

Q3 2014 Earnings Call

Company Participants

- Almir Guilherme Barbassa, Chief Financial & Investor Relations Officer
- José Carlos Cosenza, Chief Downstream Officer
- José Miranda Formigli Filho, Chief Exploration & Production Officer
- Maria das Graças Silva Foster, CEO, Director & Chief International Officer
- Theodore Ted Helms, Investor Relations

Other Participants

- André Sobreira, Analyst
- Bruno Montanari, Analyst
- Christian Audi, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Luiz Felipe Carvalho, Analyst
- Paula Kovarsky, Analyst
- Pedro Medeiros, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen. Welcome to Petrobras Conference Call with Analysts and Investors for the Presentation concerning the Financial Statements not reviewed by independent auditors regarding the Third Quarter 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, at which time instructions on how to participate will be provided. This broadcast is being recorded.

Present with us today are Ms. Maria das Graças Foster, Petrobras CEO; Mr. Almir Guilherme Barbassa, Petrobras CEO and IRO (sic) [CFO and IRO] (01:08); Mr. José Miranda Formigli, Exploration and Production Officer; Mr. José Carlos Cosenza, Downstream Director; Mr. José Alcides Santoro, Gas and Power Officer; and other executives of the company.

To begin, let us hear from Mr. Ted Helms, Executive Manager of Investor Relations of Petrobras. Please, Mr. Helms.

Theodore Ted Helms {BIO 15433381 <GO>}

Good afternoon, everyone. We're about to start another webcast conference call of Petrobras with analysts and investors for the presentation concerning the financial statements not reviewed by independent auditors with regard to the third quarter 2014 results.

I would like to remind you that this meeting is being recorded, and please be mindful of slide two, which contains a Notice to Shareholders and Investors.

I now turn the floor to CEO, Graças Foster. Please, Ms. Foster.

Maria das Graças Silva Foster {BIO 15034303 <GO>}

Good afternoon to everyone who joined us today. I would like to begin my speech commenting on strong events that are part of our daily work at Petrobras. I am talking about the Lava Jato Operation, Operation Car Wash, and I'm talking about the delay in disclosing our reviewed financial statement.

The Lava Jato Operation reached the Petrobras in March of 2014 with the arrest of former Downstream Officer, Mr. Paulo Roberto Costa, later charged by the Federal Court of Paraná charged with money laundering, passive corruption, embezzlement, racketeering, among other offences.

It is important to highlight that when the company filed its 2013 annual financial statements on February 25, 2014 and also the financial statements referring to the first half of 2014 on August 8, there was no evidence available that would have affected the conclusions of the company or the independent auditors' opinion regarding the financial statements. The balance sheets were reviewed by the independent auditors, PWC.

Beginning on October 8, 2014, the positions of former Officer, Paulo Roberto Costa, and other investigation targets Mr. Julio Camargo, Augusto Mendonça, and Mr. Youssef were made public. And they mentioned cartel formation, cartelization exiting prices, overpricing, and bribery.

In light of this investigation Petrobras was not able to release the reviewed third quarter 2014 financial statements. The deadline was November 14, 2014. So we were not able to disclose the statements due to the time that we needed to gain greater understanding from the ongoing internal investigations led by independent law firms that we hired. And also we needed more time to make any necessary adjustments to our financial statements.

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We need to rectify the error IAS 8 these are values improperly recognized in the company's PP&E due to corruption. As I said the depositions of Mr. Paulo Roberto Costa, Mr. Julio Camargo, Augusto Mendonça, and Youssef to which Petrobras had access has borrowed evidence. I mentioned a list of suppliers and contractors, 23 companies in total involved in the alleged misconduct. And depositions state that the improper payments averaged 3% of the total price of the contracts involved.

Information currently available to the company indicates that contracts entered into between January 1, 2004 and April 30, 2012 with the company's named in the depositions may have included amounts related to misconduct. So it is important to highlight these dates, January 1, 2004, April 30, 2012. This was not a period chosen by Petrobras, but rather a period that was mentioned by the deponents that I've just mentioned. Limitation.

Petrobras cannot correctly accurately determine either the amount or the period where these payments were made. For a simple reason, because the misconduct involves payments made by external suppliers, so this misconduct is out of the accounting records of the company, cannot be traced back to the company's accounting records. And because of that we are somewhat limited in determining the amount and the period when these payments were made.

Given this limitation and the need to rectify the error, an error in this case are exactly the values, the undue values to recognized in the PP&E. So because of this limitation and the need to rectify the error the company considered two approaches, two methodologies to try to quantify them as best as possible.

I'm now going to talk about methodology number one. Average percentage of improper payments. So this is methodology one. We estimate the error using the average percentage mentioned in the depositions in October and December of 2014. In these depositions a 3% was mentioned. The company identified the amounts paid from 2004 until the third quarter of 2014. In other words, the last day of September, September 30, 2014 with respect to contracts entered into between Petrobras and the groups of companies mentioned in the depositions either in isolation or as part of a consortium from January 1, 2004 and April 30, 2012.

Considering the scope of contracts and respective amendments, the company applied the following approach; applying an average percentage of 3%. Considering this the percentage of improper payments which increased the amounts charged to the company, plus the use of specific amounts of improper payments in the cases mentioned in the depositions by the gentlemen that I referred to a little while ago. The potential effect of this approach would be an estimated loss of R\$4.06 billion.

Additional information - we would like to highlight that additional information regarding the ongoing investigations could result in further adjustments. They may result in an expansion of the scope for contracts and companies and may also result in changes to the period of analysis.

Moving on, please go to slide six. Here we have what we call methodology two. This is an attempt to calculate using fair value of assets. In trying to make this simple, it will be the book value of the asset minus the fair value of the asset, equals correction value.

I would like to remind you and highlight that the fair value would be the sales value at market conditions. At that given point in time the sales value of a certain asset item maintaining an outlook based on a number of assumptions. So to calculate fair value, this was done using two approaches. One is a cost approach, considering the replacement cost for the asset. Secondly, an income approach considering discounted cash flows.

The fair value of the assets was measured on a standalone and independent basis. In other words, the asset isolatedly excluding any and all synergies that Petrobras may have due to its integrated operation. Petrobras is an integrated energy company and practically all of Petrobras' assets are interconnected through synergies, which by the way, bring us a lot of economic advantage. But in the specific case of the approach given to this case for fair value, we considered zero synergies in all of the assets that we assessed.

The goal here was to determine the value of these assets from the perspective of third parties a market view. If a third party were to acquire a thermoelectric power plant, a refinery an infrastructure of some sort, so we would not consider any additional synergies.

Calculation of fair value of assets, they totaled in the case of the assets selected they were quantified by the independent consultants that we hired, they totaled 52 assets, R\$188.4 billion, R\$411.7 billion were not evaluated and R\$188.4 billion plus R\$411.7 billion totaled R\$600 billion, which is exactly the value of PP&E of Petrobras. R\$188.4 billion are relative to assets then had a participation of the 23 companies mentioned either isolatedly or in a consortium and that were hired by us.

Another important piece of data, 81% of these R\$188.4 billion, 24 assets were assessed by independent evaluators. The difference 19% corresponding to 28 assets, these were evaluated by Petrobras. It is important to highlight that all of the assumptions, the methodology on the spreadsheets were used in accordance with the way that independent evaluators presented to us. In other words, Petrobras worked based on parameters, assumptions and methodologies offered by those independent evaluators. Why is it that independent evaluators were not in charge of doing 100% of the evaluation? Because there was not enough time for them to handle all of the assets.

Methodology calculating fair value of specified assets results, results and weaknesses found. We had 31 assets with a fair value lower than book value. Estimated amount would be minus R\$88.6 billion. We had 21 assets with a fair value higher than book value or estimated to be higher than book value the estimated amount would be plus R\$27.2 billion.

What is important in this opportunity that we have here with you is to highlight and make it very clear that Petrobras did not recommend to the board of directors the use of fair value, because of the dozens of variables that are at play here, among them overpricing. So in the board meeting that was held two days ago, we recommended to the board and

we presented to the board the fact that we would not be using this methodology, because this methodology takes us to a fair value of specified assets, which is a mix of a number of variables.

I would like to mention some of them; changes in economic and financial variables, such as exchange and discount rate particularly discount rate. There is a discussion regarding discount rate, but also risk indicators and cost of capital, changes in price and margin projections of inputs, changes in price margin and demand projections of traded products, changes in equipment prices, inputs, wages and other correlated costs, deficiencies in project planning related to engineering and supply, contracting made before the conclusion of the basic project, contract provisions which were inadequate, inappropriate to changes in scope, term and value amendments, delays and inefficiency in the execution of civil construction, also because of environmental conditions; and cartelization of suppliers, corruption and overcharging.

So by using the methodology adopted, we were trying to find a proxy to correct the error, to rectify the error according to IAS 8, it has to do with rectifying the error, among these errors, fraud and corruption. So this proxy was shown to be extremely weak, because a number of elements make up the fair value of these selected assets.

In the report issued by independent evaluators, we see a number of disclaimers that say that changes in the values may occur according to changes in the economy for example. So, in conclusion and making it crystal clear that Petrobras recommended that this methodology should not be used, what are we going to do? We will give proper treatment to the information contained in the expert reports of the independent evaluators, fair value calculation so as to adjust the book value of the assets of the company as necessary.

It's important to point out that in fact there are three reports because it also includes Petrobras' reports, and they're very important to us. They contain extremely relevant information when we segregate or set aside all the synergies and all these assets stand alone, they provide rich and extremely relevant information for us to adjust the book values of the assets - of these assets of the company whenever necessary. We are already furthering the methodology that takes into account values, deadlines and information contained in the depositions, in compliance with the requirements of regulators CVM and SEC aimed at releasing the financial statements reviewed as soon as possible.

It's very important to make it clear that Petrobras' cash position or operating cash flow is not affected by any adjustments rising from corruption or any other related to the amount of its assets. This is extremely important. We'll deal with these assets as recommended by the independent evaluators, we will properly consider the synergies, but it's important to point out that from the point of view of the operational cash flow, any adjustments will not impact the company's books.

And so much so that last month Petrobras set a number of records, operational records in oil production, in gas production, in power generation and fertilizer production, refining reached an all-time record. But this is what we have ahead of us. We are going to really do

this clean up. We will take it earnest to have a correct appraisal of our net worth of our PP&E.

So I now pass the floor to our Financial Director, Almir Barbassa.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Thank you very much Ms. Foster. Good afternoon, everyone. So let's now take a look at the operating income comparing the third quarter of 2014 with the second quarter of 2014. We see that income dropped from (21:30) R\$4.2 billion. And here we have two most important factors which were the write-offs - write-down of the refineries and also a loss provision in the power industry, R\$4.2 billion.

But if we take more analytical view of the data, we can notice that four elements have pared the operating results. The write-down of the refineries as I said but also the employee salary readjustment with bonuses that occurred in the third quarter. There was also the loss provision on receivables of the power industry and also a payment related to an agreement was Bolivia. These are non-recurring items. So therefore we can deem them exceptional and they add up to R\$6.1 billion that had - that occurred during this quarter, but they will not occur again.

There was one item which was also extraordinary and helps to offset this bad result which was an extraordinary income or gain from an out-of-court agreements for a total of R\$500 million. So the sum total provides us a difference that we can expect in the operating income, R\$5.6 billion. So why was the result better? Because in operational terms, we posted better results over the period, if these non-recurring items are excluded, it is apparent; it's obvious that there was a real operating gain from one period to the next. And this is shown in one of the bullets here before last, a higher oil production and therefore higher export revenue. And therefore we see a positive impact on the operational results as you see on the slide.

Next page, we look at net income. So the rationale that we used in operating income should be used here. But we have reduced R\$5 billion from the previous one to R\$3.1 billion. And this reduction was offset by two factors that boosted net income. One was the monetary restatement of an asset contingency related to the improper PIS and COFINS payments. And the other one was because we had a lower - we posted a lower result, so we had to pay lower income tax and social charges.

Next slide, looking at our EBITDA, the same rationale that we used for operating income can be adopted here. Those non-recurring items that I mentioned have pared or reduced the EBITDA number in the third quarter. Without those non-recurring items, it would have been a lot better.

And then we have financial indicators and indebtedness. Here we see total debt that went up from R\$267 billion to R\$331.7 billion. So debt grew owing to - well this was within a year. This is nine months end of September 2013 and September 2014. We had a lot of debt over the period, but we also had an impact of the depreciation of the real on the

existing debt. So this is why we had this increase but the contracted debt enabled us to report R\$70 billion against R\$46 billion reported in 2013. As a result net debt over EBITDA grew and leverage also grew.

Now, looking at covenants of debt agreements, the disclosure of the financial statement not reviewed aimed to comply with our covenant obligation in debt agreement. So next step would be the annual financial statement, audited statements. And regarding debt agreements, bilateral debt agreements, we have 120 days to submit them. So end of January and another 90 days and another 60 days grace period, so we've got four months to submit the reviewed financial statements. From the bonds' point of view, we have 120 days, plus 60 days grace period starting from the notification expected after the 120 day period. So this is the situation we find ourselves at the moment in terms of agreements and obligations.

And I now pass the floor to Formigli, Exploration and Production Officer.

José Miranda Formigli Filho

Thank you, Almir. So talking about our oil production target for 2015, our number is 2.125 million barrels of oil a day. This average as regards the average of 2014 is an increase of 4.5% with a variation of 1% more or less, so we move from 2.34 million which was the average in 2014 to an average 2.125 million barrels in 2014. So what are the main factors behind this jump?

First of all talking about the factors that enabled us to continue at a fast pace compared with other companies. We have an infrastructure of (30:16) PLSVs and drills that enable us to have an interconnection between the wells that were installed in Cidade de Ilhabela and Mangaratiba and other production units for a total 69 wells, including producers and injection wells will be connected in 2015.

Very important, like what we saw happen in 2014, a natural decline in Petrobras' fields offshore and onshore. Offshore, the highlight is that Campos Basin, owing to the relevance of its production to us. Most of our production comes from the Campos Basin. So it's below 10%, more specifically, around 9%. We also expect that in the fourth quarter of 2015, FPSO Cidade de Itajaí will startup and is exactly on time according to installation schedule. And this unit is already in Brazil and the modules are being integrated.

Now, from the - or because our production is as it is and very significant, what we have is an impact of units that were delivered last year that had their first oil last year, P-62 and P-58. So these units had to start production last year. And this required a very big volume of onshore support activities to conclude all systems, particularly gas compression and water injection since these platforms placed in locations where demand for water is very, very significant, the Roncador and P-55 and P-62.

There was also a delay in installment of P-61 operating in Papa-Terra because of more severe environmental conditions that we faced and also because this kind of unit is a pioneer, so what we call TLWP. It was the first unit that Petrobras installed in the Campos

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Basin. That allowed us to start working on the completion with a production riser for the first well already installed and tested. And we're starting to work in the well for the well completion and for the installment of the BCS and to have first oil in the first half of 2015.

Now, the item that had the most impact in our production curve in terms of a lower liability of growth is associated to the revision of the potential specifically of Roncador field in the P-55 and P-62 projects. Now why is that? Because we had a water injection deficit to start with. In other words, the amount of water that offsets the volume of oil produced for this kind of reservoir was shown to be deficient. And that entailed the reduction in the potential which we believe is temporary and as much as we are already working with water injection for both fields. The facilities are there already pumping and we are prioritizing the interconnection of injection wells, so that we can offset this deficit and thus have a reduction in this loss linked to production decline.

And there is another point which is specific for the Roncador modules, unlike the first two modules, P-52 and P-54 where we did not face these problems related to heterogeneity and compartmentalization of the reservoirs. This was unexpected. Although we performed all of the studies, conducted all of the studies, we're fully compliant for our forecasts for P-52 and P-54 in the reservoir model. So we were not able to have the compartmentalization which was observed after the start-up of production. As a result, we had a lower potential for the wells.

So we are now identifying new locations where we can drill and complete additional wells. And parallel to the work that we do internally at Petrobras, we hired a company specialized in reservoir, company from the French Institute of Oil and they are complementing our studies. They are verifying our opportunities either in terms of diagnosis, diagnostics or corrective actions to increase production.

Another important item is the decommissioning of the FPSO Marlim Sul - in the Marlim Sul field, because we do not come to good terms in negotiating the contract with SBM, the chartering company. And with that, we had an average loss in the year because of this decommissioning.

Now the upside. Oil from these wells is now connected to existing units in Marlim Sul, P-56 and P-40, which will allow us to recover this production over the year. In other words, as of the second half of the year, we will see significant recovery of this initial loss. And the great advantage is that we're going to rationalize our operating costs. In other words, we are going to go back to producing oil using existing units without having an associated cost to this unit in particular because this is a chartered unit. Actually this focus on OpEx and CapEx remains 100% present in E&P opportunities either in our projects or in the existing operations where we have always focused on the margin of each one of our concessions ultimately aiming to optimize our operating costs.

In a nutshell for this year, we have a significant ramp up of production units in the pre-salt. This remains. We had a decline which is under control. We continue with the PROEF work, the operating efficiency improvement program. As mentioned, we reached an efficiency average of 91% in the whole of E&P exploration and production. In the half, the potential

per well in the pre-salt areas, some getting close to 35,000 barrels of oil per day. So with that we understand that our targets are quite achievable. Thank you very much.

I now turn the floor back to our CEO, Ms. Graças Foster.

Maria das Graças Silva Foster {BIO 15034303 <GO>}

Thank you, Formigli. So now we will talk about the cash flow assumptions for Petrobras, projections for 2015. As for oil price, our projections are that the price will range from \$50 to \$70 per barrel. Current oil levels are favorable to the company in this time horizon of 2015. Our oil production forecast for the year as mentioned by our E&P officers, 2.105 million barrels to 2.146 million barrels of oil, plus 4.5%, plus or minus 1%.

As for the exchange rate, we work with R\$260 to R\$280 per dollar. Average ARPF basic oil products have around \$80 per barrel. As for our price policy, gasoline and diesel prices will be maintained in 2015. Regardless of differences of our prices compared with international prices and this means an exceptional recovery of result for us based on the sales of gasoline and diesel. We will have a slight loss of market share, but in some situations that can be advantageous.

And we're reviewing our policy for all other oil products, fuel, oil, asphalt, and industrial LPG. CapEx is very important and we will reduce the pace of projects that bring low or no contribution to Petrobras' cash in 2015 and 2016.

In Downstream, we're reducing the pace of investments in Comperj refinery and all of the infrastructure associated to Comperj, the refinery in Rio de Janeiro. In Gas and Power, we have the fertilizers plant with 85% completion. It's not functioning at the moment. We did not come to an understanding with the consortium that is building the fertilizer's plant. So we stopped the contract and we're now preparing for another bidding process. We will conduct the process with a necessary speed and agility. And in Exploration and Production, we will reduce the exploratory portfolio to the minimum necessary.

As for optimizing CapEx for 2015, our projections point to something between \$31 billion to \$33 billion this year.

Working capital optimization for Petrobras, we are working very strongly with the Brazilian federal government to get guarantees for the receivables from the power industry. That will allow us to negotiate these credits in the financial market at the right time. Minimum cash that we consider - minimum operational cash of approximately \$8 billion.

Cash flow for 2015 - in our opinion, we believe that we can go through 2015 with no need for additional funding. We begin 2015 with a balance of \$25 billion, operating generation to \$28 billion to \$32 billion. Now, that variation is obviously resulting from Brent and exchange rate scenarios, like I said Brent between \$56 and \$70 and exchange rate between R\$2.60 and R\$2.80.

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January has been quite favorable for us in 2015. It's important to make this very clear. The average is so far \$48 per barrel for Brent and exchange rate average R\$2.63. We expect the dividends, amortization and interest between \$16 billion and \$18 billion.

CapEx - it's important to observe this. This is what we planned in the business - planned for 2014-2018. The average would be \$42 billion per year. So we are seeing now a reduction relative to our business end management plan. Now the plan considered \$31 billion to \$33 billion. We will be investing \$31 billion to \$33 billion.

Divestment \$3 billion by year-end. Very similar to what we did in 2014 which was \$3.5 billion. And based on these conditions by year-end, depending on the exchange rate and the Brent oil price, we will get to a minimum operational balance - final balance of \$8 billion to \$12 billion.

So to finalize as for the corporate governance improvement at Petrobras, the company continues to improve its internal controls and we are having a number of discussions to adjust and improve our internal controls. As we've said recently, we have 66 measures to improve governance, control and risk management. And these were deployed and implemented during 2014. Many others are still being implemented. They are documented in standards and minutes of the top management meetings and in the board meetings that establish procedures, methods responsibilities and other guidelines to integrate such measures into the company's practices.

We created in record time for Petrobras in less than two months the position of Executive Officer of Governance, Risk and Compliance. The aim of this post is to mitigate risks in Petrobras activities, including fraud and corruption risks, ensuring compliances of processes to law, norms, standards and regulations. On the 19th, the Director of Governance Risk and Compliance took over, Mr. João Adalberto Elek Junior, an engineer. This was a unique process at Petrobras as it was a selection process conducted by a specialized firm and he was elected from a list of three candidates submitted to the board of directors.

We created also a Special Committee reporting line comprising Mrs. Ellen Gracie Northfleet, retired Chief Justice of the Brazil Supreme Court; Mr. Andreas Pohlmann, Chief Compliance Officer of Siemens AG from 2007 to 2010. And as part of the reporting line, we have our Compliance Officer, João Elek. So this Special Committee will be reporting directly to the board of directors. And they will be reporting all of the results, findings and conclusions of our internal investigation and also the investigations being conducted by TRW and Gibson Dunn, which we hired in December of 2014.

With this, I would like to thank you for your attention. And we remain available to answer your questions. Thank you very much.

Q&A

Operator

We will now begin the Q&A session. We would like to ask you to kindly be limited to utmost two questions. Questions should be made consecutively so that executives may answer them afterwards. We kindly ask you not to use the speakerphone. We inform that questions in English will be translated into Portuguese for the executives of Petrobras. Their answers will be translated to English.

Mr. Bruno Montanari, Morgan Stanley would like to ask a question.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good morning. Thank you for the opportunity. I would like to understand the profile of the projects that had a negative assessment in the fair value methodology. Out of 31 projects with a negative appraisal, how many of those were evaluated by Petrobras? How many by independent evaluators? And how many are linked to Downstream? My second question has to do with dividends, what is the company's opinion about minimum dividend payout for preferred shares in a situation where you would be operating with a - very close to minimum operating cash?

A - Operator

I will start answering the first question and then I will turn the floor to our CFO. We had 52 assets selected and evaluated. Mario is close to me and he is helping me regarding which assets in which areas I haven't got that on the top of my mind, but most of the assets are in Downstream. That's the majority followed by E&P, followed by - yes, Mario - well, I just got the figures. Help me out with the figures please?

Right, so I got all details here. 13 assets, 13 plus 11, total of 24 assets evaluated by independent consulting firms and 28 assets evaluated by Petrobras, but again, following the assumptions and the models presented by independent evaluators. Of these independent evaluators were in charge of those more complex, higher CapEx assets, for example, refineries RNEST and Comperj were evaluated by one of the independent evaluators. I don't know if I answered your question about these assets, Bruno.

Q - Bruno Montanari {BIO 15389931 <GO>}

Yes. Thank you. I just want to know among the negative assets, which ones were evaluated by Petrobras?

A - Operator

I have this information here, I've just seen it. You mean the negatively assessed assets, it is the difference. Write down of assets 13 assets in Downstream, 13 assets in Exploration and Production, and four assets in Gas and Power that had a fair value lower than book value. They add a total R\$88.6 billion. Now, we have those that were evaluated higher in E&P six assets that had a fair value higher than book value in Gas and Power, seven assets fair value higher than book value; and in Downstream, eight assets with fair value higher than book value, totaling R\$27.2 billion.

And I now turn the floor back to Barbassa.

A - Almir Guilherme Barbassa {BIO 1921476 <GO>}

Bruno, as for dividend payout. In a normal business-as-usual situation, I guess that you know quite well what is our dividend payout policy? We are required by a law to remunerate our preferred shares and to ensure 25% dividend payout. However, there is a possibility, which is not really being considered at this point, but it might be considered in the future, which would be the following. If in the corporate law, if it is considered that the company is under financial stress, there is a possibility that dividends will not be paid. This is an alternative that might be considered depending on the appraisal of the financial situation of the company.

Q - Bruno Montanari {BIO 15389931 <GO>}

Perfect. Thank you very much Barbassa and Graças

Operator

Mr. Christian Audi from Santander would like to ask a question.

Q - Christian Audi {BIO 1825501 <GO>}

Good morning. Thank you very much. Two questions. Ms. Foster, first question has to do with – well, I'm trying to understand because on the one hand as you explained 52 projects were selected for R\$182 billion, but please correct me if I am wrong, I understand that this number may potentially grow if investigations continue. However, on the other hand the company as Officer Barbassa's just said has a deadline related to the bond that is May 30 or June 30. So what I am trying to figure out is this challenge that you have in terms of publishing your reviewed financial statements, how will you convince Pricewaterhouse for instance that this R\$188 billion is what they should consider, although it may grow despite the deadline that you have with bond. So I know this is an awkward situation, I'm trying to understand how you can potentially solve this problem.

And the second question goes to for Formigli on production. Thank you very much for the details on slide 14 of the diverse impacts on production in 2015. Owing to the lower CapEx in 2015, is it possible that production will be lower or because oil prices will be lower, some projects were not considered or well, really the structures that you have listed that brought the production target down? I'm trying to understand the impact, is this a temporary impact in 2015, or is it perhaps something that will wash over the rest of the year and then into 2016 and 2017?

A - José Miranda Formigli Filho

Christian, R\$188.4 billion, 52 assets and those 23 companies that were mentioned by the Lava Jato Operation. So the answer is not easy because it depends on time and it depends on how all these processes and investigations will work out with the federal police, et cetera. And we have no influence on the speed of these processes. Very honestly, if we have further depositions that points to other companies, we will have to break this number down further and this number will grow. So what I can tell you is that R\$188.4 billion includes the company's largest assets that are under discussion, refineries et cetera. So this number is not final because it actually depends on the number of

companies that the public prosecutor's office has mentioned. So if the number of companies is higher, this number may grow.

Q - Christian Audi {BIO 1825501 <GO>}

Now, Ms. Foster, are you already engaged in more detailed discussions with the bond holders and creditors to obtain perhaps a waiver in the event that by May or June you will not have been able to publish this reviewed financial statements? Would you be able to get an expansion of this deadline?

A - Maria das Graças Silva Foster {BIO 15034303 <GO>}

Well Barbassa is going to update you on that because we are on this minute-by-minute. So Barbassa is going to update you.

A - Almir Guilherme Barbassa {BIO 1921476 <GO>}

Christian, yes, we are engaging in conversation with bilateral creditors who are - well first in line. And we have already announced that for January 30, we had an obligation with one of these creditors to submit a quarterly financial statement, reviewed quarterly financial statement, and we have obtained from this creditor the possibility of not doing it. And now that we have a new hurdle ahead to produce reviewed annual financial report and over 120 days, we of course will keep in our dash board that the continuity of these discussions is extremely important, so that at the right time we will be able to gain more time if necessary. But the company is really working to comply with the deadline to submit the reviewed annual report. Obviously, there are other elements that escape our control. And this is why we must always play it safe and - or thinking about alternative solutions. Thank you.

A - José Miranda Formigli Filho

Bruno, Formigli. I'm sorry Christian, Formigli. So as regard to your question, the target of 2.125 million bpd is P-50 is very sound. And this great realism in this figure and this is what we always try to do. This target is key and we know it's key to comply with it so that we will have some predictability for in terms of funding of the company and is precisely with this in mind, that it's not a physical target but a target that will lead to a financial flow that will support the projection that the company needs in terms of funding. This has caused us to be very realistic and I'd say that we were as realistic as possible.

In the case of Roncador, for instance, a negative impact is very apparent. But we were very conservative in this case, that is there is the expectation that obviously will be reversed with water injection and the potential will be lowered and the search for new locations. But this was - this will be used to really find a solution and we were very conservative.

Now, in terms of CapEx reduction owing to Brent oil price versus Brent oil and the projects, the answer is no. All of these wells that you see in this bullet, 69 producer and injection wells, these are precisely the wells that were originally envisaged because the equilibrium in terms of Brent in our projection continues low, and as the CEO mentioned between \$50 and \$70. So there is no indication that we will change plans in terms of CapEx. Obviously, we intend to derive benefit from some of the services associated with

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deployment of this project as a reflex of the lower price. Whatever we hire and we deploy over the short term. If you look at the market today we're working with lower price, for example, the latest array of rigs that we hired already show this lower oil price and we capture this benefit. And we are also paying a lot of attention to our operating cost because our margin needs to be positive in terms of these values.

And if you look other financial statements, you will see that our lifting cost, it was \$14.7 per barrel. And when we add, the government interest is \$31.37, so our average in the nine months, in the year to nine months, there is a gap towards the oil price. And it was calculated over the first nine months, and the denominator of production was lower. Now the denominator of production is higher. These costs will trend downwards. And as we said, and we pre-salt, we have managed to have \$8 per barrel, \$9 per barrel. So this pulls it down and there is a fantastic good effect on the margin of E&P. I hope I had answered your question.

Q - Christian Audi {BIO 1825501 <GO>}

And Formigli, if I can add to my question, nearly three years ago we started hearing the company projects geared at cost reductions.

A - José Miranda Formigli Filho

So we have the PRC for well reduction costs and reduction of sea equipment and the operating expense optimization program that saved R\$10 billion. So at this juncture that we have to tighten the belt like crazy, we are very well-trained in terms of cost reduction solutions and we're always trying to find places to cut cost. So we're very well-trained. We've had three years of excellent training in this in terms of pursuing cost excellence. And now that we have been to oil at \$50, we are on the game. And so we're going to secure better margin in terms of oil price. Thank you very much.

Operator

Mr. Luiz Carvalho from HSBC would like to ask a question.

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

Good afternoon. Thank you. I have a question about dividends. In the presentation you mentioned dividends and amortization between \$16 billion and \$18 billion. I'd like to understand - to know whether you could breakdown what is dividend, what is amortization, what is interest payments because we have \$7.5 billion in amortization and \$7 billion in interest payments and so that we would have \$3-billion-something for dividend payouts?

And the second question, now as regards to production, we've talked a few times about declining production, if it would be by field or by well. I'd like to understand, to what extent this new oil price level will impact or will determine the shutdown of certain units if this price continues for a longer period. And how this will influence the decline of more mature fields, which perhaps have a breakeven above the realization price? And how

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economical it would be to start up new wells? Would it be as interesting as it was in the past?

A - José Miranda Formigli Filho

I apologize I didn't get your name.

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

Luiz Carvalho from HSBC.

A - José Miranda Formigli Filho

Okay, Luiz. Good afternoon. This is Formigli. So I will start with our second question. So what you asked was the lower price - will the lower - this lower price lead to shutdown of certain units where production costs will lead to negative margin?

Well, what I can tell you is that if we've got a long-term projection where costs prove prohibitive in terms of margin, obviously, it is not because of the lower oil price that we're going to stop this. This is part of our analysis, but we're also looking for alternatives to continue well production or field production with layout optimization that will enable us to keep wells producing and avert an impact on production and keep OpEx down. So Marlim Sul, for example, we see a short term reduction and this reduction happens at the moment where oil prices are down, we have reconnected these wells to units that have available capacity P-56 and P-51.

And in the second half we'll see a recovery. And with this recovery, we will produce oil against the backdrop in which oil prices will move up again. So it will minimize this impact on production. Another example that I'd like to mention, a recent example, for instance some in the concession of the south area of the Campos Basin P-12, we realized that we have a production of 1,700 barrels and we saw that we can produce oil at a better cost than what we have at the moment. So what have we done? We have worked with A&P (01:09:19) to decommission this unit. And we are adopting a new production idea in the area that will enable us to come back with production in that area at a more competitive price or cost.

And another analysis if you look at Marlin, before oil prices went down we already had two projects to revamp (01:09:48) Marlin and we will replace all units in Merlin with two of greater production capacity oil and liquid capacity. And this - the cost will come down. Onshore this is the day-to-day reality. We're always looking at concessions where we do not have a long term analysis that will enable us to continue. So if we see that the market is not there for that kind of concession to be sold, we give it back to A&P (01:10:34). We're not going after production, oil production that doesn't provide a positive margin be it new projects or existing projects.

And I'll now pass the floor to Ms. Foster.

A - Maria das Graças Silva Foster {BIO 15034303 <GO>}

Mr. Carvalho, we've always broken down dividends, amortization and interest payments in previous fiscal years. And since we're talking about projected cash flows for 2015, we will choose not to break this down this time. Not to induce the market to work out the year's income. So this is something we're doing in the first year of - in first months of 2015.

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

Thank you very much. Formigli, just a last follow-up, was this new production target, do you intend to do the curve and when will the strategic plan come out?

A - José Miranda Formigli Filho

As regards, a date for the PNG (01:11:51) we are still working internally with finance ability, which is the main driver over the short-term. And then we are going to look at the projection curve for the coming years. Today this production curve is - has become a priority in terms of the investment that we will continue to be made. So E&P has this priority but obviously the price scenario is what the CEO has announced \$50, \$70 in the short-term and the E&P projects are being tested and then will be deployed.

I will pass the floor back to Ms. Foster and she is going to add to this answer.

A - Maria das Graças Silva Foster {BIO 15034303 <GO>}

Luiz Carvalho, last year 2014, we informed that the market in 2014, two very important planning points. The business plan, the business and management plan BP, and also our strategic planning stretching all the way to 2030. Now, this year it is not possible to disclose our BP 2015-2019, either in February, April or May no chance.

We suppose that by June, by the end of the first half of the year we will be more sure about some variables such as exchange rate, oil price, and all of the consequences of the Lava Jato Operation. I guess that it would be too premature and it would be difficult to present a management's plan so soon. It wouldn't be solid. However, we believe that by the end of the first half, we'll be ready to present the business plan, one that will be as robust as it should be.

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

Thank you very much Barbassa and Formigli.

Operator

Mr. Luiz Otávio from Agora CTVM would like to ask a question.

Mr. Ivan Fernandez (01:14:22) from Pictet Asset Management would like to ask a question.

Thank you. My first question is regarding independent consultants. I understand that there is not full compliance with the SEC requirements. What would need to be done differently?

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Could you please repeat the question, the sound was cutting off. Please speak slowly, the sound is cutting off.

I do not understand the problems regarding the fair value method that you used. You said that you're trying to change the method so that it will be compliant to CVM and SEC requirements. I want to know why is it that it cannot be used. It would be advantageous for the company. It would exempt the company from possible depositions that might still be made under the Lava Jato operation.

Still I found it difficult to understand, but you're cutting off unfortunately. But let's try, let's give it a go. Like I said, regarding the work that is being done by independent evaluators, we are using renowned people to do this, internationally renowned people. What we are seeking is to have more accurate information regarding the actually or potential values related to corruption and overpricing. Like I said, there's a huge set of variables. And we believe that it would not work as a proxy to rectify the error. According to IAS 8, it would not be possible to do it. In addition, in Brazil, we cannot make adjustments about assets, so we cannot correct the book value of the assets using this method of fair value. This is forbidden. So we were looking for a proxy, an adequate proxy, so that we would be able to rectify this error in our balance sheet.

I would like to ask Barbassa, if - do you have any comments to make about this, all of this maybe, anything else to add?

Well, my second question is, I read news saying that by publishing unreviewed reports that were non-compliance with IFRS requirement? How would you react to this kind of comment?

I really apologize. Could you please repeat your question slowly? You see, your sound is cutting off and we're not able to understand what you're saying. If you speak slowly please, we might be able to understand you.

I apologize. I will speak slowly. I read news where it has been said that because you mentioned in the press release, they are not all elements in this appraisal are compliant with IFRS rule. And we read indenture of - the indenture in question, you would be in technical default because you would not be compliant with the requirements by IFRS. So I would like to know how would you react to that in case you were notified of this breach of compliance.

A - Almir Guilherme Barbassa {BIO 1921476 <GO>}

Ivan (01:19:09), this is Almir Barbassa speaking. Well, this is the opinion of one person. The company's opinion is that we are in compliance with the covenant. If a creditor disagrees, we are naturally going to speak with them to make sure that we are on the same page. But I cannot explain somebody's opinion. It's impossible to do it.

Q - Operator

Thank you very much.

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Mr. André Sobreira, Credit Suisse, would like to ask a question.

Q - André Sobreira

Hello. I have two questions probably addressed to Barbassa. I would like to go back to dividend payout. Earlier today, you said that it would be possible to pay zero dividends. So I would like you to elaborate please. In the case of preferred shares, you would need to declare the dividends. And perhaps, you might pay it later, restated by the (01:20:29) or can you declare that it is zero. In the case of common shares, I think, it is understood that it might be zero payout. So I just want to see how you see this and to understand how you see this? Second question is regarding bond covenants. By mid-year, your financials have to be reviewed, audited, right, or can the financial statements be audited with a qualification by the auditors? Would this be enough to comply with the bond covenants?

A - Almir Guilherme Barbassa {BIO 1921476 <GO>}

To answer your first question about dividend payout, I would need to check on the alternatives that we have at hand. I believe that it would be something related to declaring unpaid dividends. So it would be something like a future payment. But again, this needs to be checked. I'm not sure that I can do this under a stress situation. What I do know is I have an alternative, a choice not to pay. That's all I can say for now.

Now, your second question was - oh, regarding a qualification to reviewed annual financial statements or balance sheet. Depending on their qualification on the caveat, if there is a caveat but it is being addressed, it is possible. What I cannot have is a caveat on a situation which is not being duly addressed, okay.

Q - André Sobreira

Okay, thank you.

Operator

Mr. Gustavo Gattass, BTG Pactual would like to ask a question.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good afternoon. I have two questions? One to Formigli and one perhaps addressed to Barbassa and the whole team. Regarding the E&P question perhaps it should be broken down into two pieces. The first part is, couldn't you maintain production at the December level, because I guess that what your showing is, it's quite a weak scenario for the ramp up of the other units for this number to fall to 2.125 million barrels that's my first question. And as for P-55 and P-62, in particular, could you elaborate could you give us a color in terms of to what point can we go. For P-55, will it be 55,000 barrels, P-62 33,000 barrels. So there is a huge amount of capacity to grow, right. I just want to understand, can you increase production a little bit or is there room for that or not?

On the financial side, I would like to go back to that slide about cash flow. And I would like to understand on slide 16, if all of that happens, the starting point for 2016 would be

right there at the cut-off and during the year you would need to be using all of your cash reserve, the cash reserve that you have now. It would be something like \$15 billion less compared to today's cash. What are you thinking for 2016? Can you reduce investments by another \$15 billion? I just want to see how you're thinking about the future, about 2016?

A - José Miranda Formigli Filho

Gustavo. this is Formigli. Okay. Why is it that we cannot keep up the production of 2.2 million barrels, which is the level that we reached in December? Why are we expecting an average of 2.125 million barrels per day? Well, what's happening is in the case of P-55 and P-62 we're talking about 100% Petrobras oil. The impact that we're considering in a conservative fashion in terms of production increase associated to the potential of the new wells to be interconnected is relatively high. I cannot tell you how much it will grow per platform because we do not do this kind of projection. You know that.

But we are been quite conservative in our forecasts. Why are we being conservative, because we are taking into account fundability. We do not want to promise oil and then we are not able to support the fundability that the company needs to sale through 2015. This year we expect some scheduled maintenance more than last year, more scheduled stoppages.

Last year, if we do the math, we had about 30,000 barrels of oil per day on average of scheduled stoppages. This year we are expecting more. More than 50,000 barrels of oil per day of scheduled maintenance, why, because we want to continue to increase our efficiency. We have no way out. No other alternative. And a good deal of the new oil ramp up which is not in P-55 and P-62 is where P-61 where the startup of the wells is not fast given the characteristics of the platform. We cannot have a high ramp up. We only have one way of working there. Working with a rig in a well below the template, I cannot add any more rigs. This is physically impossible.

And another possibility would be the pre-salt. In the pre-salt, we continue to have projections where we do not include those numbers 30,000 barrels, 35,000 barrels. We use the average 20,000 barrels, 25,000. Are we having good results? Excellent results. But here in the pre-salt we have partners. So we interconnect an excellent well, but on average when we consider Sapinhoá and Lula, we get about 50% production, P-45 and P-65 (01:27:56). So that makes the ramp up of Petrobras' own production, although, we are interconnecting a lot of operated wells; the growth of operated production will be lot higher than what we are disclosing. But this is what we are announcing now. And again I stress, we are being conservative so that we can make all of the calculations regarding cash flow at the current conditions and that will support what was shown by our CEO, Foster actually by Almir of proceeding with no funding from the market.

We are working a lot to have some gains, to enjoy some gains and I believe that we will. But this is the figure that we have to announce at present so that you analysts can do your analysis the way you see fit, which I hope is similar to our way because today we're being quite robust in our fundability planning.

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A - Operator

Gattass, I would like to answer your second question, the starting point of 2016. That will depend fundamentally on how successful we are in 2015. But the fact is that 2016 will be clearly included in BP 2015 through 2019. The essence of this plan is moving forward with Petrobras' growth; that's the core business. Our pace in 2016, well, I'll have more room than I have in 2015 and we'll work to reduce investments. Petrobras will revisit its growth and I will have more room in 2016 and 2017. We want to avoid getting more debt. We want to avoid getting more debt to meet the demand of all investments. If E&P was a priority, today, it is becoming even more even a greater priority and we're being very selective in the area of E&P. Projects which are less attractive in E&P will go to the end of the line. So 2016 will be contemplated in the business plan for 2015-2019 and the essence is to revisit Petrobras' expected growth for the coming years.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thank you. If I may make a suggestion, I know that you're thinking about revisiting the business plan for 2015 through 2019 to be released for mid-year. But impression I get is that perhaps the starting point will be so mild that for fundability purposes, it would be a lot more comfortable to have an understanding of what we can expect for 2016 because if growth is very little, it will be very difficult to make the cash flow of the following year be comfortable.

A - Operator

Gattass, you are totally correct. And we will be speaking about 2016 before we inform you about the BP for 2015-2019. Thank you very much.

Mr. Pedro Medeiros from Citigroup would like to ask a question.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Good afternoon. I would like to ask a follow-up question related to Gattas' question. The guidance by the company was that flexibility of investments in 2015 was low given the way the contracts were signed with suppliers. Can you elaborate on how adjustments for 2015 will work given the conditions stated in the contracts? And the kind of review that you're doing will perhaps entail some reviews 2016 as well. Could you predict the reduction given the current contracts? That's my first question.

My second question which is related to the first is, can you state the impact at the delivery data of second train for RNEST and the platforms expected for 2016 and 2017? Finally, my third question a follow-up regarding what Formigli said about P-55 and P-62 in the base scenario for the company in 2015? I just want to get confirmation. I want to know whether the base scenario includes production of these platforms lower than the 98,000 barrels which we currently have. Thank you.

A - Maria das Graças Silva Foster {BIO 15034303 <GO>}

Pedro, this is Graças speaking. When we talk about reducing the pace of Comperj in 2015, there's a lot of infrastructure involved, surrounding infrastructure, I mean. And all of that

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means contracts that are in force and they're being reactivated. So it is possible that we will be making changes in 2015. The fertilizers plant 3 in Tres Lagoas, it was at 80% like I said, but we stopped it and we are going to try to be more competitive in the bidding process to complete the work. There's very little to be built. But we want this to be advantageous for Petrobras. And not necessarily working with the companies that were working there and according to amendments that they required from us, we will manage this in time and in the values that are interested for Petrobras.

In E&P, we'll revisit the exploration portfolio and we'll do it all in 2015. So in 2013 and 2014 we conceived options for that. And in 2014 and 2015, we have adopted solutions that we did not imagine would be possible back then, and they have been possible. Of course, we run into a number of questions by our suppliers, but Petrobras needed to do what we are doing, which is to revisit our investment portfolio.

I will turn the floor to Formigli to finish answering your questions about the platforms.

A - José Miranda Formigli Filho

I will be very direct in my answer. The average for 2015 for P-55 and P-62 is not lower; it is higher than the current production level of these two platforms together, that I can tell you.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Great. And as a quick follow-up question, any new forecasts for the second RNEST train. And a final question if I may. Is Petrobras discussing possibilities to get funding from a strategic partner following the example of finding Chinese partners that you had in the past?

A - José Miranda Formigli Filho

Cosenza will answer your question about the RNEST train. RNEST is similar to Comperj. We are reevaluating the contracts with companies involved in Lava Jato Operation. We are still looking into this. We do not have a deadline to start up the second RNEST train.

A - José Carlos Cosenza

About funding, Pedro, as you very well know, we're always looking at every opportunity, so that we can find the best one for funding the company. So, this is how we do it. And at the moment, we cannot tell you what it is that we're looking at.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay, great. Thank you very much.

A - José Carlos Cosenza

Well, Pedro, I'd like to add that with the write down of Premium I and Premium II there will be an impact on the assessment of Comperj and RNEST so this is an extra element that went into the study, this assessment study.

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Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay, great. Thanks a lot.

Operator

Mrs. Paula Kovarsky from Itaú BBA would like to ask a question.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Good afternoon. Well, I'd like to understand - we're finding it hard to understand what has changed in these terms. Early last year there was the decision not to do the economic impairment of RNEST under the argument that it was being looked at through the company's portfolio. And now this thing that was done to this study for the fair value, the methodology to determine write-offs, you worked it out and every project was considered a standalone without taking into account any benefits or any synergies and no benefits from Petrobras integrated portfolio. Along the line what we said before apparently RNEST and Comperj are at the top of the list and very likely account for a relevant part of this difference so there you have not disclosed that to us, I mean, the amount for each projects.

So what I'd like to understand is, first, if it is R\$88 billion or whatever it is the difference between fair value and book value for Comperj and RNEST, logistical synergies and benefits can offset this difference, so we're talking about R\$50 billion in synergies. So I'd really like to understand these concepts. I know there from the accounting point of view things are different, so I'd really like to understand how you've got to this numbers.

And beyond that when you talk about write-off, clearly, there is a mix of things as you have explained, so there is a combination of the effects from corruption from other pricing and project management et cetera - I think the call end abruptly. As if RNEST was an example to be forgotten, so I'd like to understand what has changed? How do you set these things apart because at the end of the day, part of this write-off really has to do with this new fact which is investigation, but part of the write-off was already on the table and obviously, it was not processed? So if you could help us understand the rationale behind this combination of things?

And a very quick follow-up on dividends. The issue here of zero dividend payments for preferred stock, what we read in the rule is that you report payment, but you did not make payment immediately. Only when you have - when you're in a position to make, but you're forced, you're obliged to report dividends.

A - José Carlos Cosenza

Paula, Cosenza. Hi. Well, the difference that we have in fair value versus our criteria that we used of combination of assets in addition to the issue of integration, we didn't look at these things isolatedly. We always look at the whole thing as a whole. And this is what is the real strength of integrated companies such as Petrobras and others. So we don't see it like that. And additionally, the differences between one criteria and another and this is confirmed has to do with the discount rate. And this adds reasonable difference and

effects value of assets. And on the market side, we see a significant change looking ahead and so much so that the reason for the write-off is the change of the market.

And the issue of logistics synergies among refiners, what is the benefit from synergies? This is not only the exchange of projects among the various assets, but investments that are avoided. When we look at this integrated model, we take into account all the investments that we are out to make. And if we - they can be offset by exchange of projects, this will cut our CapEx. We have a number of recent examples that are about to be implemented of investments that were avoided, because we are an integrated company. So to us, a standalone system has nearly no worse, because it doesn't make sense for a standalone refinery, it's worth a lot less than when it's part of an infrastructure like we have.

A - Maria das Graças Silva Foster {BIO 15034303 <GO>}

This is Graças. I'd like to add what Cosenza said, this report, these three reports of the two independent appraisers and one by Petrobras that used the same spread sheets, the same assumptions. When we did not convince them on a certain discount rate, we were convinced in principle because we were the ones having those independent appraisers. So it wouldn't make any sense that they were hired and that I couldn't convince them and they ended up using my rate. So this is what went in the analysis of those 52 assets that we looked at.

Now, we are delving these three reports come to my hands, last Tuesday or last Wednesday. I think it was last Wednesday, so the teams are fully dedicated to looking at everything that was done in Petrobras. But it doesn't mean to say that we won't write-down any values, no. Cosenza explained about synergies. But if need be we will write-down these assets that require that in addition to these synergies that are invaluable to any integrated company like Cosenza said, if need be we will do the write-offs.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Now, talking about the impairment, because here in Brazil, I cannot use fair value to correct book value. No, the reason behind the question was to try and better understand if what is possible, how the process can advance in terms of the correct methodology in as much as from what we can understand. Correct me please if I wrong. You have - agreeing on a methodology, is there any critical milestone for the company and its auditors to come to terms and have a reviewed financial statement at a certain point?

A - Maria das Graças Silva Foster {BIO 15034303 <GO>}

We're just trying to understand the past. This is the challenge and this challenge is not at all easy, it's not trivial. So we're working very hard, we're delving into these numbers and those reports, together with our auditors and Price auditors. And we still have to talk to the CVM and the SEC. So this is a huge effort. Obviously, we are steering the process of auditors who are investors' eyes within the company, they must know that we are on the right track and we must convince or we must comply with the requirements of CVM and SEC. But it's not easy. This is why it's not ready.

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We are working around the clock from the day that we overshot our deadline to have our financial statements reviewed. It's around the clock, we do not stop, it's Saturday, Sunday, everybody who is involved in investigation were setting up a new office for governance and we're hiring these internationally-renowned companies for these independent reports. So, it's not trivial, it's not simple, but it must be done. And every day, we have one less day and at the same time, we're trying to rewrite Petrobras, Petrobras according to its new portfolio of projects. This is the challenge that we are embracing and we are embracing it as we can. And it's not easy.

Q - Paula Kovarsky {BIO 15363001 <GO>}

I'm sure it's not. But would it be correct to state Graças that except for the possibility of including new projects if new companies go into the Lava Jato Operation, the R\$88 billion are the worst scenario.

A - Maria das Graças Silva Foster {BIO 15034303 <GO>}

Well, these are the big projects that are here. And they are continually challenged and questioned internally and externally. I do not know what's coming from Lava Jato, but I think the figures that we've got in our hand represent, I can say the totality, but most of the major projects that might lead us to have write-offs. And this is the portfolio that we have. We have a very realistic number and justified number.

Q - Paula Kovarsky {BIO 15363001 <GO>}

And there was just another question,

A - Almir Guilherme Barbassa {BIO 1921476 <GO>}

Paula, Almir, dividends. The alternative that I see open us are zero profit, but we don't report that. If we have the profit, we can report and not pay, but for this I need approval by the shareholders' assembly. And I understand that in the previous question and we're looking at that that if we report a profit, if we earn a profit but not report it, I'm looking into that. And for all practical effects, what you said, the profit I report but not pay, this is a possibility. So in the absence of profit, I will not report and I will not pay including preferred stock. Well, if I earn no profit, I am no - I am under no obligation of paying dividends.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you very much.

Operator

We now have a question in English. Mr. Frank from Bank of America Merrill Lynch will ask a question.

Q - Frank McGann {BIO 1499014 <GO>}

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Okay. Good afternoon. Thank you very much. I was wondering if you could discuss two things, one, the cost of the investigation. My understanding is sometimes these investigations as they go on get quite expensive. And so I'm just wondering, on a quarterly or annual basis, what you - how do you see the cost and how long do you think it will take to complete the investigation being done by the independent law firms?

And then secondly in the release you discussed the possibility in order to help with cash generation to potentially sell some assets depending on market conditions, of course. And obviously this could take a while and it could take some time, but given the high level of debt that the company has, it might be possible to reduce that debt fairly significantly by selling some assets and the company has a very large portfolio of assets. And so I was just wondering how you are viewing that and the potential to sell some assets to help reduce the level of debt at least over time?

A - Operator

Good afternoon, Frank. Considering all of the parties involved, the firms hired here in Brazil, and they are supporting us in terms of having an audited balance sheet to get to that audited balance sheet and to disclose this abroad and considering all of the class actions plus the investigation that we're conducting here internally at Petrobras by TRW and Gibson Dunn law firms, and considering the reporting line, which includes former Justice Ellen Gracie, Mr. Andreas Pohlmann, former Siemens in our new Governance and Compliance Officer.

For 2015, we are talking about R\$150 million. That would be approximately the cost involved and all of this investigation and all of those work of legal support and investigation that Petrobras is getting, both abroad and in Brazil.

As for the period of the investigation, this is a question that I keep asking whenever I'm with TRW and Gibson, but they tell me, oh, this is an independent investigation. I know I can't even talk to them. It is independent, but I need to know a deadline. They claim that a company as big as Petrobras, according to them, the period can take one year to two years, perhaps a little longer.

Smaller companies, but companies that are similar to ours in size took about two years to conduct such an investigation. This investigation has a number of layers. The main one, the more urgent one is the one involving the top management of the company. The CEO of the company, the top management, the officers, executive managers, and this has been the priority adopted by the law firms that are investigating internally. There's a lot of IT involved here, IT services that were hired by these law firms. This cost is included in this R\$150 million for 2015.

Sale of assets, yes, we're considering that since 2011 in the business and management plan 2011 to 2015, and in the successive BPs, 2012-2016, 2013-2017, 2014-2018, we always considered the possibility of selling assets. In this year, sale of E&P assets with the oil price at \$50, perhaps stretching to \$70, close to year-end, according to our projections, it would not be recommended to sell E&P assets. These are good assets, we'll hold onto them as long as we can so as to make a good business with the sale of E&P assets when the oil

price was at \$100, \$110. We don't see the oil price at \$100 or more in the coming years. But selling E&P assets at \$50 a barrel is totally out of the question.

Barbassa would like to add to my answer. Go ahead, Barbassa.

A - Almir Guilherme Barbassa {BIO 1921476 <GO>}

Just a minute please, I just want to add to the answer to Luiz Felipe's and Paula about the possibility of the company having a profit and not reporting it tonight and I have the possibility, I can be profitable and not report dividends. But in that case, I need to have a special reserve for that. In that case, I would need to have an expert opinion from the board, the fiscal committee and the shareholders' meeting of course. So I may not report dividends and come up with a special reserve, I just wanted to add to that answer to the question. Thank you.

Operator

Thank you very much. We are now closing the question-and-answer session of Petrobras conference call. I will turn the floor back to CEO, Graças Foster for her final remarks. Ms. Foster.

A - Maria das Graças Silva Foster {BIO 15034303 <GO>}

Well, ladies and gentlemen, I would like to thank you for your attention. And I would like to stress that the kind of work that we are doing has been quite intense. It started in 2014 and stretching on through 2015. Indeed the effects of the Lava Jato Operation and the effects of fraud and corruption, being quite harmful to everyone and its hurting the morale of the company as well. But our reaction has been one to face the problem.

We want to overcome. I have been permanently with the Petrobras team with our 85,000 employees, I have speaking with them, talking about this. This is something that has marked the history of the company. But it also moves forward our teams, it also drives our teams because we are devoted to finding solutions even if these are difficult decisions to make, because we need to keep the company operating as it is.

2014 was a year of records for a team that is always there painstakingly working. And now with the creation of our compliance office and now by tightening the belt, as we are doing in trying to contain spending in the company, reducing CapEx, reprioritizing, redefining Petrobras, its size - how big we can be in a solid, healthy and safe way. Well, all of these are work fronts that we're addressing.

We are being very, very relentless in our effort and I am sure that we'll come out of this being a lot stronger with a new reality and with positive responses, the positive responses that our workforce has been giving us. I can all say thank you and so that we will continue to work and we will continue to overcome all of these challenges that we are facing. Again thank you very much.

Operator

Ladies and gentlemen, the audio of this conference call for replay and slides presentation will be available at the Petrobras' IR website at www.petrobras.com.br/ir. This concludes today's conference call and webcast. So thank you very much for your participation. Please hang up and have a great afternoon.

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