

Q2 2014 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO & Director-Investor Relations
- José Alcides Santoro Martins, Director-Gas & Energy
- José Carlos Cosenza, Director-Downstream
- José Miranda Formigli Filho, Director-Exploration & Production
- Theodore Marshall Helms, Executive Manager-Investor Relations
- Unverified Participant

Other Participants

- Auro Rozenbaum, Analyst
- Bruno Montanari, Analyst
- Caio Carvalhal, Analyst
- Christian Audi, Analyst
- David Gamboa, Analyst
- Gustavo Gattass, Analyst
- Luiz Felipe Carvalho, Analyst
- Paula Kovarsky, Analyst
- Pedro Medeiros, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Petrobras Conference Call with analysts and investors for the presentation of Second Quarter 2014 Results. We'd like to inform you that participants will be listening to the conference call during the company's presentation, which will be conducted in Portuguese with simultaneous translation to English. Afterwards, a Q&A session will begin in Portuguese and in English, at which time instructions will be provided. This broadcast is being recorded.

Present with us today Mr. Almir Guilherme Barbassa, Petrobras Chief Financial and Investor Relations Officer, as well as other company executives.

Before we get started, let us hear from Mr. Theodore Helms, Executive Manager of Investor Relations. Please, Mr. Helms, you may proceed.

Theodore Marshall Helms {BIO 15433381 <GO>}

Good morning, everyone. We're about to begin another Petrobras conference call with analysts and investors for the presentation of second quarter 2014 results.

Before we continue, I'd like to remind you that this meeting is being recorded. And please be mindful of slide number two which contains the Notice to Shareholders and Investors. The words, believe, expects and similar words related to projections and targets are mere forecasts based on the expectations of executives regarding the future of Petrobras.

Lastly, I'd like to inform you that results have been already disclosed in Brazilian reais as well as in dollars, both in accordance with International Financial Reporting Standards, IFRS. However, today's conference will be limited to figures expressed in reais.

At this time, I call on CFO, Almir Barbassa, who together with other directors will present Petrobras results and the main event that took place in the second quarter 2014. Afterwards, we will be answering questions from participants. Please, Mr. Barbassa.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Good morning, everyone. Thank you for being with us in this conference call to present second quarter results for Petrobras. Today, we have Directors Formigli, Cosenza and Alcides, as well as our Executive Manager, Mario, who will participate in this presentation with us and also other company executives that may contribute with answer to your questions, if needed.

Let me now give the floor to the Director of Exploration and Production, Formigli, for his consideration. Thank you.

José Miranda Formigli Filho

Thank you, Almir. Good morning, everyone. I am happy to have this opportunity to talk to you, analysts and investors about the results coming from Exploration and Production in the second quarter 2014. The first slide shows very clearly there is a guide, but we are still happy about the operating results obtained in the upstream segment after our first quarter of stable throughput. As established in our business plan, we already began to see a significant growth month after month in the second quarter 2014.

As you can see, we came from 2,020,000 barrels per day of throughput coming to 2,120,000 in the end of June. But as we've already published last weekend and as we confirmed this morning, we came to a production of 2,152,000 million barrels of oil per day operated by Petrobras.

When we see this comparison, we came from an average of Petrobras operated throughput, 1,009,075 (sic) [1,975,000] up to 2,152,000, so more than 100,000 barrels more than the average last year.

Now, one thing which is extremely important for us can be seen in the next slide. This is where we see our share in the production. We've had an increase in Petrobras equity or Petrobras operated production.

So as we saw in the previous slide, we've had an increase in the oil production from 1,009,072 (sic) [1,972,000] coming up 1,972,000; plus 50,000 barrels per day on average. We also want to explain, looking at this slide, that the growth rate in production, which you can see in the blue curve coming from 1,933,000 in April, going up to 2,049,000 in July. And in June, we had already reached 2,800,000 (sic) [2,008,000] barrels per day. It shows our growth rate is approximately 2% a month, very much in line with our projections as we prepared the production curve expectations or plan.

The factors that allowed for us to grow production can be seen here at the bottom part of this slide. So the start-up of P-62 in Roncador field, the connection and the start-up of new wells in P-55. P-58 also in pre and post-salt, and in Sapinhoá with FPSO Cidade de São Paulo. With that, we were able to add another 82,000 barrels of oil per day. And as we published last weekend, it is an additional 41,000 barrels of oil per day now in July.

The next slide, we speak about the pre-salt, the pre-salt layer. The good news is that we still have a high productivity per well and we now have 25 wells reaching a daily record of 543,000 (sic)

[546,000] barrels per day on July 13, higher than the previous record which was 150,000 barrels per day we reached in the end of June. It shows that we've been able to continue growing this production.

I also wanted to talk about the lifting cost. We've been able to produce oil from the pre-salt with very interesting lifting cost. In Lula field today, the lifting cost is about \$9 per barrel and coming down as production ramps up. And the average lifting cost for Petrobras is \$14.76 per barrel of oil equivalent.

Now, we are reducing this even further with the new pre-salt wells. We've hit quite a few records in the pre-salt layer, a significant growth in production. And I'd like to highlight a few points, as you can see at the bottom of the slide, basically associated to the fact that we've topped production with FPSO Cidade de São Paulo. We are about to do the same with Cidade de Paraty.

Another piece of good news, we've been able to interconnect Lula 28, is yet another well connected to Cidade de Paraty, adding production of more than 30,000 barrels of oil per day on average in the Lula field. And we've also reached a few important landmarks related to gas exports. On April 15, the beginning of gas exports from Cidade de São Paulo. On June 25, the beginning of gas exports FPSO Cidade de Paraty. And June 28, beginning of gas exports from P-58 in Parque das Baleias.

As we will show you further on, as Director Alcides will show you, we've been able to deliver more gas, that is, Exploration and Production was able to deliver more gas and this helped our results, the liquids that are produced from this natural gas and which were delivered by our downstream segment.

Now the next slide looks at the next few months, our production of oil, and we confirm the average production of 7.5% more in 2014 as compared to our production in 2013. It is approximately 1% margin. And our output until last Saturday, 2,103,000 barrels in August and this average production will be in that area, where you see the shadowed area, where we will reach 2,075,000 with a 1% margin, that is, 1% higher or 1% lower.

As we announced in our business and management plan, new systems will start their ramp-up phase. In the next few months, FPSO Cidade de Mangaratiba is about to be delivered. It is going to its location next week. So, it will be interconnected. And in the fourth quarter, production is expected to begin.

Just like Cidade de Ilhabela, which will leave BrasFELS' shipyard until the end of this month - I'm sorry, Mangaratiba coming out of (11:58), Ilhabela is coming from Brasa shipyard to its new location. And it starts production also in the fourth quarter. Together, we have P-61 and FF-88, which is our rig, our tender rig, it's TLWP of Papa Terra, which will also start production in the fourth quarter. Right now, we are already transporting the equipment for the FF-88 rig to the deck of P-61 platform.

Next, we will begin the specific activities of the first well. So production will start. It's also very important, the interconnection of wells. In the first quarter 2014, we've had 13 PLSVs with our fleet, 2 new PLSVs that arrived in the second quarter. We've had the capacity to interconnect 30 new wells. In addition to a few workovers, as you can see here in PROEF workovers in older wells, in Campos Basin - in Rio de Janeiro operating unit, as well as Campos Basin operating unit. In the second half of the year, we expect to have 33 productive wells and the new vessels, so that our forecast is perfectly feasible.

The higher productivity of PLSVs today also shows that our actions were right. I'm talking about the actions taken in the PRC-Sub or the cost reduction program for subsea. So you can see the mileage we got per PLSV during 2014, and if you compare that to 2013, you will see the

improvement, 36% more mileage, 114 kilometers compared to 84 kilometers we were able to do in 2013. Not only have we added more PLSVs, but we've improved the efficiency or the productivity of the each PLSV.

Another important item for us, that we must always have a high readiness level to interconnect wells as soon as we have a window in the PLSV schedule. And these windows, they're generated because of a higher efficiency and well completion. We've seen improvement last year as we started the PRC, the well cost reduction program. But now, we see the results because we have more availability of physical resources, be that in the wet Christmas tree, umbilicals or even the vessels that we must have available to interconnect the wells.

In the next slide, we will look at lifting costs. As I mentioned before, lifting cost is also a good result. We have to announce, after the efforts of PROCOP program in exploration and production, we've had a cost reduction in reals per boe despite the current inflation in reals. You can see here a reduction in that numbers BRL 32.30 per boe of the second quarter compared to the average of 2013, that is, we've also had a reduction per barrel of oil equivalent or boe.

When you look at the same figures in U.S. dollars, we've had an increase in the second quarter as compared to the third quarter because of FX variations. But when you compare the same figure to that of last year, we've had an improvement. Future projections is that we will further reduce these operating costs. So as we've seen in other areas of the company especially in Exploration and Production, PROCOP has been very successful in optimizing our operating expenses. So we're producing more at a lower lifting cost.

If you now look at the bottom of the page, you will see that oil production has increased from 1,922,000 to 1,972,000. The costs in dollars is growing because we've had quite a few workovers and also subsea maintenance where we need to work with PLSVs or rigs and the charging rates are fairly high. And we also have the number of days, the number of intervention days where we've seen a slight reduction in the second quarter of 2013, but the average will be about 700 days per quarter, between 872 and 647 as you can see on the chart.

So these were the figures I had to present. We have new units being interconnected. As soon as they have these interconnections, we will certainly see a lower lifting cost, which will contribute to grow our margin associated to the domestic Exploration and Production.

I will now give the floor to Director Cosenza from Downstream.

José Carlos Cosenza

Thank you, Formigli. Good morning, everyone. Today, we are presenting the results for Downstream as a whole. And you can be sure that I'm very happy to share the results because the numeric results and also the philosophies that have been adopted for Downstream can show extraordinary management results that I have a chance to comment on our presentation.

On the first slide, we'll be addressing oil product sales in the country. On the left-hand chart, the three bars about production, comparing particularly first quarter 2014 with the second quarter, a 3% increase in production or output for 2,124,000 to 2,180,000, a direct impact on gasoline and diesel, which are our largest local demands and also reflects basically from a downturn we had at REPLAN in March of 28 days and it resumed operation in the second quarter. So this difference is shown here.

But we also have reflex of our integration philosophy in the areas. And particularly, the new variable that we're using to improve the output, which is logistics, infrastructure at Petrobras which is outstanding and we're using it more than ever. This use of logistics is critical, particularly due to oil products handling, particularly gasoline from one region to another through coastal navigation. But

it's also very much related to the start-up of production systems for E&P, and we have some fractions of oil products that when mixed to the formulated mixes with the refineries can increase our gasoline output. So this is a total different moment at the company and areas have to be more integrated than ever.

And now when it comes to the product level, these products come out specified from the terminals where they are generated in the separation between liquids and gases in E&P, so they can be processed and mixed with our gas components we have in our refineries.

In addition to REPLAN, which led to this increase in oil product output, we also show our refineries from an excellent level of 96% to 98%. Oil product sales have increased, a 3% increase, levels in the second quarter of 2,440,000 barrels per day and basically an increase in diesel due to seasonality, a higher consumption in the second quarter; gasoline, the fleet and LPG due to the low seasons we had.

On the next chart, we show a significant outcome that we'd like to highlight. This is our record processing. It is a monthly record, a monthly average that we exceeded 21,000 barrels compared to the last record in March 2014. So, now we come to 2,172,000.

So, what contributed? What are the drivers? I insist again integration among areas, which is very key to us. It's no use having refining generating product, it will have outflow or who to sell to or how to handle and move all your products, adapting to all your product production and to our market's needs.

The start-up of new plants, conversion plants, the start-up of quality units and I will be addressing with you an important highlight, the start-up of a plant that is up and running right now, (22:23) of REVAP, which will add to diesel production from 10,000 to 12,000 barrels per day new diesel, so to speak, that we'll no longer have to import. And I insist integration and the elimination of logistics bottlenecks. These are the main drivers for the extraordinary record of 2,172,000.

On the next slide, I compare the liquid balance and we focus the lower import of gasoline and higher oil. When I talk about gasoline imports, based on the data, if you have a look in the first quarter compared to the second quarter, we have an average 58,000 barrels per day of gasoline imported; in the first quarter, 58,000 and in the second, 28,000. This is another - the first impact of the use of better infrastructure available, which is quite good, associating also to production. And some of the cut-downs that we can add to gasoline production.

So, lower imports and also a reduction which is related to something very important, which is an economic balance. Every quarter, we run our oil allocation models and we choose only the best ones available in our basket of oils, which include domestic and foreign oil. And this balance defines the volume of oil that we'll be considering, basically related to the market demand.

So, over the second quarter, we had higher imports of oil but consequently higher exports. And because this is under way, it is not shown in the balance sheet of the second quarter, but would definitely be in the third quarter. I mentioned lower imports of gasoline and the oil that I mentioned too.

On the next slide, as we process more and we strongly work to lower costs. PROCOP today is one of the major drivers of the company at large and it couldn't be different with Downstream. In addition to this additional process, our unit costs are very much according to our expectations. The outlook is to improve refining cost by 4%, inflation around 6%, and it shows the efforts made to lower costs in Downstream.

Like I said before, for the next quarter or the next half of the year, by year end, our opportunity, like I said before, is the start-up of RNEST. From November 4, we already be producing diesel and

also the start-up of HDT unit at REFAP, which is in progress that will bring a reduction.

So, for the next half year of the year, we'll be very bullish. We expect to maintain our capacity and we are very confident respecting the system integration. And we expect to maintain our expectations. That's all I had to say. These are the data that I wanted to share. And now I give the floor to Alcides.

José Alcides Santoro Martins

Thank you, Cosenza. Good morning, everyone. For Gas & Energy, the market demanded 96.3 million cubic meters per day. Out of the total, 38.9 are the non-thermal markets with a rise of 1% vis-à-vis the previous quarter. As a highlight, we can show a volume of 41.9 million cubic meters per day in the thermal market, which accounted for 11% growth vis-à-vis the previous quarter.

The thermal market allowed us to generate 4.7 average gigawatts or about 600 megawatts average above first quarter 2014, margin gains as well. The energy market maintained similar prices compared to the previous quarter, BRL 650 megawatt per hour and the unit cost of liquefied natural gas imported was 8% lower in the second quarter of 2014.

As to supply, we highlight an increase of 18% in the import of liquefied natural gas; supplying therefore, 22.1 cubic meters per day. But at one or two highlights, the growth of the national gas supply, which was 4%, reaching a volume of 41.2 million cubic meters per day. This growth is sustainable.

And just to give an idea, in July, the volume supplied to the natural gas market domestic was 45.8 million cubic meters per day; whereas in August, the volume supply were greater than 48 million cubic meters per day. As a result, our gains in margins especially due to the unit cost that was lower for LNG and also an increase in the domestic supply of domestic gas. That's what I have to say about Gas & Energy.

But it's also important to say that PROCOP also delivered results and helped to boost results in Gas & Energy by lowering our management costs. Not to mention, the whole set of factors that led to 22% greater results for gas and energy compared to first quarter 2014. That's it for now.

And now, I turn it over to Barbassa.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Thank you, Alcides. Let us have a look at the results. As a result of what we have reported right now in our operations, when we shared gains in all areas, the largest production and output, higher processing, higher deliveries of domestic production, more gas produced in the country to be used. So that's a scenario that led our operating income to grow by 17% in the second quarter vis-à-vis the first quarter.

And it was also helped by the real appreciation. The real is based on import costs of the product that is imported and sold in Brazil. So we had an appreciation of 6%, the average foreign exchange rate between the first and the second quarter. So that was quite significant in order to improve our operations and therefore increase our operating income.

In the first quarter, we also had our improved result by the provision for the voluntary separation incentive plan. And as a result, in terms of cost for the first quarter, we had BRL 2.4 million, which didn't happen over the second quarter. These two drivers were additional contributions to what we managed to achieve from the operating standpoint in order to improve our results.

In the second quarter, we also had a reduction in the exports of oil, as Cosenza mentioned before. And in the Brazilian trade balance, this is posted as exported. However, it left Brazil but it remains under Petrobras' control. And therefore, it comes back during the consolidated balance sheet, and therefore, this is not posted as result this quarter.

In addition, we also had lower disposal of assets in the first quarter. We performed BRL 630 million as assets disposed and in the first quarter, only BRL 230 million. As a result, there was a reduction of BRL 400 million between quarters. On top of that, we also had write-off of some projects at a lower volume this quarter. But despite all that, our operating income increased from one quarter to the next.

On the next page, we'll have a look at the net income. And we have basically two drivers and two elements that lowered the amount compared to the previous quarter by 8% because interest expenses have increased.

And why did it happen? If we consider the international scenario during the first quarter and also the outlook for the full year in Brazil, the Brazilian scenario, the company has decided to anticipate funding. So during the first quarter, we worked on funding for full year 2014, and that increased the company's gross indebtedness. Naturally, it went to our cash. But as a result of the same scenario evaluation, these funds were maintained in cash overseas, where the carryout cost is higher than otherwise or compared to if we brought it to Brazil. So, that led to an increase in expenses this quarter.

And on top of that, there was also a reduction - or better speaking, an increase in our indebtedness which is not capitalized due to the volume of works in progress. Several works have been completed. And at the same time, we also had an increase in our indebtedness that already exceeds the amount or the value of the work in progress. So, that is part of the interest are taken directly to results, and the number went up due to our debt scenario.

Another factor is the benefit we had in terms of tax credits abroad over the first quarter and they didn't happen in the second quarter, and it significantly increased the effective tax rate in the second quarter. So, these elements altogether led our net income to something around BRL 5 billion.

Now, I give the floor to Mario, who'll be addressing our programs.

Unverified Participant

Good morning. This slide highlights the impacts of our structural programs and also their impact on the company's net income. As officer Barbassa just said, we had BRL 5 billion in the second quarter 2014. Net of the structuring programs, we would have BRL 1.9 billion as net income. And if we include PROCOP, which is the Operating Expenses Optimization Program; or PRODESIN Divestment Program; and PROEF - but today I would like to focus specifically on PROCOP.

This quarter, it contributed with BRL 1.6 billion. The total savings that we had was BRL 2.4 billion this quarter. If we look at the full year - or the first half of 2014, savings of BRL 4.9 billion already come in to 6.8% of our annual goal of BRL 7.3 billion in savings over 2014.

So PROCOP does show the change in attitude and our efforts and endeavors at Petrobras and it shows what it means to have our staff continuously committed to productivity, trying to exceed PROCOP's goals after 18 months of implementation of the program. These efforts already reflected in indicators like lifting costs, refining costs, as our directors showed previously today.

But I'd like to mention another indicator on the next slide please, and I would like to share with you the wide coverage of PROCOP when it comes to general and administrative expenses line. The

upper part of this slide shows a chart where we can see such expenses on a half-yearly basis - 2011, 2012, 2013 until the first half of 2014 - and we highlight how such expenses have evolved from first half 2011 until second half 2012, 15.8%; and then 2013, growing 7.8%, and now already seeing the effects of PROCOP. And now from 2013 to first half 2014, growing 1.6% only. And I say only because that's an expense line that is very much affected by inflation pressure, and here we can show 1.6%.

In the lower part of the slide, the mid chart, shows how these expenses are broken down. 50% are employee compensation and the other 50% related to data processing, rentals, consulting. We can clearly see when it comes to expenses, we can see the impact of PROCOP.

Today, we have 60 initiatives related to PROCOP and they cover general and administrative expenses related to flight tickets, agenda for traffic, ground transportation for our vehicles, building management, energy efficiency and IT, printers, telephony devices, redundancy, et cetera. So, 60 initiatives altogether that allowed us to maintain these expenses year-on-year.

And now, at the bottom of the slide, when we check employee compensation, we start to see the impact of PIDV, which is the Voluntary Separation Incentive Plan. Up to April, we had on average 8,200 employees in administrative or holding activities, and in June a drop of 7% in the number of employees for these activities, which went down to 7,600 people. So, these numbers already reflect the attitude and commitment by Petrobras management and workforce, focusing on excellency and governance.

Barbassa, over to you.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Okay, Mario, let's have a look at the financial ratios. We've had - as I said already, our funding was concentrated in the first quarter so total indebtedness is at the same level as in the end of the first quarter. However, we've reduced our net debt by BRL 11.6 billion, almost BRL 12 billion.

Also here, we have a very interesting piece of information considering the current trend of output growth. What is this piece of information? Well, on the first quarter, we consumed approximately BRL 8 billion in corporate expenses, including investments, in addition to what we generated internally. That is, we increased our net debt BRL 8 billion in the first quarter.

Now, in the second quarter, we've increased our debt by BRL 12 billion, but we paid out dividends in the second quarter on our income of 2013, which is an amount of BRL 8.7 billion. Well, this is a one-time expense. At the same time, we had a Voluntary Separation Incentive Plan, which also consumed provisions in the first quarter. But as we look at cash, about 40% of the workforce that chose to adopt PIDV, the Voluntary Separation Incentive Plan, already left the company in the first quarter. So, we had payments in the second quarter to these former employees when we consider the BRL 8 billion invested in our operations.

Without any additional expenses in terms of cash in the first quarter as compared to the second quarter, where we consumed BRL 12 billion, of which BRL 8.7 billion was paid out in dividends and other BRL 1 billion was used in our Voluntary Separation Incentive Plan, so actually we consumed less cash for our operations - less than BRL 3 billion actually in the second quarter.

This piece of information shows a trend, the trend that we will continue to see. If we combine that to the growth we expect until year-end and our seek for parity between international and domestic prices, then we can have a clear picture of how we stand in this important aspect, important for the company, which is our debt and the use of cash, where will we obtain funding for our investment program.

Oh well, it's been clearly shown that cash will be coming from our operations increasingly more. That is from internal cash generation, because of the improvements we presented to you.

So in this quarter, because of - so typically, because of dividend payout, we had steady leverage and a slight decrease in our net-debt-over-EBITDA. Now, coupled to the future performance of the company, we expect to see improvement in the next quarters.

Now, in the next slide, as Formigli already showed, we will keep our projections of production growth. We already have firm elements pointing to this production growth; 7.5%, more or less 1%. This is the variation. It will help us increase our oil exports and, at the same time, we will have more gas available for the domestic market.

At this time, this is extremely relevant because we are currently importing LNG to be able to deliver to the domestic demand. And we know that in the second half of the year, we have a higher demand, and that is equal to 50,000 barrels of oil which is being imported as LNG. It is more expensive to use LNG to provide gas to Brazilian households. And so, this will bring gain to the company results.

But we must also add the production of oil products, that is with all of those - the effort to improve yield, our oil product output will grow, especially in the two products that are most important for Brazil; diesel and gasoline.

Now with that, I will conclude our presentation and we shall be available to entertain your questions. Thank you.

Q&A

Operator

Now, the Q&A session will begin. Mr. Caio Carvalhal from JPMorgan has a question.

Q - Caio Carvalhal {BIO 16605563 <GO>}

Good morning, everyone. I have a few questions. I'll begin talking about refining. I'd like to understand how you view the refining cost after the RNEST came in and what is the ramp-up phase? I mean, supposing the first refining train begins in November, when will be the second train - I mean the start-up and the ramp-up for the second refining train, and if you can associate that to the overall refining cost?

Second question about debt. I'd like to have some more data on CapEx and foreign exchange; what do you expect in terms of the evolution of your debt in the next two to three years? These are my questions for now. Thank you.

A - José Carlos Cosenza

Carvalhal, this is Cosenza. About refining, oh, well, RNEST is going to be our benchmark in terms of cost. It's not going to bring the cost up. I mean as soon as we have RNEST, it's going to become our refining cost benchmark because it's a new refinery, because it is an extremely sophisticated refinery filled with the latest technology resources, and the company management has to translate all of these advantages in terms of cost and the refining cost is going to show this.

Now, the start-up of the first refining train of RNEST is November 4; the second refining train, May 2015. RNEST is already starting the start-up procedures, because system by system are being released. There are some areas that - for example, surfaces, energy generation, water treatment, the distillery, I mean all of that has already been delivered. We are going through a turnkey process

so that we will begin to receive the equipment. So today, we're checking instruments, we're cleaning pipelines. So the start-up process for us has already started, and the ramp-up will be quick because of this. I mean as soon as the unit is ready to begin processing, then it will start production. I mean, we want to begin to produce diesel on November 4 to begin to replace imports.

Caio, about the debt and our prospects for the next two to three years, I shall confirm what we've already said in our business and management plan. Considering the evolution we've shown you between the first and second quarters 2014 production, I'm talking about oil production - oil products production and energy generation by the company - our projection is that already during 2015 and by year-end 2015 we will have a positive net cash flow in the company. And from then onwards, then we shall maintain that, naturally depending on our business plan. But I mean considering the current business and management plan, this is what we expect; a positive net cash flow by year-end 2015.

Q - Caio Carvalho {BIO 16605563 <GO>}

Okay, thank you.

A - José Carlos Cosenza

Thank you very much.

Operator

Mr. Chris Audi from Santander has a question.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. Yes, I had a few questions for Cosenza, Barbassa and Mario. Cosenza, can you please speak about this term? You've used a term here which is current exports or exports under way. I mean I'd like to understand the export processing a little bit better.

Second question is about refining. You mentioned that you will keep this utilization factor of 88%. So, does that mean you will not have any downtime scheduled or downtime?

And my third question, about PROCOP, can you give us some estimates? The same way you showed the impact of PROCOP on a few aspects, I'd like to know the impact of PROCOP in your cash generation and also the impact on EBITDA.

And finally, talking about debt in 2015, do you already have any plan for funding? I'd like to know the cost of debt for the company this year - I mean, until now comparing your recent funding activities to the funding you've obtained last year?

And my final question, are there any discussions at the board level about a potential adjustment and the timing, I mean when you would reach your debt targets? And also, the magnitude of the gap, I mean, is this a on-going discussion at the board or is this a discussion you have only when you prepare the business plan for next year? So these were my main questions, please.

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

Okay, Philip (sic) [Christian], about the utilization factor, we will not have any important downtime as we had in [ph] Hipler (53:19), and that's the reason why we believe we will be able to maintain the same utilization factor as we had in the second quarter.

Now, you've also asked about oil. When we sell oil, this activity, this transaction of exports will only show in our balance sheet when the owner of that oil changes. I mean, as we transport this oil, it

takes about 40 days. And that's why you have this gap, this 40-day gap, because the oil is being transported meanwhile.

Q - Christian Audi {BIO 1825501 <GO>}

And how are you going to account for that? I mean, just the same thing with imports.

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

With imports, it's different. When I have oil products - when I buy oil products, at the port of origin, it is already accounted for. So, this is a big difference between imports and exports and the way they are accounted for. Because oil projects are accounted for at the time of sale at the point of origin. But if it is oil, then it will be only be accounted for at the port of destination. So, these were the two questions about refining, right, Philip (sic) [Christian]?

Q - Christian Audi {BIO 1825501 <GO>}

Christian is my name.

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

Apologize, Christian, yes. So Christian, about PROCOP, we believe that the impact on cash will be the same as we saw in income; that is we will no longer have this operating expense so we will protect our cash flow. And then, we will have income tax, right, which will of course be due. So, we're talking about BRL 1.6 billion in terms of cash conservation or check or cash maintenance.

Now, Christian, about our funding transactions, about funding in 2015, it will be less than this year although I cannot disclose figures today.

Now, the target, the debt target, looking at our multiple, our leverage, we will continue to work as approved by our board. So at year-end 2015, 2.5 net-debt-over-EBITDA. And for us to attain this target, the line or the evolution in terms of our funding, or the balance between external funding and internal funding, this is going to happen by the mid-point of 2015 or during 2015.

Q - Christian Audi {BIO 1825501 <GO>}

Now, Barbassa, I was trying to understand, is this a continued discussion? Is this an ongoing discussion you have with the board about debt status? I mean, so you talk about the need for an adjustment, or if this is a discussion that happens only when you prepare your business plan, your strategic plan, that is at the end of the year?

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

Well, Christian, we talk about this in all board meetings. That is every time the board meets, we track this curve and we look at the evolution of the debt.

Q - Christian Audi {BIO 1825501 <GO>}

Now, the cost of debt, can you make a comparison between the cost of debt in 2014 compared to 2013?

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

Well, this is public information. Our funding, which is the most relevant event, if you look at the international scenario, it has changed. It has changed for everyone, including for us. So, the debt became more expensive compared to the debt of May 2013. This year in 2014, it is more expensive because the international scenario has changed. We have less liquidity on the international market today, especially because of the action by the U.S. government.

So actually, we believe that we've had quite good results. I mean the projections we had at the beginning of the year did not materialize. However, what we hear is that the cost of funding will continue to grow. However, for the company, it is important to see that we are now growing our production, and this production was funded by historically low funding rates. And this is very relevant for us because the production now was funded by cheaper funds. And now, in the current phase, we have a lower demand for third-party funds. It means that at the time we needed foreign funds the most was the time when we had a lower cost of fund. And now, we will have a return in terms of production.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thank you, Barbassa.

Operator

Gustavo Gattass from BTG Pactual has a question.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good morning, everyone. I have two questions that I just wanted to clarify. My first question, if possible, Barbassa, could you just comment more about the accounting part? We were trying to understand BR Distribuidora and the problem related to the electric industry. You accounted for BRL 7.2 billion as receivables from the electric industry. However, there is another note from (01:00:23) showing BRL 2.6 billion. So I want to know if this BRL 2.6 billion is included in BRL 7.2 billion or if that's an additional account. And if possible, the press said that Electrobras would already be offsetting this payment in a more robust manner. So, I just like to understand your comments.

And my second question is you've just discussed the leverage of 2.5 times. So I just like to confirm, our understanding is that every board meeting you would be considering getting to 2.5 times without having to increase gasoline and diesel prices. And our understanding was that you could wait at least up to now. So according to my math, I don't get it. So I just like to understand your attitude, by the board, does the company still envisage any possibility to get to this leverage level without having to increase prices in the short term? Thank you.

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

Gattass, electric sector, the two amounts or two values are separate here. We are not adding this gas that you mentioned. There is a huge effort. By the way, we always need that effort, but this effort became more intense, significantly more intense for the last two or three months. We're trying to find a solution to this scenario and we had a positive response. We already had partial payments and other payments are about to come, stemming from operations that are involved in Petrobras in the financial area and Electrobras. So, we're trying to come to a solution to this problem over this quarter, the current quarter. The idea is to allow Petrobras to keep on supplying, delivering to the sector without having to increase working capital for supplying purposes.

As to the leverage or net-debt-over-EBITDA ratio, according to our projections, we'll keep on emphasizing that we will get to year-end 2015 with our goals met. And that's a statement that is not only related to the board and also the executive board in our periodic meetings every month during our meeting with the board. So, this growth in the output is already an important driver to us. And our search for parity also continues to be discussed at these monthly meetings. And as we showed before, the use of funds for operating purposes dramatically went down on a quarterly basis and this already shows lower use of third-party funds. And consequently, we expect and we are working so that we can come to 2.5 times leverage by the end of 2015.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Great. If I may, just a brief follow-on question. So if the gas is not included in the initial account, if you really have an increase of BRL 1.15 billion in accounts receivable vis-à-vis EBITDA of BRL 808 billion, according to our math for BR Distribuidora, is that correct? Is it taking virtually the whole EBITDA due to this account?

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

Gattass, I don't have all the figures about BR with me right now. I can send you later, if you want. And I can't confirm if your calculation is correct. But you're right, there was an increase in debt, and therefore, allocation of resources to meet that goal this quarter.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thank you, Barbassa.

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

You're welcome.

Operator

Luiz Carvalho from HSBC has a question.

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

Good morning, everyone. I have two questions. Just a follow-up to the leverage question, Barbassa. You clearly mentioned 2.5 times net-debt-over-EBITDA ratio up to the end of next year. So is this the total - the 35% for the total is maintained, right? And is this in line with what you said before?

And the second question is to Formigli. Formigli, we've been seeing some movement by ANP in terms of the utilization process. We have also heard from Sapinhoá and other processes that are taking place in parallel and others are about to start-up. Considering Petrobras and ANP discourse, in terms of a possible direct transfer of rights to Petrobras about any possible additional payments in the areas that might be added or acquired by Petro directly related to ANP and to the union? And what about the local content and, obviously, any impact on your CapEx structure? Thank you.

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

Carvalho, answering your question about net debt over net capital, which today is at 40%, our goal remains to lower it down to 35%. However, we must admit that this is a real-denominated leverage. The bulk of our debt is in dollars. Therefore, it is heavily affected by the foreign exchange rates. And this impact from foreign exchange rate is also important for deleveraging purposes. So, that's a variable. Lowering debt by using the payment of the principal is one thing, but doing it related to foreign exchange variation is a totally different impact considering the dollar-denominated debt.

So in this case, we have to consider foreign exchange contribution. And in this measure of real-denominated leverage, well, we want to improve it. But reaching fully 35%, it takes also a different assumption of foreign exchange performance that should be favorable - would have to be favorable to us. But at the end of the day, what becomes even more significant is the leverage in dollars, which doesn't have the same impact and which is expected to be met. Thank you.

And now, I give the floor to Formigli.

A - José Miranda Formigli Filho

Luiz, the two examples that I mentioned of unitization with a sharing model of areas that today are under concession like Sapinhoá and Lula, what I can tell you is that these are marginal volumes which are outside the ring fence both for Lula and Sapinhoá. We are under negotiations with the government, particularly with PPSA and ANP. The topic is considered priority by these two authorities.

Consortia both for BM-S-9 Sapinhoá and also BM-S-11 with Lula are also coming to a schedule, as disclosed by ANP last week. This was announced publicly by the press, and this is fully compatible with our implementation of the project. There is no sign of threat to the projects' schedules.

In addition, as to your concern about local content and CapEx, there is virtually no impact at all since we're speaking of very low volumes compared to the volumes that are within the ring fence. And this is crystal clear and present when we discussed with the agency.

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

Now, if you're addressing or talking about sharing, I understood you were referring to these two areas, right?

A - José Miranda Formigli Filho

Right.

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

Now, just a follow-on question. Should you really acquire this volume even though it is marginal, as you said, any intention to contract or certify an agency or independent certifying agency as you did with a transfer of right just in order to certify the barrels, or would it be something that might not be so visible?

A - José Miranda Formigli Filho

As I said before, these volumes in Sapinhoá and Lula are really small. We don't see any reason to have this kind of contract for such tiny volumes. Please bear in mind that this topic would exist anyway if we were have unitization with another adjacent block and would require negotiation with another consortium. So in this case, volumes are really small and there is no impact on the economics of the project, okay?

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

Okay, thank you.

Operator

Mr. Bruno Montanari from Morgan Stanley has a question.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good morning. Thank you for the opportunity. My questions have been answered, but I still have a few other points. A question to Cosenza, looking at your wide guidance of refining cost announced in the first and second quarters, we could see an increase between 5% and 7% if it's in reais or dollars. So, I'd like to understand the driver of this increase, although it's not very significant.

And a question to Formigli about variations in terms of income tax when you have operations aboard. I'd like to understand if you have any provisions in the contracts of service providers which would allow for Petrobras to transfer or to pass on these additional tax.

A - José Carlos Cosenza

Bruno, could you please repeat the question? I did not understand your question about refining cost.

Q - Bruno Montanari {BIO 15389931 <GO>}

At the end of the first quarter, you presented a guidance of BRL 173 per barrel for 2014, and this amount has gone up to almost BRL 7 per barrel. I'd like to understand why the increase in the cost guidance.

A - José Carlos Cosenza

Well, this was an isolated effect. Basically, vacation in this period. So, it was a one-time event. Afterwards, it went back to the original amount. I mean, this is the data we have today.

A - José Miranda Formigli Filho

Bruno, this is Formigli. About our position regarding income tax on the chartering contracts of rigs and vessels, this is a topic of discussion. We are holding this discussion in our associations and also discussing this with the Brazilian Internal Revenue Service. This topic is being treated adequately. The discussion is fair. And we shall not make comments about the news that have been published about our position vis-à-vis these contracts we have with service providers, because this issue, this topic, is still at a level where we shall not disclose more information about the discussions we've had with these providers. Okay?

Q - Bruno Montanari {BIO 15389931 <GO>}

Okay, thank you.

Operator

Now, we have a question in English. Mr. Frank McGann (01:15:55) from Bank of America Merrill Lynch has a question.

Hello. Good day. Two questions, if I could. One is just in terms of lifting costs for pre-salt. You mentioned that you expect the cost to continue to come down from \$9. I was wondering what you think an ultimate average type of lifting cost could be for the pre-salt areas, (01:16:19) continue to be one of the most productive, plus the average you'll have maybe in other areas.

And then secondly, what is the status now of any planned asset sales going forward; what are you targeting, what do you see happening over the next 12 months to 18 months?

Well, we always made it public that this number of \$9 was feasible for the pre-salt layer and now we are demonstrating that this will materialize. Any additional projections will depend on the continuity of the current productivity we've had in most of our wells. So, the number we've disclosed and the number we used as a basis for our projects in terms of lifting costs is \$9 per barrel. Are we happy with this number? No, we believe we still have an opportunity to improve, but we cannot yet disclose what this margin would be, at least not until we are safe that we can actually talk about that.

As I said before, our productivity is still very high. We have another well, Lula 28, adding more production to our curve. And as soon as we can reach the top of the platform with only four productive wells, although we still have the cost of CO2, water injection. I mean the current cost is highly competitive, no doubt about this, even when compared to our projections for these projects.

Another number that has been maintained is the breakeven for the pre-salt layer concession area without considering infrastructure, \$45 per barrel. As you add the infrastructure to evacuate gas,

then the number goes up to about \$50 per barrel. Again, these projects are extremely attractive in economic term.

Thank you.

We have another question in English. David Gamboa from Tudor, Pickering, Holt would like to ask a question.

Q - David Gamboa {BIO 19204370 <GO>}

Good morning, everybody. Just a couple of questions from the operational side. So if you were to give a sort of priority, the development of your pre-salt fields, in particular Libra, Franco, Iara, Jupiter or South Guara, which would be your priority for developing this year?

And then, second question would be just based on the information that you've got to-date on Lula, when do you expect to see the water breakthrough or when do you expect to see the first signs of decline at the Lula Field? Thank you.

A - Operator

Regardless of translation or the name of the fields, I can tell you that our priority remains the same in terms of our business and management plan for 2014 and 2018. Everything you see there still applies. Continuity of projects under concession that we had sanctioned before Lula, Sapinhoá and projects that are under concession later on are also present - Carcará, Cernambi which is Iracema de Lula area - they will be, as expected, in our schedule. Jupiter was also mentioned. Just as Carcará, they will start up as of 2018 and 2019. We also mentioned Búzios, or the former Franco. The transfer of rights area is very clear there. The first output is 2016 for the transfer of rights. So, it keeps up and running. The outcome from the wells are very important. Platforms' in progress. So, Búzios first oil within the deadline and all the other areas of transfer rights according to our business plan.

Q - David Gamboa {BIO 19204370 <GO>}

What about Libra?

A - Operator

What still applies is the extended well test by late-2016. There is even a bidding process and we got the proposals. This is under negotiation for FPSO and the extended well test, and the first oil is expected in 2020 by Libra already announced by the consortium; the five partners plus PPSA. And surplus from the transfer of rights is already announced during the resolution disclosure. These are areas that, as we speak, are being discussed with the government when it comes to detail of the corresponding contracts. In our economic analysis, we expect first oil for 2021. Any changes to the schedule will be announced in a timely manner for business plan 2015-2019, but what really applies are the deadlines that I've just mentioned.

Oh, you had another question about the drop or decline. Luckily, up to now, there are no signs of a decline that characterizes big extension of the area. Obviously, in our simulations, we have something predicted in the decline. Our geology model and the flow model, both models are being gauged. I think we are bullish when it comes to the results of these models, but we don't have any forecast in order to announce any decline. In other words, as we speak, there is no kind of sign of reduction, be it in water production or a drop in pressure - a significant drop that might lower our output levels that we've managed to maintain both in commercial and TOD's areas. Because a very important extended well test right now is for Yara and we also managed to deliver from 29,000 to 30,000 barrels of oil per day, which is a great sign for our production development project in this area. Thank you.

We have another question in English. John Vaughn (01:24:21) from Northwestern has a question. Mr. John, please go ahead.

Hello, can you hear me? Hello? Hello?

Please go ahead, sir.

Hello?

John, you may ask your question, please.

Thank you. With respect to the pre-salt wells, have you changed your completion designs at all as time has progressed? And what are you seeing in terms of today's well productivity versus wells that you started a few years ago? And then my other follow-up is, are there any FPSO facility turnarounds that we should be aware of?

As to the pre-salt project, as the design, I would say the main change that we had to make has to do with the approval of the flexible line and, therefore, we have an option to connect the wells to the platforms with flexible lines, using the PLSV fleet, which is what we usually use at Petrobras very successfully. And certainly, we might even have the rigid alternative, be it in the coupled version or not. And this is represented by the Steel Wave Risers that can be directly connected to the platform, the Steel Lazy-Wave Risers, or the Subsea buoyancy system in both for Cidade de São Paulo and Cidade de Paraty. But our traditional option for the flexible lines, we managed to have the lines approved with a life cycle that can make the projects very feasible. And then, we have all the flexibility behind the concept when we manage our portfolio.

The second question was about well yield or well productivity. When we sanctioned this project, we considered or we still consider a productivity of about 20,000 barrels of oil per day. And today, our output ranges between 30,000 barrels of oil to 36,000 barrels of oil per day. Obviously, it brings a very good impact, both for Lula and Sapinhoá. And at the end of the day, we can have higher economics compared to sanctioned projects. However, we continue with this level of production via under concession or with a transfer of rights because Petrobras understands we need more time elapsed so we can change that in our projects.

And you asked a question about the turnaround or something about some FPSO related to what's happening in our production. If you're speaking of a turnaround in FPSO already installed, so we don't need any change at all. The plan up to now has been managing to handle very well the characteristics of the project, and both gas output or CO2 can be handled properly by the plants onboard no matter if they are Cidade de Angra dos Reis, 102,000 units; Cidade de São Paulo and Paraty at 120,000 units; and as of the fourth quarter, Mangaratiba and Ilhabela are greater with 150,000 units.

If I understood what you mentioned by turnaround in your question, I may have asked – or answered your question. But if you want to know something else, don't hesitate to ask again.

Thank you.

Pedro Medeiros from Citibank has a question.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Good morning, everyone. I have a question about CapEx and then two more questions, very straightforward questions. But first about CapEx. We could see that the CapEx of the first half and the second quarter had a drop in reals, as well as in dollars. If we look at the investment rate, the

total CapEx for the year seems to be lower than what we can see in your business and management plan. Now, can you tell us whether the investment rate will be maintained until year-end? Was there any change? Should we get ready for a reduction compared to your announcement in the beginning of the year? And do you already know how we are going to have the unitization of the new areas as announced last month?

And now I have a very straightforward question to Formigli. Could you give us a breakdown looking at the output for August, because you gave us the overall number? And I'd like to know the specific production from P-58, P-62 and P-55, because these are the three most relevant platforms for this quarter. And next, a question whether you are going to make changes in your refining facilities especially regarding gasoline and diesel, and how these changes will translate into the output for the next quarter.

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

Okay. Beginning from your question about CapEx, we maintain the projection announced early this year, although the performance in the second quarter is a little bit lower or a little bit behind our expectations. However, our projects are evolving as expected. And so, the CapEx for this year shall be maintained. Now, I'll give the floor to Formigli. He will speak about the payment for the transfer of rights.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay, Barbassa. Before you give the floor to Formigli, so this quarter, the performance was in-line with what you've expected? I mean, there was no improvement or no lagging behind compared to the budget?

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

That's right. That's correct.

A - José Miranda Formigli Filho

Okay, Pedro, about the payment of the BRL 2 billion bonus, currently we are conducting negotiations with the government and the only thing I can tell you right now is that the schedule we have announced until year-end, we expect to have these payments as announced. I cannot really give you further details.

A - Operator

Yes, I think he asked about the transfer of rights. You're speaking about the BRL 2 billion bonus associated to the surplus in the transfer of rights. I mean, because we only have to pay a bonus on the surplus. That's right, because this is still outstanding as you negotiate the contract?

A - José Miranda Formigli Filho

Right. So, my answer was correct. Our schedule is being fulfilled. We are conducting weekly meetings between the government and Petrobras. However, I cannot tell you exactly what month we will pay this BRL 2 billion about August production.

Look, here, this is only one week, a one week production in August. It was a good output. It clearly showed our production potential, which is growing in time. We have new wealth.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Where is that coming from?

A - Operator

Oh, well it's coming from where we have new oil, new oil being added, P-55, P-58 and P-62. These are the largest platforms. But as we started up one well in the pre-salt layer, that's also additional. When you have a production downtime and we continue to have downtime, we've just announced our production in July, when we had an average stoppage of 41,000 barrels per day and we will continue to have our downtime because this is part of our activity. This is part of our business.

You spoke about new oil. It's coming from these new platforms, but our output will vary in time. We will have more new oil coming in, new wells in P-63. We also have transfer of wells that were in FPSO Brazil to P-54 and also to P-52. So, this oil existed in the past. Today, it's not there, but it will come back in the next weeks or months. I think this was your last question, right? Okay.

Q - Pedro Medeiros {BIO 16187063 <GO>}

I also asked a question to Cosenza about the expansion of the refining capacity.

A - José Carlos Cosenza

Yes, you asked about additional production of diesel and gasoline in the next few months, right. Well, in Barbassa's presentation in his last slide, you could see our contribution for oil product and this is comparing quarters. So we are delivering about 90,000 barrels per day in terms of diesel and gasoline production.

Now gasoline, as I told you, we are using our logistic infrastructure better. We are transferring projects from one place to another, using coastal navigation. That is, we are using our logistic infrastructure better. Now about diesel, diesel was more difficult because this product comes basically from the utilization of our facilities. But from 840,000 to 917,000 barrels per day because we now have REFAP HDT, which will bring another 2,000 barrels of new diesel, diesel which was not being made and now this startup of RNEST. 70% of the oil coming in there will come out as diesel, which is going to be our best diesel conversion. So these are our projections for the short and mid-term, okay?

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. Thank you.

Operator

Mr. Auro Rozenbaum from Bradesco has a question.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

Good morning. Yes, I have two questions. First, taking from this last question asked. I'd like to know about the increase in gasoline output and the better use of infrastructure; that is, you had a limit in the production of gasoline. But this was not a limit in terms of capacity of the refineries. It was actually a problem or a limit in the use of infrastructure. I'd like to know more, if you could bring some more colors to this.

My second question is about oil imports in the second quarter from 359,000 [barrels per day] in the first quarter to 534,000 in the second quarter. And I'd like to understand a bit more details about this.

In our calculations, simple mathematics, the use of oil, the additional need for oil seems to be lower than in previous quarters. I mean, considering an increase of 50,000 barrels per day in terms of output, a decrease in exports, perhaps it's not that – perhaps it's only in transit and also an increase of 43,000 in throughput or processed feedstock. But we could see an increase of 165,000 barrels a day and a comment that this could have contributed to improve your (01:40:41) cost.

Now I can believe that most of the imports are now in the inventory, but there's also an implication on cost. Of course, we only have access to public information and so I'd like to have your help to try and understand these numbers. How can we reconcile the 54,000 barrels of imports with the numbers that you've shown us today?

A - Operator

Well, (01:41:19), Auro. Okay. Well, about logistics, I mean, when you have to change logistics, you have to study the processes. I mean it's not easy to decide a pipeline that you were using for three projects, now you're going to use the same pipeline for two projects. And you cannot stop or you cannot decrease your supplies, so we are changing a few pipelines. We had pipelines being used by two or three projects and now they're being used for only one or two projects. But we are improving also the utilization of these pipelines.

Basically, we use pipelines for diesel and gasoline, but we are now studying different ways of operating our pipeline. And these are efforts we are conducting right now. It's under way, but it's a very complex effort, because it - we always have to be very careful because we must ensure the supply to the market. So, that's something we have to be very careful about. And at the same time, we are working on improving our logistics.

But in the second half of the year, we will have higher volume. And the preparation of gasoline, which is something we did not do in the past, we are doing this on different points, in different places of the Brazilian coast because we have difficulty in terms of storage tanks. And the fractions that make up gasoline, if we have them available in our refineries, then it will bring important gains. It's not that we did not think about that in the past. Much to the contrary, we have been working on this, especially in REVAP and REPLAN because they could complement each other. But now the logistic effort is expanding throughout the whole country.

I'm not sure whether I answered your question, but your question is very comprehensive. But my answer - I mean, I'm telling you about the efforts we're taking and we have already produced results. I told you that we're now changing the way we operate pipelines.

Now about oil, the moment when we account for oil exports, the oil we export when it goes to the destination, when it reaches the destination port, it is accounted for. That is only when the oil leaves our vessel. But when I import oil, it's the same thing. I mean, when I load my ship, then I account for that oil. So, the numbers you mentioned include many transactions which are already in transit.

So, you have, both cases, imports and exports. As we import, as we load them, we already account for that. It will be inventory, but not yet, because it's in transit. But as we export, it's only accounted for at the port of destination. That is only when it arrives and it changes owner. That is the moment of the sale, the moment of sale.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

Okay. So for example, in this quarter, we can see a very easy calculation. Output minus exports minus processed feedstock. It suggests that there is an exception here of 267,000 barrels a day. It's a large volume, it seems to me, a large volume to be in transit. Is it possible to have this volume in transit?

A - Operator

We don't see the same number actually. So I believe that we could perhaps talk one on one, try to understand your numbers more specifically because our in-transit numbers are less than half of this number you mentioned. In-transit means that it is being transported in a vessel, 130,000 approximately, 130,000 barrels per day, half of what you mentioned.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

Okay. Yes. I will visit you next week and we can talk about that.

A - Operator

Yes. Please do that. Come here and talk to us, so we will clarify these numbers. Thank you.

Paula Kovarsky from Itaú BBA has a question.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Good morning, everyone. I have two questions. The first question is to Formigli. I think we have to congratulate what you've been managing to deliver output-wise. Formigli, what are your concerns or what do you consider to be a risk for the second half of the year and your expectations for grower output for 2015 considering the past and whatever is on track?

And maybe even more importantly, we are beginning to hear that - we can see that there have been some moves in order to try and anticipate any possible delay for platform delivery by 2016 and 2017 when we'll have a higher risk of local content due to more platforms to start up in Brazil and ensure production growth. And therefore, you would already start to send a couple of things to be done overseas, particularly the hulls (01:47:05).

So what about the dynamics? How do you see restriction to local content? Do you continue to be confident that despite all that, you'll continue to improve the outlook at a longer term for 2016 and 2017? So how do you track and follow up these things down the road?

My second question is to Barbassa. I'm sorry to go back to the indebtedness level. But I wonder if you could share with us the assumptions for oil and also foreign exchange that make you believe that by the end of 2015 indebtedness level would be 8.5 times. I guess everybody who is participating in this call had a hard time to get to this number. Maybe you're using different assumptions and maybe you can help us clarify this. Thank you.

A - José Miranda Formigli Filho

Paula, I can tell you that on behalf of the whole management and E&P team, I thank you for your compliment. You can be sure that all employees will get to know both the criticism and acknowledgement by you analysts because I know how important your point of view is vis-à-vis what we deliver. So first of all, I thank you for your kind words.

Now answering your questions. Obviously, the second half of the year demands very remarkable growth in production in a rate equivalent or even higher than we had in previous months. So we can re-achieve the 7.5% or 1% target.

So what about the main issues? I don't think they are a point of concern. They are more than concerns. They are occupations. So where do we focus our strongest efforts today? First of all, when it comes to Papa Terra project, we want to make sure that we manage to have the rig up of the rig, the tender assisted drilling within our schedule, so we can really start up production, which is just critical for the fourth quarter.

So P-63 is under control and we managed to anchor both units. We had their proximity two weeks ago. And now, we are in the rig-up phase. So that's what's happening in Papa Terra. That's what we remain busy now. And obviously, we want to continue interconnecting the wells.

Another very important point is to work side by side with our schedule for PLSV, so we can connect the 33 projection wells and also the injector wells that are also very important. We are also working on them. In statistics, all we show are the production wells, but we want to maintain productivity

gains and then you might say, okay, new PLSVs are coming up. That's true and that's why we have people working on acceptance tests overseas. So once they get here, the time to be released by authorities in Brazil, so we can really go offshore, be the shortest possible with a very low number of tests. So that's a very important action.

Another critical item, Paula, is diligent production of wet Christmas trees and flexible lines. You might ask, isn't everything ready? Nearly everything. And we also have some trees that have to be delivered in future months. We're kind of delayed, but we need them to be delivered by manufacturers. So that's another critical item.

As to Mangaratiba and Ilhabela, the fact that the units are ready, so to speak, they're almost at hand and as soon as they get to the location, we need to focus on anchoring operations properly as we expect to see. By the way, it's very similar to other anchoring we have, the polyester, torpedo piles. So we don't expect to see anything different.

But everything has to be within our expectations, so the oil will be delivered as expected. Another critical item is the performance of UMS, so we can ensure improved integrity and also efficient progress of the units under production. You may recall how this topic is still - it is still order of the day, but now we are managing to improve efficiency both in OU Campos Basin which is an older asset and also maintaining at the top OU Rio and Espírito Santo.

And by year-end, we also start Proef at Santos Basin because we cannot drop from 94%, 96% efficiency. And by year-end, we also have downtime. So, before you ask us, we need to do this stoppage within the scheduled maintenance program, so we can reach the average production that we projected. So I would say these are the most critical items that will really help us to achieve our goal as announced.

You also asked a question about horizon 2016 and our units in terms of delivery term versus local content. I guess that was your question, right?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Precisely. Or any preemptive delay or anything that has been sent abroad, do you do this very often and any stressing factor with the ANP? What about the local content?

A - Operator

Got it. So, local content vis-à-vis delivery date for the units. The delivery term in 2016, if you look at our business and management plan, this is critical. It must happen. So we have another inflection in our output curve to get to 3.2 by 2018. So with that, we're already working heavily particularly, Figueiredo, our Director, working with units for 2016 and 2017.

When you asked me if we are allocating some units overseas, what we are doing is to render services that don't threaten local contacts in our contract with the agency. We have emphasized a lot that our priority is the output curve. We'll keep on tracking it at any cost and we'll have the local content as a policy, as a condition. And whenever we realize there is an opportunity to lower risks in terms of the delivery date of the plant and with no threats to the minimum contract terms with ANP. So we can really do part or the whole conversion or part of the module overseas, we will certainly manage that.

We need to make it happen. So we can be sure we'll have the units delivered within the schedule, which doesn't mean that we are really making a lot of effort with our shipyards and the construction sites for the modules, so they stick to the delivery schedule. We've been having weekly meetings, both in-house and also with suppliers, in this case, EPC agents. So things really happen according to our agreements.

Up to now, if you ask me if we have any problems with the agency, the answer is no. We've been managing to meet our contracts. So we don't expect, at least for these projects, any contract problems when it comes to local causes. If there is any reason or justification for negotiation purposes, we'll certainly contact ANP. But so far, no reason to do that.

Q - Paula Kovarsky {BIO 15363001 <GO>}

So just double-checking, you mentioned 41,000 barrels per day of maintenance cost or scheduled maintenance, is this what you expect to see again in the second half or would it be around 60,000 as usual?

A - Operator

The 41,000 is the number written on our production note that was announced today. Actually, it was disclosed this weekend, but we repeated it again today. In the second half of the year, usually, our downtime levels might be higher, and that's what we'll do this year, too. So that the average this year will be around the same average we have last year. It is with this projection that we'll be doing our business.

So these stoppages are necessary. We can't avoid them. We want to lower hours and you can be sure just as we control the start-up day of the new plants, we also control the units of each one of the scheduled maintenance actions. Gerardo and Mauro Rodrigues (01:57:27) work this all day long with the general managers of each units. We know the difference it makes at the end of the day, just a couple of hours in production.

So in answering your question, the level of average level of stoppages over 2014 would be similar to 2013. Therefore, in the second half of the year, we expect to see a slightly higher level of stoppages compared to the first half, okay?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay.

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

Paula, as to the assumptions we used in our projections here, first of all, we have the business and management plan. In terms of crude oil, it would be around \$105 this year, and over time, migrating to \$100 per barrel. So, for 2015, we might expect around \$105.

As to foreign exchange rates, in our business and management plan, which was the base to project the leverage by the end of 2010 - or, correcting myself, 2015, it was BRL 2.10. But according to projections, we do have some leeway or a possibility to meet our goals if we have BRL 2.30 for an exchange rate. So, these are the assumptions we work with.

Q - Paula Kovarsky {BIO 15363001 <GO>}

So, this leeway assumption implies significant increases in diesel and gasoline, right?

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

We've always worked in this area searching for parity. We are not considering date price.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Thank you, Barbassa.

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

You're welcome.

Operator

(01:59:41) has a question.

Thank you for the opportunity. I have two questions. One is also about prices. There was a process at CVM whose vote was not posted in the meeting at that time, at that time which was in February. But it seems to me in February 2014, the board of Petrobras said in the meeting that there was zero probability for the company to reach the target debt level if the prices of diesel and gasoline were to be maintained. This was in February, now we're in August. So I'd like to understand what has changed when you say that you will be able to achieve your target debt.

And another question related to that, whose responsibility is it for the prices to be maintained? Is this under the board's responsibility or the management? And the other question goes to Formigli, I'd like to understand if we can quantify penalties or fines that ANP has issued against companies or operators because of not meeting the local content? And if this number is expected to grow in the future? Thank you.

(02:01:15), I will begin to answer talking about local content versus fines. At this time, ANP is talking to us, we are presenting answers to audit questions about a few blocks, the 5th, the 6th and the 7th round of bidding. And if you look at the potential of fines, we still don't have numbers. Why not? Well, of course, we work with different scenarios.

But we are showing ANP, we're showing the agency evidence that either we attain that level of local content, as we see in the contract. And if we do not, especially during the exploratory phase, we would have to prepare justification for that. However, what I can tell you now is that in Petrobras' opinion, this is going to be a small number. I'm not going to continue in this discussion because I understand that we're currently presenting our evidence to ANP, to the government agency.

Of course now, the agency will have to accept or not our documents. If they do not, then we shall find other evidence for ANP to accept our response and only after that do we begin to talk about the possibility of a fine.

Let me now give the floor to Almir. He will answer your questions, your other questions.

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

Well, your question about what was said in February and what is said today, well, there are variables that have changed in this period of time. One of them was the appreciation of Brazilian real, which is very relevant. So, these are different points in time. And in each point in time, there are different variables that have to be considered. We may have a situation where we did not - where considering all the variables at that time, when we believed we would not be able to attain the debt target. But these factors have changed. And so what we have today leads us to the conclusion that we will be able to attain the debt target. Considering the numbers we have, considering the projections I mentioned, we believe this target can be achieved at the end of 2015.

Q - Operator

Thank you. Now, in fact, the output outlook remains the same. It is still solid, but it's not bigger than before. And when we talk about foreign exchange, it helps very little in this mathematics. I can therefore understand that considering price increase has not yet been approved. Then, in fact, we would perhaps expect a higher price increase in the future. That's how I understand that. Thank you.

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

Oh, well. Then it depends on what happens to the variables and the way you include these variables in your economic model. But our target is very much consistent with the projections and the data we have so far.

Q - Operator

Perfect. Thank you.

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

Thank you.

Operator

Thank you. And this time, the Q&A session of the Petrobras conference call is over. CFO, Almir Barbassa, will now make his final remarks. Please, Mr. Barbassa.

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

One more time, I would like to thank you all for participating in this meeting talking about the results of the second quarter 2014. I hope to see you all in our meeting in the third quarter. We will continue to work to deliver our targets to grow our output and the company's results. Thank you.

Operator

Thank you. Ladies and gentlemen, the audio of this conference call for replay and slide presentation will be available at the Petrobras IR website at www.petrobras.com.br/ri.

This concludes today's conference call. Thank you very much for your participation. Please hang up your telephones...[Ends Abruptly]

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