Second quarter 2015 Results
Conference Call / Webcast Transcript
August 7, 2015

Operator:

Good morning, ladies and gentlemen. Welcome to Petrobras conference call with analysts and investors for the presentation of 2Q15 results.

We would like to inform you that participants will only be listening to the conference call during the Company's presentation, as listeners only, with simultaneous translation into English. Following the presentation, a Q&A session will begin, in Portuguese and in English, when further instructions will be provided.

If you need help during the conference call, please call the operator by dialing *0.

Present with us today are:

- **Mr. Ivan de Souza Monteiro, Chief Financial and Investor Relations Officer**;

- **Mrs. Solange da Silva Guedes, Chief Exploration & Production Officer**;

- **Mr. Jorge Celestino Ramos, Chief Downstream Officer**;

- **Mr. Hugo Repsold Júnior, Chief Gas & Power Officer**;

- **Mr. João Adalberto Elek Júnior, Chief Governance, Risk & Compliance Officer**;

- as well as other Company executives.

I 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 "believe", "expect" and similar ones, related to projections and targets, are mere forecasts based on the expectations of executives regarding the future of Petrobras.

To begin, we will hear Mr. Lucas Mello, Executive Manager of Investor Relations. Then there will be the presentation of the results of the 2Q15 results. Subsequently, Afterwards, we will answer questions from participants. Mr. Lucas, you have the floor.

Lucas Mello:

Good morning everyone. I would like to call your attention to slide number two, which has a disclaimer, and then I will go to slide number three, talking about the exchange rate and the outside environment.

We noticed that between the quarters of 2015 and 2014 there was a depreciation of the Brazilian Real by 40%. However, we also noticed that between the 2Q15 and the 1Q15, there was an appreciation of the Brazilian Real.

Going to slide number four, to speak about oil prices and Brent, between half-year of 2014 and 2015 there was a reduction of 47% in those prices. On the other hand, when we look at Brent prices between the 1Q15 and the 2Q15, we see an increase in prices by 15%.

On slide number five, we have the consolidated net income of the Company, that was R$5.9 billion. The net operating expense was down due to price reductions, more particularly export prices, and there was also a reduction in the sales of oil products.

In terms of the cost of products and goods sold, there was also a reduction in those costs, because of lower import costs, and also lower production tax costs. Therefore, the gross profit of the Company was R$48 billion, 26% higher than the 1Q14.

In terms of operating expenses, they were impacted by tax liabilities of R$3.1 billion over IOF, or tax liability; tax on intercompany loans, Petrobras and related companies, reaching an impairment of R$1.3 billion. With that, the final result was R$22.8 billion, 39% higher than the same quarter of 2014.

In terms of the financial result, it was impacted by higher foreign exchange variation expenses, higher interest expenses and interest on IOF amounting to R$1.3 billion. We had a negative of R$1.2 billion to a negative of R$11.7 billion.

With that, our net result was R$5.9 billion in the 2Q15, representing a reduction of 43% when compared to the 1H14. Adjusted EBITDA in the 1H15 was 35% higher when compared to the same period of 2014, investments amounted to R$36.2 billion, representing a drop of 13% when compared to the same period of 2014, and free cash flow was 4.5 billion against a negative of 15.8 billion in the 1H14.

Now, going to slide number six, the net consolidated result for the 2Q was R$500 million, the net operating revenue was higher, was up due to higher export volumes, higher prices, and also higher sales of oil products. The cost was also higher, mostly due to increases in the production taxes, and that is why our gross profit was R$25.6 million, and 14% higher than in the previous quarter.

Operating expenses were impacted by tax contingencies of R$3.1 billion over IOF tax liability and intercompany loans; impairment was R$1.3 billion, and higher exploratory costs.

In the 1Q15, we had a reversal of allowances for losses in the electric sector of R$1.3 billion. Our operating profit was R$9.5 billion, representing a 29% drop when compared to the previous period. The financial result is impacted by the recognition of interest on tax expenses and IOF, R$1.3 billion, and higher interest expenses, even if we posted a reduction in the exchange variation expense.

So we had R$500 million as a net result, which is a drop when compared to the previous period. R$19.8 billion, it was the final result, a drop of 8% vis-à-vis the previous period, that was adjusted EBITDA; investments were R$18.3 billion, 3% higher when compared to the 1Q15, and free cash flow of R$5.7 billion when compared to R$-1.3 billion in the 1Q15.

On the next slide, number seven, we have some highlights. First, we have the highlights for the half year. Higher crude oil production, and also the operation startup of the early production system in Búzios, higher volumes of oil exports, lower costs of production taxes, and also reversal allowance for impairment of trade receivables of R$1.3 billion, and free cash flow amounting to R$4.5 billion.

In the 2Q15, the highlights were the increase in oil production by 7%, also the recovery of funds from Lava Jato operating, amounting to R$157 million, the reimbursement related to the insurance of the accident in Chinook field, United States, amounting to R$259 million; and provision of IOF tax liability of R$3.1 billion. We also had impairment on Gas and Power, Downstream and E&P, amounting to R$1.3 billion, and that is in the operating expenses line.

Now, I would like to go to slide number eight. We have the impairment of assets amounting to R$1.6 billion, particularly on the nitrogen fertilizer plant, number five, of almost R$600 million, R$585 million; oil and gas fields in Brazil and the disposal of assets amounting to R$245 million; transfer and export offshore units, R$198 million; and others totaling 551 million. When we put it all together, they totalize R$1.6 billion of which R$1.5 billion in operating expenses and 300 million allocated in investments.

Now, I will go to slide number nine. We will now refer to exploration and production of oil and gas. Between the half years, we experienced a 9% growth in production. The total production was 2.784 million barrels of oil equivalent a day, and between the quarters, the 2Q15 and the 1Q15, it is a stable production, but there is a slight decrease of 1%. So the goal is maintained at 2 billion 796 thousand barrels of oil equivalent/day for the year.

Still speaking about exploration and production, we have the connection of new wells, on slide number ten. Until now, in the 1Q15 we connected 39 wells, 28 wells producing wells and 11 injector wells. We hope to have 72 connections until the end of the year, so in the 2H15 we intend to connect 33 wells in this area of exploration and production.

When it comes to Downstream, on slide number 11, the oil products output in Brazil, between the 1H14 and the 1H15 there was a 6% reduction in the production of oil products. Even when we look at the quarters, the 1Q15 and the 2Q15, we see an increase of 7% in the production of oil products.

Now, slide number 12 refers to sales of oil products in Brazil. Between the half years, we see a drop of 7% in the sales of oil products, and also in the quarter there has been stability in sales, with a growth of 1% in the sales volume of oil products in Brazil.

Now going to slide number 13, we will talk about the balance of oil and oil products. On the left hand side of the slide, we refer to exports, especially exports between the half years. Exports were higher due to higher crude oil production. Imports dropped both in terms of oil products and crude oil. All in all, the net balance comparing the 1H14 and 1H15 goes from -526 barrels a day, to -125 barrels a day in the 1H15.

On the right hand side we see the quarterly evolution, and comparing the 1Q15 with the 2Q15, we also noticed a reduction in that negative balance, which was in the 1Q -225, and in the 2Q was -27.

Slide 14 shows the operating income evolution between the half-year period per segment. In the 1H14, the operating income was R$16.4 billion; Downstream area showed an improvement in the operating income, due to better margins in the oil product volumes, and this is also due to a drop in Brent prices.

Now, exploration and production experienced a reduction in this overall result, and this is due to a drop in Brent prices. The other segments did not suffered major alterations.

Corporate includes tax contingencies with IOF, therefore we reached an operating income result of R$22.8 billion, 39% higher than posted in the 1H14.

On slide 15 we show the operating income evolution for the half year. In the 1H14 it was R$10.4 billion net income, sales revenue was affected by the lower export prices and lower volumes of oil product sales; COGS showed an improvement, stemming from reductions in production taxes and lower import volumes of oil products.

Operating expenses experienced a decrease due to tax liabilities of IOF and impairment of assets. The financial result is affected by the foreign exchange variation in the period, higher interest rates, and also interest on tax contingencies of IOF.

The tax rate was higher concerning profits abroad, and therefore the net income for the half year was R$5.9 billion, 43% lower than what was posted in 2014 in the same period.

Slide number 16 shows operating income evolution per quarter per segment. Operating income was R$13.3 billion at the end of the 1Q15; Downstream experienced a decrease, a drop in the results due to worse margins in the quarter, due to higher Brent prices. We see the contrary when it comes to exploration and production. Here, we have better Brent prices, and this improves the operating results in the E&P area.

Gas and Power had a decrease in the result. I would like to remind you that this area in the 1Q15 had the benefit of reversal of losses coming from the electric industry. Corporate had IOF tax liability and therefore the operating income in the 2Q15 was R$9.5 billion, 29% lower than the results that we had in the 1Q15.

In slide 17 we have the operating income evolution in the quarters. We had net income in the 1Q of R$5.3 billion, sales revenue was higher because we had higher sales volume and higher volumes of exports, and higher prices. Costs were worse because of higher production taxes. Operating expenses also had a decrease, due to tax liabilities of IOF, impairment and also higher exploration costs.

The financial results had higher interest payments, payments of IOF that were partially offset by the appreciation of the Brazilian Real in the period. Our net income in the 2Q was R$500 million, which is 90% lower than what we had in the 1Q15.

Slide number 18 refers to lifting cost and refining cost. At the top of the slide we have lifting cost and we notice that between the 1Q15 and the 2Q15 the lifting cost has been stable and once we look at the same cost in the half-year period, we see an increase of 17%, mostly due to the Brazilian Real devaluation and higher expenses with workovers and subsea maintenance.

Refining cost has remained stable in the quarter and in the half year. It was high by 25% due to lower throughput and due to maintenance stoppages, and higher personal costs.

Slide 19, we talk about the Company's indebtedness, and in the last line we see that net debt denominated in USD has remained stable, however, the net debt denominated in Brazilian Real has an elevation from 288.1 billion to 324 billion, due to the depreciation of the Brazilian Real that occurred during the period.

Slide number 20 refers to the financial ratio and indebtedness. The top line refers to net debt over EBITDA ratio. Between the 1Q15 and the 2Q15, it has been stable and then net debt over adjusted EBITDA went from 5x to 4.6x, in terms of that ratio. We are using the EBITDA of the last 12 months instead of the annualized EBITDA.

On slide 21 we have the Company's cash flow. In 2015 our cash position was US$26 billion, we anticipated an operating cash flow of US$26 billion. We had up to now US$14 billion. Interest, amortization and others we anticipated R$22 billion. Up until now we had US$11 billion. Investment, we anticipated US$28 billion, so far we have invested US$12 billion; divestments, US$3 billion; rollovers we concluded; funding, US$12 billion. By now, it is slightly over US$10 billion, therefore by yearend our cash position should be US$20 billion.

With that I conclude the presentation of the slides and we will now initiate our Q&A session.

Bruno Montanari, Morgan Stanley:

Good morning, everyone. Thanks for taking my question. My question is about results and another is about the business plan. About results, I would like to better understand the trend of import. Oil product imports for the 2H of the year numbers were very low, 27.000 barrels per day. Is this temporary or is this the new level of net exports to expect from the Company?

And what about the business plan? When you consider the target of the divestment, long-term, it is almost US$47 billion. I would like to understand if the target for cash generation and production presented already factor in the increase in the total of assets. Would it initially decrease the target for generation and cash? Thank you.

Ivan de Souza Monteiro:

Thank you, Bruno. Answering the first part of the question, I will give the floor to Jorge Celestino.

Jorge Celestino:

Good morning, Bruno. Our projections or outlook are showing now that we have the startup of Rnest and the better projection in refineries and the trend of the ethanol market to remain competitive. This is all generating this trend.

This is the best forecast we can give you right now. And these other figures we are working on for the 2H of the year.

Ivan de Souza Monteiro:

Bruno, answering the second part of your question, all the data disclosed by the Company is based on the new business plan, including the best expectation of the Company vis-à-vis the divestment plan.

Bruno Montanari:

Thank you.

Andre Sobreira, Credit Suisse:

Good morning, thank you. I have two questions, if I may. About divestment, Ivan, and the target on a longer term basis. It is quite an ambitious target, R$48 billion. Could you explain the process? Do you think this number is conservative, aggressive? What kind of asset, in your opinion, can be addressed at first considering the best demand? Could you clarify this? I think this is critical to leverage the Company or net debt over EBITDA.

CEO Bendine mentioned something about this yesterday. Apparently, the Company is more focused on lowering tax liability. There is a huge amount – US$90 billion – in tax disputes going on. I wonder if you could give us some guidance to what extent this can be solved and what about the time frame? Thank you.

Ivan de Souza Monteiro:

Andre, thank you. About divestment, the information disclosed, first of all, they relate to the challenge of US$15.1 billion in 2015 and 2016. Our goal for this year is US$3 billion. There are several processes under way and as they become more mature, the Company will disclose them.

We have a governance process for approval purposes and also how to carry on our divestment program, and then a formal process of approval at the Company level. Only once these processes are both concluded we will be able to provide more visibility to the market.

As to the tax question, just as what CEO Bendine mentioned yesterday. We just had an ordinance issued by the national Ministry of Finance and whatever the Company faces in the administrative arena, and in order to continue to discuss the institutional area, it is requested to focus on collaterals and also cash burn.

We also discussed with our legal department about how successful these processes can be. This is why the Company decided to keep on discussing in the judicial area or, more specifically, simply comply to the new ordinance issued on August 3rd.

Andre Sobreira:

Thank you.

Sergio Conti, Goldman Sachs:

Good morning. My question is about price dynamics, Brent, realization and sales prices of Petrobras oil from E&P to Downstream. On your slide you showed Brent compared to the sales price, but I look the international leverage for Brent for 2014 and 2013, percentage wise, it is 90% Brent. The barrel in USD, it is around US$10.3, that is the spread. In other words, Brent above the realization price.

In the 2Q, it was lower, US$9.78 per barrel, if you check the spread, and percentage wise it was 84.2%. I would like to better understand the numbers. There are some significant implications, the governance state, E&P or Downstream. So what about the dynamics? How do you come from to the transfer price? Should I consider percentages or USD per barrel?

In the 2Q, prices went down compared to what we had in 2014 and 2015. Could you give us more color on this? Thank you.

Ivan de Souza Monteiro:

Thank you, Sergio. Jorge Celestino will answer your question.

Jorge Celestino:

Good morning, Sergio. In reality, the methodology of our domestic prices and transfer prices goes through the approval of crude oil quality. We have a planning model, and this planning model also gives prices of oil due to international prices, and also the quality of crude oil.

What I mean by quality is the yield of little products, light products, so considering what you process domestically, this is evaluated based on these models. In reality, to come to this amount and value, we would have to compare whatever was processed in 2014 or in 2015 that might have shown variation.

Certainly, there was a variation due to the market, and also owing to what we import. All the oil imported to be more adapted to our refinery production profile. So, giving a straightforward answer, we have to consider what we chose in 2014 and also in 2015, so we can access and give you a more straight forward answer.

Sergio Conti:

Just a follow-up question.

Ivan de Souza Monteiro:

Just one suggestion, that very specific question you have, the IR department and the downstream department can give you more detail. But please, follow on with your next question.

Sergio Conti:

If we analyze the Company's numbers, my feeling is one of the explanations might precisely be the one you have just given, the heavy versus light oil mix. So, the question is: considering we have Rnest startup early this year and obviously it processes heavier oil, I wonder if this new reality or new scenario in the 2Q might prevail. In other words, the profile of Petrobras refining capacity is changing and that might explain this event. Am I right to assume this?

Ivan de Souza Monteiro:

In reality, we do not have heavy oil in Rnest yet. We are still running with slightly lighter oil, we have not come to our real target at Rnest. In reality, we pre-operated several units in the 1H of the year. The whole package of sulphur, for instance, is just starting up now, and possibly in the 2H of the year Rnest will still be with the same line of project.

Sergio Conti:

Perfect, so maybe later on we can have a follow up so you can give me more details. Thank you.

Diego Mendes, Itaú BBA:

Good morning, everyone. I also have two questions. My first question refers to the Lava-Jato impact when it comes to services and CAPEX. Whether in the Company daily operation, you have been experiencing any delays in the service rendering or delays in costs?

Ivan de Souza Monteiro:

Diego, can you please repeat your question? Speak up a little, please. We had a hard time understanding the initial part of your question.

Diego Mendes:

In fact, the idea here is to ask you about Lava Jato's impact in the cost of the Company and CAPEX of the Company, whether you are experiencing delays or delayed services, or whether you have experienced a more significant impact on your CAPEX. The CAPEX on the 2Q was lower, and probably what I want to see is if you can give me the current status of that situation.

My second question refers to cost reduction. In your plan, you said that you are promoting a cost reduction, so my question is whether you can give us some guidance about that reduction, and what are the areas that will be more affected?

Ivan de Souza Monteiro:

The Lava-Jato operation, when we discussed our business plan, Lava-Jato operation had already impacted our supplier chain, and this has been taken into account when we drafted the plan. We also included problems that could probably impact our CAPEX. To give you more details about E&P, I will give the floor to Solange.

Solange da Silva Guedes:

Good morning. To elaborate more on that subject, as Ivan said, considering delays we had to disclose, PNG, we did that because we wanted to capture our business plan, we wanted to capture contingencies concerning all of the events that needed to be further assessed by all of us.

With that, we would be able to translate to investments, targets, and other targets applying to E&P related to restrictions of vendors that had to be included in our business plan. All of these contingency measures are still underway once we publish the plan with a more clear landscape, which already depicts this new reality.

These deviations that you noticed are not significant, but they are in keeping with our budget plan in that part of the year. There is a slight delay in some investments associated to some vendors, but they are not very significant and, again, very well managed.

We expect to be very close to our investment budget for the year because all of the mitigation action that were lifted early on this year are now bearing some fruit.

Diego Mendes:

Thank you.

Ivan de Souza Monteiro:

About your second question, cost reduction is a constant concern of the Company. When we drafted our business plan, we already contemplated that and I think I can give the floor back to Solange, who can elaborate more on the criteria for project selection, and how things are being carried out with this new Brent price when it comes to renegotiating existing contracts with vendors.

Diego Mendes:

Very good, then. So, now I have a very specific question about the numbers that you showed on slide 21, so you are using the same foreign exchange assumption in the 1Q, R$3.1, or have there been any changes in the foreign exchange assumption for the year?

Ivan de Souza Monteiro:

We adjusted that to the new exchange rate. The exchange rate has already been adjusted.

Luiz Carvalho, HSBC:

Good morning. I have two questions:Yesterday, Mr. Bendine talked about the price policy during the press conference. In our understanding, there is a difference in the market. There is a mismatch between what the Company says and what the market sees, that price difference is much more related to the leverage levels of the Company. And you are looking more at the consolidated results to justify your need or not need to raise prices.

I just want to understand from you whether this need to increase prices, given your internal policy, is that strictly related to the results from refining or this is related to the net debt over EBITDA ratio of the Company?

There have also been some impairments of assets that hurt your profit a bit, but looking at the projections for your net income this year, you disposed of some assets, maybe the distributing company will be disposed in the 2H year. What will be the impact for the Company?

What I want to understand is in terms of your dividends policy, how would you address the payment of ordinary shares or whether there would be a deferment or whether you would be giving more visibility to investors about your policy until the end of this year?

Ivan de Souza Monteiro:

Luiz, referring to prices, pricing is not linked to a certain business area of the Company. The Company sells products and we face competition, we have to cater to the needs of the market, and there is certainly competition in the market. But I will give the floor to Jorge Celestino to elaborate more on the subject.

Jorge Celestino:

Good morning. In fact, referring to our commercialization policy, competitiveness of our products vis-à-vis the domestic market relates to the international market, therefore, our commercial policy is always based on the best use of our assets, and also the best margins to our Company coming from oil products or also looking for oil products abroad, also in the exploration of oil, looking at the last 12 months and 4 months.

Therefore, our commercial policy aims at achieving the best global results for the Company, always with an eye at the competitiveness of our products, both domestically and abroad.

Answering the second part of your question, since we drafted the business plan, the Company made a clear message to prioritize value generation for shareholders, prioritize profitability to the detriment of volume.

The main goal behind the management announcing the new business plan is predictability in oil production, the Company's expectation in terms of oil production, particularly over 2015 and 2016. This is the big business of the Company, and, also, more diligence when it comes to divestments.

The whole CAPEX of the Company was reprioritized and the main priority is on E&P, and that is what you follow. You follow CAPEX realization in the first 1H of 2015, and it will remain as such in the future.

The final result of the Company, another result that distribution will be subordinated to the business plan. We have been trying to be very diligent vis-à-vis the business plan, despite macroeconomic challenges and all the variables that are not under the Company's control, like Brent prices and foreign exchange effects.

We are very disciplined and focused on what we disclose to the market, stability and predictability, vis-à-vis our core business, which is to produce, explore oil and more discipline as to the use of our resources stemming from our generation, focusing on the core business of the Company, and a clear message to shareholders, prioritizing value generation to shareholders and searching for profitability, regardless of our volume.

Officer Solange has something to say.

Solange da Silva Guedes:

I would just like to talk about the management's position that Ivan has just mentioned. I mentioned before the method we use to trade some challenges with our suppliers. However, at the same time we are also trying to translate to the Company all the effects of the reduction of the oil and gas activity in our costs.

So, the renegotiation aspect of contracts, for instance, with E&P, this is where we have the focus of the Company, and our action is very much specific to renegotiate this contract, so that we can really perform our

business plan in a very diligent manner, so we can bring to the Company the benefits of the reduction in activities and also lowering costs, particularly capital costs.

If you look at this result, you will see that due to the reduction in Brent, there is a very positive side effect in terms of stakes. There was a dramatic reduction in our lifting cost, comparing the 2Q14 and 2Q15, basically a reduction of 3%, when you consider USD per barrels.

And our operations, if we consider our scale, for instance, we also highlight, and we view again, coming back to the business plan that Ivan mentioned, when our business plan focuses on our pre-salt activities, this is where we effectively reap more benefits.

For instance, we have already lowered from US$9 to US$8 per barrel in our lifting cost in pre-salt in the 2Q. So, I am just giving you some examples of the highlights mentioned by Ivan.

Luiz Carvalho:

If I may, another question, considering the divestment plan of about US$50 something billion, there is a very strong reaction from Unions. Recently, they even mentioned they would be on strike. Any negotiations between the Company's management and oil companies and Unions?

Apparently, they are fully against disposal of assets or any more aggressive plan in terms of reducing the scope of some of the businesses of the Company. So, what about conversations with these parties? Thank you.

Ivan de Souza Monteiro:

The Company's executive management published a business plan committing itself with shareholders and the market in general to generate value to shareholders, and to have more capital discipline, and also setting priorities, prioritizing productivity rather than volume. That is the commitment by the Company. And as we mentioned, it goes through a divestment program.

The divestment program, it is up to the Company to clarify to all the parties involved, including employees, staff and all the institutions that represent the Company and the Company is careful enough to clarify information. That does not mean, however, that the Company will change what it is committed to do with the market.

This program is a long-term program, and it follows some conditions set by the market, and they varied quite widely in recent months. However, it is a commitment made by the executive committee that will remain unchanged.

Luiz Carvalho:

Clear. Thank you.

Paul Cheng, Barclays:

Good morning, everyone. Two questions, please. First, in 2016, your current budget is US$25 billion. What is your flexibility in further lowering the CAPEX if oil prices stay at the recent level? What are your CAPEX requirements to make a flat production? And, then, on top of that, are the existing commitments for the long and mid-term construction projects, that is, already under construction? That is the first question.

Ivan de Souza Monteiro:

Thank you for the question. Our CAPEX expectation for 2016 is US$25 billion. It has remained the same. Could you repeat the second part of the question, please?

Paul Cheng:

The question is that if the oil price stays here, what is your flexibility to further reduce it? In other words, if I look at what is your minimum you have to spend to maintain a flat production combined with whatever is the commitment you have on the longer and mid-term construction projects?

Ivan de Souza Monteiro:

Solange is going to answer your question. She will make comments on the possible impact of Brent in oil output for 2016.

Solange da Silva Guedes:

I guess this answer is very much in line with all the explanations I gave before. Our production and our investments will continue to happen, and if we have an impact on prices or a drop in prices, we might go for other options, but they will not affect projects underway.

These projects will continue strengthening our cost optimization. This also goes to a direct relationship between costs and a drop in Brent prices. If that happens, they will also have an impact on production taxes and also in the cost of projects underway.

But I want to highlight that considering planning scenario alone, I do not know if I fully understood your question, but we are planning to increase production by the next year. Our plan is to grow 2.8% in 2016 compared to 2015.

Alexander Burgansky, Deutsche Bank:

Good morning, and thank you very much for doing the call. I have two questions, if I may. Firstly, on slide ten, you mentioned the number of wells connections to be completed on the 2H15. The numbers showed a decline of 1H. So, I wanted to ask you how that compares to your expectations of production growth in 2H15. And also, do you have a projection that you can share with us on the well connections in 2016?

And the second question, if I may, on the business plan. I did not quite get the answer on the details behind the disposal program. In particular whether the 2020 production targets for domestic oil production of 2.8

million barrels per day already incorporates the disposals that you are planning to make between now and 2018.

Ivan de Souza Monteiro:

I will give the question to Solange, who will be able to speak about the connection of the new wells.

Solange da Silva Guedes:

I think this chart illustrates the point quite well. In our plan for 2015, we are quite advanced in terms of our targets to connect all of the new wells. As a recent fact, I can mention the new production unit in Cidade de Itaguaí, that is foreseen to happen in early September. This is part of our plan, but it happened on July 31, 2015, which is earlier than expected, because we were able to complete and connect the production well of that unit.

This year, if we look at the chart, we have a reduced number of wells, when compared to the year before. 2014 was a very challenging year. This is when we were asked to optimize our activities and to work on the connections of subsea stations.

That is why this year we are very much in line with our target. There is no other different projection compared to that of non-realizing the wells. On the contrary, we may be able to anticipate from 2016 to the end of 2015 that interconnection of wells. I think that answers your question.

Now, concerning the second part of your question. The targets that have been disclosed to the market vis-à-vis the investments projects are still the same. However, these targets, and we often say that, it all depends on market conditions, at the time that the Company, as part of its approval process, and according to the Company's governance and possible approval of a sale or the search for a partner to continue its processes will be then considered at the time. But all of the targets are contemplated in the business plan of the Company.

Christian Audi, Santander:

Thank you. Good morning, Ivan. My first question relates to those one-off factors that impacted your result in the quarter. I was trying to reconciliate the fact that, on the one hand, there were one-offs, but on the other hand, based on the comments that were made, it seems to me that there is a potential of other impairments, of other accounting write-offs, related to those tax liabilities. But I am just trying to understand, given the risk of this happening again, that now visibility is low, concerning whether this will occur or not.

The second question relates to the impact of your disposal of assets. Whether you will reach you target for 2015 and 2016, and I want to know whether you were surprised on the upside with the level of interest. And also related to the targets for 2017 and 2018. Is it possible to maintain your target of 43 billion? To give me an idea of what would be the percentage you would get from the disposal of assets or restructuring of assets. Please.

Ivan de Souza Monteiro:

Christian, thank you very much for your question. Well, in relation to your initial remarks on contingencies and impairments, we had two important events. First was the release of the results of the Company in 2014, then we had a major impairment event, or a project that, up until then, had no visibility in terms of its future cash flow. Some of the projects were totally abandoned, like Premium I and Premium II refineries, and the others just follow the regular impairment flow, which is usually carried out by the Company.

That was an important moment, but now what we see is the reflection of our new business plan. This new business plan often contemplates a re-prioritization of projects, and those projects were not aligned with our priorities, like our nitrogen fertilizer plant. We look at its impairment and we notice that it is no longer part of our priority portfolio.

In terms of contingencies, we are constantly assessing contingencies and liabilities. The whole set of tax liability is very high. We also communicated to the market the result of our internal assessment, and they involve very specific situations involving the same process, which involved the litigation of IOF.

Then, administratively speaking, we reported on that and how we transferred things that were carried out here and judicially. Through the infraction noticed, there was the recognition of a good economic advantage. Now, with a new ordinance, the Company once again ran an evaluation of this same process when compared to previous years.

Then, we made a decision of recognizing that expense and also recognizing the results of the 2Q. So, according to what has been explained in the explanatory notes, we are constantly conducting this evaluation. Once we recognize that there is an opportunity on the point of view of having economic advantages from the process, this will be, then, carried out through an internal evaluation and communicated to the market.

About the divestment process, this is nothing new. This is something that had already been taking place in the Company, but the level of leverage of the Company, in terms of that, we expedited values in 2015 and 2016. All the projects are still underway. And your question was about the level of interest. The level of interest is quite high, in terms of the essence of the Company.

Now, looking at 2017 and 2018, given the fact the we have more time, as you said it yourself, it is not only a matter of divestment, but also a matter of reorganizing a set of businesses within the Company. This has been carefully crafted, but always looking at what the Company has been committed to do in our business plan: generating more value to shareholders, greater discipline and greater prioritization of projects. The Company masters the technology and we are executing with good profits. Thank you.

Christian Audi:

Now, let me see if I understood it right. So, there is a good potential, but it is very difficult to quantify it at the moment in terms of provision related to tax liabilities. If there are other impairments, I mean, in other words, this potential is present, but it is difficult to estimate anything or to give us any guidance. The fact that this may occur again is something unknown, but it may be present. Did I get it right?

Ivan de Souza Monteiro:

No, you are not right. What is correct is what the Company releases and discloses or discloses through material facts or through the financial results. It is very clear, if you look at the paper, that the Company has identified the processes and led the processes to a final result.

So, if it was not there, it is because the Company had not expectation at that moment in relation to any other process. Because if that were to be the case, in case of impairment or any tax liability or litigation, what is in the explanatory note, is that the Company is still assessing that tax liability in compliance with the ordinance.

The ordinance is a very recent one, dating back from August 3rd. The Company is still assessing what it could do, but this is a very sensitive evaluation and that is, together with the tax area, financial and legal areas of the Company. And it is only after the analysis are concluded that we will make a decision in line with the Petrobras governance. That is when Petrobras will release its decision.

About impairments, I would just like to emphasize that a large set of imparities, from last year and also, as a consequence, of Lava Jato, and as a consequence of this new business environment, and now more particularly linked to the new business plan of the Company.

Christian Audi:

Thank you very much.

Caio Carvalhal, Brasil Plural:

Thank you for taking my question. My first question is very specific. We can see that there is an oil exports, even though there was a slight drop in output. And there was also the use of inventory build over the 1Q, which makes all the sense of the world.

In the 1Q, all your prices were slightly less expensive. So, considering the reality of the 3Q, with significant drop in oil prices, should we expect to see built up of inventory again and the volume of export will be slightly lower in 3Q, considering you will be working on opportunistic buildings inventory related to all your prices? So, does it make sense when you consider building and using inventory?

My second question is slightly broader. If we consider the gross margin, there is a gross margin of 32%, better than the 30% of the previous quarter. For the last three years, the gross margin is always between 24% and 25%. There has been a significant increase, not only in this quarter, but in the 1H15.

I have the feeling this is non-recurring. Possibly, we expect to see a lower margin in long term. I think this is more related to a reduction in oil prices, and also reduction of domestic use, allowing you to improve your refining operation, but it might also have a recurrent effect, considering Pernambuco, in the Northeast.

I would not expect to see that because the refinery is not so large, considering the whole refining capacity, but precisely how do you see the behavior of the gross margin, or costs vis-à-vis the revenue, for 2H15? How do you see it at a broader view? These are my questions.

Ivan de Souza Monteiro:

Caio, thank you for your question. Regarding the strategy of inventory of oil and the Company's behavior for 2H15, Jorge Celestino is going to answer your question.

Jorge Celestino:

Caio, good morning. Regarding the better performance of the oil position, you are right. Oil prices were very low in the 1Q. The market kept an eye on prices, and we managed to have a good strategy and slightly increase our inventory levels at the end of the third month of the year, in March, and capture all the margin gains in the 2Q.

By the way, the market in the 1Q was much lower, and then we managed to optimize our operations in the refinery very well, searching for better yield of our refining capacity and better management of our oil inventory in 1H15.

As to the next quarter, the market usually will be a little bit busier. Oil output will remain good and we are paying attention to the market's behavior. Possibly, we will not raise all the gains that we had in 1H15, but we also expect to see some gain by trading and selling crude oil.

Ivan de Souza Monteiro:

Caio, answering the second part of your question, there is a clear answer. There was a substantial increase in Downstream, so there is a significant contribution. And we also see ongoing increase in oil output, now far more predictable than before.

So, the combination of these two variables: 1) substantial improvement in Downstream results, added to better prices; and also continuous increase in the Company's oil production, this brings to better results and better margins for the Company.

Caio Carvalhal:

Perfect. Thank you very much. Can I just have a last follow up question? The media showed that the Company would be revisiting the long-term strategic plan for 2030, considering the new reality and oil curves. Do you have any timing for this? When do we expect to have this discussion on the way?

Ivan de Souza Monteiro:

This discussion is still very preliminary. It is not mature yet to be disclosed to you or to the market. It is still very embryonic.

Caio Carvalhal:

Perfect. Thank you very much.

Pedro Medeiros, Citigroup:

Good morning. Thank you for taking my question. Actually, I have three questions, but most of the questions are very straightforward. The first question, Ivan, I would like to better understand, because I saw this quarter a significant change in the foreign exchange exposure of your cash generation, despite exchange depreciation this quarter.

Could you talk about the Company's policy about the balance and exposure to foreign currency? Any forecast for the 2H15 that might lead to significant changes in exposure?

And a second question...

Ivan de Souza Monteiro:

Pedro, just answering the first question, we have been trying to keep most of the Company's cash generation exposed. We bring the natural hedge to the Company's liabilities, so the cash position is the lowest in our Brazilian currency.

Pedro Medeiros:

OK, but do you not add any other derivative strategy to that or anything beyond or in addition to exposure to natural cash?

Ivan de Souza Monteiro:

Yes. Pedro, we had more earmarking in head accounting in March. So the Company's expectation is vis-à-vis foreign exchange — by the way, there are some components, particularly interest payment and pre-payment operations, for instance, and they are more stable. They are payed on a longer timeframe and, therefore, they would be a point of concern when it comes to the exchange exposure. So, the Company decided to earmark more.

Like Jorge Celestino said before, we had an effective increase in the Company's exports, stemming from the lower demand in the domestic market and also the highest oil production by the Company. We have been making use of hedge account in order to be hedged and protected vis-à-vis the Company's hard currency exposure.

Pedro Medeiros:

Thank you. My second question, I just want to confirm your investment plan. Considering the progress achieved up to now in July and the forecast for August and considering the floating exchange rate, can we talk about CAPEX in USD, lower compared to the guidance of R$28 billion for the year?

And just a follow-on question about Solange's comment. As to the revision process of contracts with suppliers and reevaluation of the unit cost, vis-à-vis the drop of prices in E&P products and services, to what extent has this already been taken into account in the five-year investment plan? Could you qualify the

improvement in cost of equipment and services, or should we consider this as a potential upside vis-à-vis the numbers you gave in the guidance?

My third question, actually very straight forward, just a follow-up question to Solange, you have the number of well connections. Could you give us an objective number or the size of the development wells that were already drilled in pre-salt that have not been connected yet? I believe this number is growing vis-à-vis the portfolio of rigs available and the change in the timeline of the projects. Thank you.

Ivan de Souza Monteiro:

Pedro, Solange is going to answer your questions, but about the guidance, there has been no change in the guidance vis-à-vis CAPEX. In the 1H15, we were slightly lower, but the comparative guidance compared to the previous business plan is way below and fully prioritizing E&P. This is the major fact, considering the new reality of the Company's Net Debt/EBITDA ratio. And now Solange is going to answer your second question.

Solange da Silva Guedes:

Good morning. Answering your first question, you want to know to what extent the exercise that we are doing in terms of lowering cost with suppliers was included to the plan. It was partially included to the plan, because at first we did not have these negotiations in the way. But now we are very well about our expectations.

We effectively deliver our promise of the part committed to the plan, but we also exceed our early expectations vis-à-vis this set or dozens of suppliers that we are negotiating with and we expect to conclude negotiations over the next two months.

In the second question, you mentioned development well inventories. I would like to clarify how we consider this and how we address the implementation of these projects. Once we envisage an E&P project that might lead to a delay in the platform, what we immediately do is to adjust the well construction plan, so we do not run the risk of having any anticipated investment in wells building and avoid a backlog of wells that are not connected. We do not do that.

We have a scale that allows us to have an immediate adjustment to projects in order to make them in line as much as possible to the closest connection, so they will be closer and more effective in terms of our interconnection to the platforms. So, from the moment you adjust these projects, they are not partial, they are full adjustments and they apply to all resources and funds, they are all delayed and reallocated.

And because we work with standardization – and that is a characteristic of the pre-salt project – we work with all pieces of equipment, all standardized and all standardized projects. Mobility, at the end of the day, becomes much easier and it has a huge potential to add value to the data management of our implementation projects.

So, we do not have a backlog of either well, simply because we are already adjusted in our curve, the building process, according to our plans and as we expect to have the unit in our production.

Pedro Medeiros:

OK, I understood it. Thank you for the answers, Solange.

Operator:

Thank you, everyone. Now we conclude the Q&A session of this webcast and conference call and, with that, I would like to give the floor to Mr. Ivan de Souza Monteiro for his final remarks.

Ivan de Souza Monteiro:

Thank you very much. I would like to thank you very much for participating and our IR department is available to take any further questions.

Operator:

Thank you very much, ladies and gentlemen. The audio of this conference call for replay and slide presentation will be available on the IR website of the Company at www.petrobras.com.br/ir. With that, this webcast is concluded. Thank you very much for your participation. Please, disconnect your lines and have a good day.

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