion, broken down into two main portions. The first referring to overpayments incorrectly capitalized as a consequence of Car Wash investigations, totaling BRL 6.2 billion, and that second portion, provisions, due

to the impairment of assets. This was the result of impairment tests and it totals BRL 44.6 billion.

Let us give you some more details, now in slide 7. Speaking about the overpayments incorrectly capitalized as a consequence of Car Wash investigations. The amount is 3% over contracts signed between Petrobras and the 27 companies which are alleged members of the cartel. These contracts were signed between 2004 and 2012 and this is the result of the investigations from the federal prosecutor.

Now, they were the result of investigations and denouncements of companies outside the cartel where we have specific amounts mentioned in these depositions of plea bargaining.

If we look at slide number 8, you see how the BRL 6.2 billion are broken down into different business areas: BRL 3.4 billion downstream, BRL 2 billion in exploration and production, BRL 0.7 billion in gas and power. As I mentioned before, this methodology is based on the contents of Lava Jato to prosecutors' office investigations, which make us feels certain that we have depositions consistent - all of them are consistent in relation to the existence of a cartel in the time period of the investigations. We have the percentages involved as well as the amounts.

Now, if we move on to slide 8 (sic) [slide 9], we still see adjustments in PP&E, they were the result of impairment tests, especially in refining assets, Exploration and Production, and petrochemical units. Refining because we had to postpone projects, Exploration and Production because we had a decline in oil prices and a reduction in demands and margins of petrochemical products.

In slide number 10, we can see the main projects and assets, which went through impairment tests, so you have Comperj, BRL 21.8 billion; the second train of RNEST, BRL 9.1 billion; assets of Exploration and Production in Brazil, which add up to BRL 5.6 billion; Cascade and Chinook assets of Exploration and Production in the United States, BRL 4.2 billion; and assets in sloppy petrochemical unit, BRL 3 billion.

Now as we look at refining assets, the impairment reflects the postponement of these projects for an extended period of time in a context where the company is looking for new finance and protecting its cash flow because of this, we have a lower amount of investments. The postponement of these projects brings, as a consequence, also the postponement of these project's cash flow. So, if we bring that to net present value, we post a loss in both cases.

Exploration and production, a recent reduction of oil prices in the last six months and the expectation that oil prices shall remain lower than the levels we've had before. So we had this loss in exploration and production. Petrochemical, we had a reduction in demand and we also had a reduction in margins. This is something that happened worldwide and it reflects the future cash flow of these projects.

In slide 11, we can see the reconciliation of our net result as we compare year-on-year 2013 and 2014. 2013, BRL 26 billion was the result - or BRL 23.6, I'm sorry, and in 2014, minus BRL 21.6 billion. The first column, you see our revenue and our cost, where it is clear to see that we had an increase in our gross profit. Our gross profit reached BRL 80.4 billion in 2014 and immediately after that we see the write-off of assets which impacted operational expenses.

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Impairment of assets, overpayments unclosed by Lava Jato or Car Wash investigations. Then Premium I and Premium II project write-offs and losses also in demand and petrochemical prices. So this is the explanation for the negative result, BRL 21.6 billion. So our EBITDA in 2014 was BRL 59.1 billion, 6% below BRL 63 billion, which was our result in 2013, also driven by non-recurring items, for example, the incentive to voluntary termination or retirement and (00:12:16).

Now in slide 12, we have some highlights in exploration and production, beginning from proven reserves. At the end of 2014, proven reserves reached BRL 16.44 billion. In the chart you can see the green bars they show oil and natural gas reserves abroad. We had a reduction because of the divestment program. We sold some of these reserves and, therefore, we advanced the monetization process, these sales were offset by the appropriation of reserves in Brazil, especially in the pre-salt layer in Brazil. So the reserves of 2013 cover the sales and also production in this period of time. So we closed 2014 with a reserve replacement ratio of 105% and reserve production, 18.5 years.

In slide 13, we see the evolution of oil and gas production in Brazil and abroad that reached 2,669 barrels of oil equivalent per day in 2014. A highlight for the units that started operations in the last two years, we mentioned their names in the bottom part of the slide, nine units that contributed to increase production.

Next slide, slide 14 shows a comparison of oil production. This is oil production between 2006 and 2014, comparing ours to peer companies and showing the industry efforts to keep the same volume of production, and Petrobras is positioned among one of the largest - the largest oil producer in the world. Now, this increase in production was driven not only by new units, but also by the effort of new wells' interconnection, especially in these units as you can see in slide 15.

In 2014, we had a total number of 87 wells interconnected. 61 are producers and 26 are injector wells. This is a big increase compared to previous years, driven by more availability of the PLSVs, the ships that do this interconnection. We had 11 ships in 2013 and 19 PLSVs in 2014, as well as more productivity, 97 kilometers per year per PLSV compared to 90 kilometers in 2013.

Now in slide 16, we show oil products output from our downstream area. In 2014, we had 2,170,000 barrels per day, a growth of 2.2% year-on-year as compared to 2013. It shows a better operating performance, which is clear as we look at the utilization factor evolution which obtained 98% in 2014 and also with the rate level of yield for diesel gasoline and jet fuel.

In slide 17, we can see oil product sales evolution in Brazil. Sales of oil products account for almost 60% of the company's revenues. As I said before, a sales growth in better price and cost conditions can explain this increase of 15% in the company's gross profit in 2014.

Now in slide 18, you can see our cost evolution. We are looking at lifting cost as well as refining cost. Showing the company's effort to improve productivity and have a slower growth of costs, reaching BRL 34.26 per BOE and the refining cost BRL 6.82 per barrel. We can tell you that these two indicators today position us in the industry average both of these costs, lifting and refining costs.

Now in slide 19, you have another important indicator looking at general and administrative expenses. BRL 11.2 billion in 2014, a growth of 4% compared to 2013, again, showing our efforts to improve efficiency and productivity.

Now, if we look at slide 20, our cash flow in 2014. We began the year with \$20 billion in cash. We had operating activities. We generated \$27 billion in 2014. Then investments added up to \$35 billion, that's CapEx. Investment needs were supplied by divestment and funding, market funding, during the year also to pay for amortization interest and to pay out dividends. We therefore closed 2013 with a final cash position of \$26 billion.

Now the new funding operations and the foreign exchange variation impacted our indebtedness. As you can see in slide 21, company leverage was 39% in 2013 and closed 2014 at 48%.

Now, the net debt over EBITDA was 3.52 times in 2013 and 4.77 times in 2014.

Now if we look at slide 22, we can see financial ratios - indebtedness. The total debt closed 2014 at BRL 351 billion. The indebtedness evolution as compared to 2013, in 2013 the total debt was BRL 267.8 billion, which can be explained partially because of a higher funding volume and also 45% is related to foreign exchange variation. The company's net debt at year-end 2014, BRL 106.2 billion you can see in the end of slide 22.

Now moving on to slide 23, we can see the nominal cash flow, principal and interest, broken down by a maturity dates. We can clearly see the volume is intense or becomes more intense after 2018.

Now, our current projections for 2015 can be seen in slide 24. The cash flow for 2015, we began the year with initial cash position of \$26 billion. Then, our operating cash flow for 2015 is planned for \$23 billion. We will have to pay interest amortization and other in the amount of \$18 billion. Investments of \$29 billion for 2015; divestments, \$3 billion in 2015; rollovers, \$1 billion. And with that our funding needs to close 2015 with a final cash position of \$20 billion. We will have \$13 billion in terms of funding needs in 2015. This cash flow has a few assumptions, Brent, \$60 per barrel; foreign exchange in 2015, BRL 3.10 per U.S. dollar; and total production of oil and natural gas in Brazil and aboard, 2,796,000 barrels of oil equivalent per day, a growth of 4.7% as compared to 2014.

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Now if we look at slide 25 we have a few assumptions for 2016, so regarding oil and natural gas production in Brazil and abroad, we have a target of 2,886,000 barrels of oil equivalent per day, approximately two percentage points higher than in 2015. We will have five new production units which will ramp up production until then. They have all been (00:22:39) yet and they have a lower risk of delays, which makes this target more certain. Divestment of \$10 billion in 2016, investments of \$25 billion next year, this is the number we're working on. 82% of this investment will be in exploration and production, so the focus of the company in the next few years is therefore very clear, and this investment level is 37% below the investment level we had established for 2016 in our business and management plan between 2014 and 2018. At the time when we presented the business plan, we spoke about \$39.5 billion investments, and now we point at \$25 billion in investments. Also for 2016, we work with a oil price \$70 per barrel that's the Brent oil product and the exchange rate BRL 3.30 per U.S. dollar on average.

Now this is the information we had to share with you. One more time I wish to thank you for your time. Let me now give the floor to Mr. Ivan Monteiro.

**Ivan de Souza Monteiro** {BIO 16420543 <GO>}

And we will go right on to our questions-and-answer session.

## Q&A

### Operator

We would like to ask each participant to ask at the most two questions and speak please slowly. Questions should be made consecutively so executives may answer them afterwards. We kindly ask you not to use the speakerphone. We inform you that questions in English will be translated into Portuguese for the executives of Petrobras. Their answers will be translated to English. Mr. Pedro Medeiros from the Citigroup has a question.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Good morning. Thank you for giving me this opportunity. I have two questions. And if necessary I'll come back. Could you breakdown the CapEx changes and tell me about the capitalized interest and if it is capped, is there any initiative of changing the CapEx, I think you're spending \$2.5 million, \$2.6 million of CapEx in building platforms?

And my second question has to do with the assumptions for 2016. Could you break this down, about your expectations for margins and as far as refining is concerned regarding the new oil prices and the fuel prices of the company for 2015 and 2016, and the leverage of Petrobras for this?

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

Well Pedro, thank you for your question. The first part, I'll ask Solange to answer and the second I'll ask Jorge to take. Solange?

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

Hello Pedro. More objectively about the question of investments and you asked me to breakdown the CapEx reduction in exploration and production. First of all, I would like to inform you that the action we are undertaking is focused on those assets that have a net cash generation, short-term. And these exercises also have - do the allocation of resources based on margin investments, so we can have the optimization of our returns, short-term. And in this way, to exemplify the results of the strategy, we are postponing projects that have a low return, or which demand, in the short-term, an initial delayed initial investment.

And we are focusing on low risk assets in our exploration portfolio, so we're doing this since we have a set of reserves which are significant. And in this way, this set of arrangement that I'm explaining to you, focus on pre-salt assets in Brazil reducing our exposure or our divestments and assets in Brazil which are less - that have less return or even abroad, in exploration and production.

### **Q - Pedro Medeiros** {BIO 16187063 <GO>}

Thank you. And just to follow-up, regarding this change when you talk about investment in your pre-salt capacity, is there an expectation that part of this projections might be delayed because of the restrictions of the downstream? Is this flexible or do you have a number or is this number dynamic and will we see a change still in 2015?

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

This reality which you are describing is totally reflected in the 2015 and 2016 numbers. The progress or the advance, and I think also you have this information, we are here. We don't have this in the figures in 2016, but units which suffered from this effect that you mentioned and they are already been made ready and we are exactly detailing this completion and the sequence that our units will be finished for 2017 on and this will be the consequence of our business plan as soon as it is disclosed. Thank you.

### **Q - Pedro Medeiros** {BIO 16187063 <GO>}

And does it take into any consideration a new platform or leasing of platforms?

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

Nothing that has not yet been announced, this exercise has been done and announced and we don't have this in our assumptions for 2015 and 2016. Thank you very much.

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

Thank you Solange. Now, Director - Officer Jorge.

### **A - Mário Jorge**

Thank you. Hello Pedro. Regarding the margin assumptions what we are predicting and it could not be different is that we are going to operate and regarding - and parity of

imports, we are looking for predictors adjusting our provisions and adapting inputs as we have already been doing in this first half of the year in the month of the April.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

And I'm not sure in these numbers of 2015 and 2016 and the write-offs of assets under construction, is there any special change regarding capitalized interest in the CapEx numbers.

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

Pedro, could you elaborate, please?

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

The company has been capitalizing interest at about \$3.5 million, \$3.7 million a year, as there's been a relevant write-off of assets and the impairment about BRL 50 billion, BRL 53 billion, a lot of assets under construction. So I'd like to know the capacity of capitalizing interest changes and if this will change the capitalized interest and CapEx?

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

I'd like to leave this question to later. There is a certain debate here among us, so I would ask you if you would allow us to come back later to answer your question. Thank you.

**Operator**

Our next question comes from Mr. Helges Cardozo (00:31:36) from Credit Suisse.

**Q - Andre Sobreira** {BIO 16337358 <GO>}

Good morning. This is Andre Sobreira from Credit Suisse. Thank you for taking my question. I have two questions. The first is, in 30 days time, when you will announce your strategic five-year plan, is there any assumption that you can work in the next 30 days, which will significantly change the guidance for 2015 and 2016, which you are announcing today, or CapEx or divestments, or any other item. That's first question.

Second question, yesterday, at the press conference, it was mentioned that there might be a possibility of new capitalization and the conversion of debt into equity. So I'd like to clarify, how management - what Management and the Board's positions are regarding these subjects? Thank you.

**A - Operator**

Thank you for your question. I'll start by the second. There has been a question from one of the journalist yesterday on this subject and the company has answered that there are no projects, plans or any initiative of the company regarding capitalization or debt conversion. So there is nothing along these lines.

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Bloomberg Transcript



Regarding your first question, I don't see any relevant data which will alter the guidance in such a short period. You talk about divestment, divestment is a long-term process and we have - we have to have an assumption for the years of 2015 and 2016, but there is nothing that changes this short-term or no other relevant variable regarding the data which we have already disclosed. Thank you.

Thank you, Andre.

Our next question comes from Gustavo Gattass from BTG Pactual.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Hello, good morning. I have two questions. I have more, but let's keep to two. One is simple, I just like to understand, from the accounting point of view, you have a very important moment in the provision of abandonment at the end of the year that hasn't been mentioned in the release or have an impact on the result. Is this a number which has to be altered or adjusted? And looking forward, even on your side, I'd like to understand, we have a message of investment of the company which is still very strong, powerful, and a message of production growth which doesn't seem to be so powerful as the rating agencies was imagining. So how do you see this process? If there is any risk - perceived risk, greater risk for you of any rating event, since it seems that the leverage is not as strong as they are imagining? And from the point of view of the question of dividends, etcetera, I would like to know, it's conceptually - the management has said that they will build and then that you have a balance sheet of BRL 1 billion - BRL 2 billion, so are you going to keep this and the PE very high or not? So...

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

Thank you Gustavo. There three questions in fact here, I would like to ask Solange, if you could talk about the abandonment?

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

Good morning, Gustavo, provision for abandonment is in line with the reply - my first reply when I answered Pedro about our strategies. At the moment, when we do - when we focus on generation, as we are now, something which presents itself. If this is an exercise of giving up some assets or products in the crumpled (00:36:25) space and shallow waters in a shorter time than which we had been planning, this is the reality and also a new budgeting of this has brought these amounts to our accounts.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

So, Gustavo, my greatest - my question was whether this has been projected in the results, any adjustment that we should have made because the amount should be four - more than BRL 4 billion as this had not been mentioned. I am asking if it went straight into equity or what happen to it? So I just like to see if I'm looking at things incorrectly?

**A - Operator**

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Well, Gustavo, this was a very specific thing. So I will ask the - IR people to get into touch - in touch with you.

Well, Gustavo, I'd like to talk about growth and growth of production. Investment, when you compare to the previous plan, has already been reduced and the numbers that I have announced for 2016. Just with investment, there is an inertia. The company came from a very high CapEx and it is not economic for the company to reduce this CapEx, since it has several commitments already taken. So the number that we have disclosed to you is a number which already takes into account this consideration of stopping the investment which is already ready or stop the investment when there are already commitments taken, especially with partners of the company, which could not be discontinued because this would lead to suits in the course and also non-compliance of Petrobras. So we have prioritized the investment for exploration and production, and you will see a clear trend of reduction regarding the old plan. In the new plan, it will integrate all these premises in the assumption of deleveraging and giving priority to those projects of greater profitability.

The third topic has to do with dividends and dividends was the preservation of the cash of the company. And this was the most important question because of the result. This is why the company decided not to pay dividends. The question of the PL - or the profit share program, there is an agreement between the company and the unions. And in this agreement, the payment or profit sharing program has to do with the performance in operating activities. And they have either been reached or surpassed. So basically, it is a subject which has to do a collective bargaining process, which the company will have to comply with and will comply as Petrobras always does. Thank you.

Thank you, Gustavo.

Our next question comes from Paula Kovarsky from Itaú BBA.

**Q - Paula Kovarsky {BIO 15363001 <GO>}**

Good afternoon. I'd like to go back to two subjects, to the one of production and dividends. About production, we, in fact, are seeing a significant reduction of CapEx. And as you said, Ivan, there was a certain inertia of commitments that the company must meet and I think the main question is if this is the situation of these commitments and so why is there a growth of production.

When we look 2016 against 2015, and here I am referring to the numbers that you mentioned yesterday at the press interview, 275 barrels in 2016 of the domestic production in - compared to 225 in 2005 in spite of this CapEx inertia. So I think that the main question of everybody here is, what, from now on, will be the point of balance so that we could better understand what will be the recurring CapEx, especially in the gas and power, which will allows us to keep this balance, because this is very important in our model when we are looking to cash generation, when we are looking to the prospects of leverage of this company and I think it would be very good for us to understand this.

Regarding the dividends, it seems very clear to not pay them since your main priority now is to preserve cash. So I'd like to ask for two clarifications. First of all, is the decision not to

pay and not declare this, especially in the preferred stock case? And how do you analyze the question of the minimum priority dividend of (00:41:48).

And when you read the corporate law, it's not very clear about how many years of the not payment - the non-payment of the preferred stock would allow them to have a vote. How long they this down payment could go on for? Do you have anything to say about that? Do you understand this as some sort of a risk to the company?

## A - Operator

Thank you, Paula, for your questions. I will make an introduction and then we'll go back to the dividends. I would like to remind you that when we disclosed the divestment plan, I think, from now on as you've already said, Paula, the priority of the company is its de-leverage and the plans will reflect this very clearly the plans that has been reviewed. Whenever we focus divestment, we have a very important component which is the separation, or at the same time as we divest, we reduce the mandatory nature of the CapEx into that asset.

So this is a very important component. So to look unrelated (00:43:05) the former CapEx added inertia, it will be reduced significantly, 37%. But, you should also look to the divestment program because there you will find priority given to assets which seek to relieve the company of the associated CapEx.

The divestment program is difficult to understand that we disclosed it by business segment and not per asset. But unfortunately, this is the process - these are processes which developed confidentially until they are released by the government. But this is a very important premise which can help in your analysis and the analysis of all towards the leverage and deleverage. Now Solange is going to answer about production.

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

Hello, Paula. Before getting into the numbers, objectively, that you mentioned, I'm going to go back to an introduction here about the profitability of the segment in such a way that we are dealing with the profitability of the segment and, once again, giving you this - a better idea of utilization, maximization of the generation and use of cash.

In this planning exercise, you are quite right when you say that there is an association with a CapEx reduction and the existence of a delay between this reduction and predictions for short-term provisions. You are right. When you make this association, regarding surface equipment which is what we generally disclose.

And in this idea of leverage that you talk about, the exercise which we're doing besides reducing CapEx and operating expenses, the focus on low risk exploration assets, this is also - we have also dealt with the ramp-up of new units.

This is a different aspect from when we had another parameter of information regarding our operational plan for the next few years. I'd just like to draw your attention going back

to your own numbers, when we inform you that there has been a growth or prospective growth of numbers for 2016 of 2,816,000, about 2%. I will break Brazil down.

When we did this we applied the same metrics to a number of - for a number of Brazil, which we will close this year 2015 with 2,125. We might have a growth of 4.5% which I do not consider to be conservative. Considering that we will be coming in with three units into operation and especially a very important fact that is going to be part of our accounts.

I will have - do the exercise for 2015 and we will have a level of production, Paula, where we have to take into account decline. We have our assets who are declining at 10% a year so if we do this sum for 2015, we will see that we are declining at 200,000 barrels. We reached our 2,125,000 target at the end of this year. So we are declining 280,000 barrels per day and this exercises a ramp-up and that coming into operation of certain units.

So these exercises which focus especially this cash generation and the balance between the recline of CapEx and ramp - a slower ramp-up than that which we were expecting lead to these numbers which lead to a growth which might be even 4.5% in Brazil if we consider the cap of this prediction.

## A - Operator

Paula about the final topic about dividends payout, not paying and not declaring and looking at the legal aspect, I would ask our Investors Relations area to talk to you later on, but we feel very comfortable with our decision.

## Q - Paula Kovarsky {BIO 15363001 <GO>}

Now if I may ask a follow-up question about pricing policy, you said you are working with imports parity or price parity imports. It means that your business plan is using this assumption that 100% of your sales of diesel and gasoline will have imports parity or is that only for the imported portion. Can you please give us some more details on that?

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

Yes, Paula, this is Jorge Celestino. This is considering 100% of our diesel and gasoline sales and the imports portion.

## Q - Paula Kovarsky {BIO 15363001 <GO>}

So this assumption it implies that you're going to apply a formula from now onwards.

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

Yes, we already have - I mean we are already applying imports parity principle in the first quarter of 2015.

## Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you.

## Operator

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

### Q - Bruno Montanari {BIO 15389931 <GO>}

Hello. Good morning. Thank you for taking my question. Most of my questions have been answered, but I still have two more questions. Solange mentioned the abandonment of assets, now your production target for 2015, 2016 is that also considering shutting down production wells in shallow waters and would you give us some more details about the sales and leaseback of platform the 3 billion you've announced, which units are involved in this transaction? And I'd like to have an idea of the day rate and leasing cost of these platforms, they will now become an expense.

### A - Operator

Hello, Bruno. About the first part of your question, Officer Solange will answer and then I will take over the second part of your question.

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

Hello, Bruno. Good morning. About your question on the abandonment of these assets, assets in Campos Basin, in the beginning of 2015, we had a system stoppage. And in 2016, we're planning for another down time. It's going to be a production unit - production unit that has a very low production. It's now close to its economic threshold of operation and this is one of the units considered for abandonment.

Now, the standard charter of sales and leaseback of platforms, I'd like to use your question to explain our funding policy from now onwards. The company has used this option a few years ago and what is attractive for us in any kind of funding transaction is the comparison to the OTC market. Like for instances, this morning the Eurobonds market, the market opened with decline in its rates, price improvement and we looked at the most liquid securities. And this becomes our funding target that is we want to have funding transactions below these numbers. And we've always used this assumption.

### A - Operator

Now regarding specific details these are bilateral negotiation. We disclosed data as we publish our quarterly financial information and we provide some more details about the assets. Later on, I will ask our Investor Relations Officers to contact you to provide further information.

### Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you.

### A - Operator

Thank you, Bruno.

Now a question from Mr. Marcos Severine from JPMorgan.

**Q - Marcos M. Severine** {BIO 3322666 <GO>}

Good morning everyone. I have a follow-up question on CapEx. You presented this guidance of \$29 billion, \$25 billion for 2016. Now, do you believe there is any state to reduce CapEx or to further reduce CapEx in 2015 and 2016 or is this the minimum thresholds but it still is economically feasible, and there's no more margin for further reductions?

Second question, about slide 24 when you talk about \$13 billion in funding operations or funding transactions. I'd like to know how the negotiation stands as we speak regarding the funding transactions. These would be my two questions.

**A - Operator**

Thank you, Marcos, for your questions. Now about CapEx, this is the CapEx that we consider appropriate considering the context that we already described during this call, but of course, this number still depends on our divestments program. So you may expect some change, if we have differences - relevant differences, different from what we said \$3 billion in 2015 and \$10 billion in 2016 in the divestment program.

Sorry, Marcos the second part of your question, could you please repeat?

**Q - Marcos M. Severine** {BIO 3322666 <GO>}

Yes. About the 13 billion.

**A - Operator**

Okay. Fine. Thank you. Now the funding needs for 2015 are fully covered as we informed when we disclosed the last four funding transactions. And we are already working on funding for 2016 which does not present the company from continuing to study the OTC market and trying to obtain funding transactions below these numbers. However, as I said, our funding needs in 2015 are fully covered and we're now working on 2016.

**Q - Marcos M. Severine** {BIO 3322666 <GO>}

May I ask one final question, about this number, \$13 billion, what is the cost of this \$13 billion you have already considered?

**A - Operator**

Well, as I said before, if you look at the most liquid bonds of Petrobras it cost us below the OTC cost of the same bond. So thank you.

**Q - Marcos M. Severine** {BIO 3322666 <GO>}

Thank you.

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## Operator

Our next question comes from Mr. Auro Rozenbaum from Bradesco BBI.

### Q - Auro Rozenbaum {BIO 1702415 <GO>}

Good morning everyone. First of all, I'd like to congratulate the management for the punctuality and efficiency of this call. First question regards the company's leverage. Today, we know that the net debt EBITDA (00:54:56) has been published. In the past, your target was 2.5 times. Now, when you look at international peers, the big majors, we see numbers between 0.5, 0.4 and 1. Now, would you please comment on this, what would be the most appropriate level and what is the route towards this target level?

### A - Operator

I want to thank you for your question. Now, the company has informed this in the past already, but let me remind you. The company has enjoyed a significant organic growth. Officer Solange will talk further about this. Now what happened to the company's indebtedness and today while the target we have will be made very clear, who knows we can disclose our new business and management plan.

Leverage reduction will become a priority. I mean, this is when we had the - our publication of Basel III for the banking industry. Basel III is a very rigorous standard that all banks must follow and this became a determining factor to determine bank's solvency levels. Now, all the budgets and business plans prepared after Basel III had, as a priority, the compliance with Basel III with the items determined by the world regulators for banks.

Now here, we can use this as analogy. The company's leverage is high. And as you said, it is above the big majors. However, they did not have the same opportunities of investment that Petrobras had and that Petrobras actually used. But we will conduct a process to try and reduce the company's leverage as we already mentioned. So, we want to gain more operational efficiency. We will reduce CapEx. We will prioritize investments, focusing on those that have a higher return and many other items we already mentioned.

Let me now give the floor to Officer Solange.

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

Good morning, Auro. Now, Director Ivan mentioned our organic growth and this is relevant information. These are references we use to focus our business and management plan, that is, we considered Morgan McKenzie's audit in the end of 2014 where they made an comparative analysis between the exploration and production portfolio of the big majors. And it showed that Petrobras - along the years, Petrobras has built a portfolio in an organic way, that is Petrobras does not have a tradition in mergers and acquisitions, so our portfolio, when compared to other big majors, has 10 points advantage in terms of rate of return.

Now this fact shows our capacity to generate high quality assets when our exploration is focused and considering that we have competence to do that. Our discovery cost and the

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pre-salt layer is about 30% of the discovery cost in other areas, which is not in the pre-salt layer and these are very relevant facts for us to evaluate our portfolio. Now that we have to prioritize our investments we will focus on higher return assets and this is also a beacon for us to identify divestment opportunities.

**Q - Auro Rozenbaum** {BIO 1702415 <GO>}

Solange, my second question goes to you, about production guidance 4.5%, when we look at the final number of 2014, December 2014, if that number were maintained during the full year 2015, the average production increase would reach 8.8% compared to the average production of 2014.

Now, we follow all Petrobras wells currently in production and the 4.5% they show in fact and acceleration of the production decline that is, if we made a linear charge, December 2015, we would have a decline of 9% compared to December 2014. I mean, for this target of 4.5% to be achieved average growth of 4.5% in production. We've observed that in the pre-salt everything is sign you have growth actually. So the decline would be in the post-salt that is not in pre-salt assets.

Now could you further elaborate on this, what is the reason why we had this faster decline in 2015?

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

Well, Auro. I mean this methodology to which you refer with well-by-well evaluation is extremely important for us to assess the facts. Now, I will refer to some data we have shared with you during the webcast of the third quarter 2014. So I will repeat some information we disclosed then, because this is going to help you complete your analysis about the post-salt or non-pre-salt assets.

What prevents us to conduct these exercise that you did, comparing the production of 2014 to the production of 2015. We deactivated the FPSO Marlim Sul that stopped - that had its operations interrupted. We did not renew the contract with the SBM at that time. So in the third quarter 2014, we reported a review of Roncador potential modules three P-55 and P-62. So we did have an impact in the third quarter 2014 because of this that is because of technical issues in the Roncador reserves.

And today we have this guidance for post-salt loss. We also reported a larger number of stoppage. So these are - these numbers we have already shared with you. We will have an impact of 50,000 barrels per day in terms of plant downtime and compared to the average figures of 2014, in 2014, we had 30,000. In December, which is this month you mentioned, we had zero downtime. So all of these facts are relevant and they prevent us from concluding that we have a faster decline. This is not the case. Our decline is still between 9% and 10% in our most mature assets. However, we had a lower result in Roncador and we also had these issues with downtime that I have just mentioned.

**Q - Auro Rozenbaum** {BIO 1702415 <GO>}

Okay. Thank you, Solange.



## Operator

Our next question comes from Mr. Luiz Carvalho from HSBC.

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

Thank you for taking my question. Good afternoon. I have two questions. The first goes to, Ivan. Yesterday, Mr. Bendine, during the press conference, he mentioned that the company was not going to sell production assets or Exploration and Production assets in production, especially pre-salt assets. However, the company could consider partnerships in exploration assets or perhaps sales of stakes. Now I believe this has already been considered in your investment plan, but is there a possibility that you would have a foreign (01:03:59) down operation with CapEx carryover or the investment plan will really require more cash flow in the company.

And the second question is perhaps goes to you or Jorge Celestino because he spoke about this. The question is about pricing policy. Yesterday the company mentioned that fuel oil pricing is healthy today, you actually have a premium against the international market, if we do not consider the import cost, and today you mentioned imports parity I would like to understand, if you - I mean if your premium is high, so perhaps you could cut down on prices at the refinery, this is the first part of my question.

And the second part of my question considering your assumptions for 2016, BRL 3.34 in exchange and \$70 the price of oil barrels, you would certainly need higher prices, now in terms of timing, how long do you need to bear a discount before you increase prices?

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

Thank you. We're now talking about the divestment plan and then I will give the floor to Officer Solange. So the divestment portfolio is extremely dynamic, why? Well, because Petrobras, I mean, our assets they are modeled. What do we called modeling assets? Well, we try to identify the highest possible value in the interaction of this asset. So we look at the possibility of partnerships, transfer of assets or other strategies to explore the asset. So as I said, this modeling exercise is dynamic. So half way through the process we may reach the conclusion that we have to find a different way, a different asset to complete our portfolio.

What I'd like to make clear is that, this is an important component for assets to be in the divestment program, because we want to deleverage the CapEx allocated to this asset to comply with our business and management plan. And this is something important for us. Let me now give the floor to Officer Solange and then I'll go back to answer about pricing.

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

Hello, good morning, Luiz. Let me initially refer to what you reported about yesterday's press conference regarding divestment in pre-salt assets, I shall confirm we will not conduct divestment in pre-salt production assets. However, we are considering some assets as our CEO mentioned yesterday, and it does not really matter if these are pre-salt

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or post-salt assets. We are looking at assets where we can perhaps share risk. This is important, we are talking about different kinds of risk.

And something I have repeated from the beginning of this conference call, we are looking at our strength and our competitive edge. I mean sometimes we have similar and standardized projects and this provides a very relevant business benefit, especially in pre-salt assets. So if we find - if we identify the possibility of a project that is in the early stages and which will demand growing investment and perhaps we will not be able to generate cash in the short-term. These are the assets that we are seriously considering and evaluating the possibility of divestment. Why? Because we want to add value to the assets where we have scale gains and standardization benefits.

You mentioned the possibility of CapEx carry over this is something we always study. There are different companies who would like to partner with Petrobras in areas where we are currently conducting exploration activities and where we've identified opportunities, which the market has evaluated as good opportunities. And so they come to talk to Petrobras about the possibility of working with Petrobras in these assets. So we are actually talking to some of these companies and looking at our assets to able to reduce the CapEx burden. So perhaps we can have this kind of investment decisions.

We are not closed to looking at different exercises that may allow for us to generate net cash in the short-term and we truly want to devote our resources to projects that have a high return in the short-term.

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

Thank you Solange.

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

Now, on the last part of your question, the pricing policy doesn't know whether it's next three minutes or one month or whatever. It tries to get away from volatility and generate not only the predictability for the company but for the market. What I just wanted to make clear and complementing in the same way as President Bendine said yesterday, in that the assumptions of the business plan that we are working on clearly incorporate competitive market prices. The assumption of the business plan is based on this information. Petrobras, just as our CEO Bendine yesterday said, will work with competitive market prices.

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

Thank you. Ivan, just a more - a broader question. As you have said, you have a history as one company and now you're more of an oil and gas company, so what could you say - what is different that you have found in the company in latter times.

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

It's a very broad question. President Bendine yesterday undermined some guidelines that are guidelines not of one sole company, but as a set of the company. First of all, it's an

honor to be here at Petrobras. It's a wonderful company and we have wonderful technical staff.

Our major contribution will be regarding processes. People go, but the processes remain. People - the company must reinforce its processes, especially of governance. And it has taken many steps to do this. I would say that the creation and the contracting of João Elek assuring how the quality of these processes will improve.

The company has world-class expertise regarding that which it wishes to do, and we can add to the processes, always the processes, governance situations that we have experienced in our careers and can contribute to improve the processes in Petrobras. I would say our greatest contribution will be along these lines to work in a team. A word that President Bendine always uses, a union work together and this will be always in the technical groups in collegiate, as far as decisions go, and segregating functions and João Elek would be essential and a tremendous contribution in the improvement of the company's processes. Thank you.

## Operator

Our next question comes from Mr. Christian Audi from Santander.

### Q - Christian Audi {BIO 1825501 <GO>}

Thank you. Just a clarification before the question, you mentioned several times a strategic plan you're going to announce. Will this plan be for two or five years?

### A - Operator

Sorry, Chris. Five years. As President Bendine have said we expect to announce this in the next 30 days.

### Q - Christian Audi {BIO 1825501 <GO>}

And two questions. First, regarding de-leverage, have you - well you have already helped us quite a lot regarding target for 2015 and 2016 production and CapEx, et cetera. Is it possible to break down a little bit about your expectations regarding the targets of de-leveraging and what level do you think that they could hit in 2015 or 2016, and the net debt-to-EBITDA or net debt-to-capitalization?

### A - Operator

Well, as President Bendine said yesterday, we will have much more information on this when we disclose the new business plan.

### Q - Christian Audi {BIO 1825501 <GO>}

Regarding pricing of gasoline and diesel, your comments have been very clear, Ivan. What I want to understand better is if there is a discussion between the management and Petrobras internally or between management and the Board regarding a kind of formula

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almost specific policy of gasoline and diesel or will we continue - will you continue to try and reach parity or is there anything more specific that you're discussing today?

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

Noting specific, I reiterate what President Bendine said and by ourselves today, when we draw up our new business plan in our work, day-by-day, we work always seeking competitive and market prices.

**Q - Christian Audi** {BIO 1825501 <GO>}

And Solange, and the growth of production and we have seen the dynamics and the target of 4.5% growth for this year and a level of 2% for next year, can you comment a bit looking beyond 2016, the new reality of Petrobras, will it be a current growth of 3% or what do you think that we can consider for perhaps a longer period according to the new reality of Petrobras as a consequence of all the changes that you have been do in the company, like CapEx for example?

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

Hello, Christian. These numbers that you have mentioned are referred to objective and very sound events which are ramp-up this year and the four units mentioned and the Cidade Itaguaí and the units mentioned for 2016. We will have, later on, the opportunity of bringing into production not only the chartered units, but as soon as our entry into production schedules is published on the 15th of nine, we will have this scheduled for the new units. But on the average of the periods, the average growth will be in line with that which we have been carrying out up to now. But the detailing of this will only be disclosed when we disclose our business plan. Thank you, Chris.

**Operator**

We have a question in English. Mr. Frank McGann from Merrill Lynch has a question.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. Good day. Thank you very much for the call. If I could ask two questions; one just a follow-up again on cash flow and given your commitment to CapEx cuts and divestments, I was wondering if you thought if those two elements, CapEx cuts and divestments, together with an eventual pickup in earnings would be sufficient to deleverage the company over the medium and long-term to avoid an equity issuance, which you've also said, at least near-term, you would like to avoid?

And then secondly, in terms of dividends and, obviously, you've not - you've decided not to pay dividends on 2014 earnings for 2015 given the loss, but if you have income in 2015 would the expectation be that you would pay dividends on both share classes in the beginning of next year?

**A - Operator**

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Thank you, Frank. For your question – regarding the first question of cash flow. I want to go back to what has been mentioned, already in this call. The new business plan has an assumption the deleveraging of the company so all the processes the CapEx process, the OpEx process, divestment all these processes and giving priority to greater return assets and, which divestment could be associated to the CapEx reduction, will be a harmonious set of decisions, which will lead to the deleveraging of the company.

Regarding the possibility of the company, increasing capital by issuing stock. This possibility does not exist. There is absolutely no discussion about this going on in the company. So generally speaking, these – your main questions in the first part, regarding the dividends, if the company gets a positive result in 2015, we will pay dividends, based on these results, as we do normally.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. Thank you. If I could just follow-up with one additional question, just in terms of – on production in Roncador, the P-55 and P-62 units were going – expected, at least – in the prior calls, you mentioned that expectation was there would be some issues with reservoir pressure that would have to be resolved during this year. I was wondering with the additional work that's been done over the last couple of months, if now the expectation is that as you get into 2016 if the long-term expectations from Roncador from those two units was still expected to lead you a substantial pickup in production or if they may, in the end, have a lower longer term level of output?

**A - Operator**

Good morning. Well regarding Roncador, as we have shared in the webcast of the third quarter 2014, your reference is correct. At that time, we mentioned this, where we would intensify injection of water. And we are also remodeling the reservoir. At the time we referred to the hiring of a specialized company to help us in those job to do this study. This study should be ready now by the middle of 2015. We have not yet found any differences below that which we have expected, that we have published for 2015 but we hope that with this remodeling, we will be able to redesign this, and we will have medium-term, but not yet in 2015 some incremental opportunities from exporting from that field.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. Thank you very much.

**Operator**

Thank you very much. And we would like to close our Q&A session of this webcast. I would like to ask Mr. Ivan de Souza Monteiro to now make his final remarks.

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

So I would like to thank you for participating in this event and the questions which were not answered may be consulted or you may speak to the IR team or they will get in touch with you. I would like to thank you very much for your participation and thank you all.

## Operator

Thank you, ladies and gentlemen. The replay and slides presentations will be available at the Petrobras' IR website at [www.petrobras.com.br/ir](http://www.petrobras.com.br/ir). This concludes today's conference call. Thank you so much for your participation and please hang up your telephones and have a great day.

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