

Q1 2014 Earnings Call

Company Participants

- Almir Guilherme Barbassa
- José Alcides Santoro Martins
- José Carlos Cosenza
- José Miranda Formigli Filho
- Maria das Graças Silva Foster
- Unverified Participant

Other Participants

- Bruno Montanari
- Caio Carvalhal
- Gustavo Gattass
- Lilyanna Yang
- Luiz Felipe Carvalho
- Paula Kovarsky

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Petrobras Conference Call with analysts and investors for the presentation of First Quarter 2014 Results. Like to inform you that participants will only be listening to the conference call during the company's presentation, which will be conducted in Portuguese with simultaneous translation into English. This broadcast is being recorded.

Present with us today are Mrs. Maria das Graças Foster, Petrobras CEO; Mr. Almir Guilherme Barbassa, Petrobras Chief Financial and Investor Relations Officer; Mr. José Miranda Formigli, Exploration and Production Director; Mr. José Carlos Cosenza, Downstream Director; Mr. José Alcides Santoro, Gas & Power Director as well as other company executives.

Before we begin, let us hear from Mr. Lucas Mello (01:45), Manager of Investor Relations. Please Mr. Mello, you may begin.

Unverified Participant

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

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Before we continue, I'd like to remind you that this meeting is being recorded. Please be mindful of slide number two which contains the Notice to Shareholders and Investors. The words, believe, expect, 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 reals as well as in U.S. dollars, both in accordance with International Financial Reporting Standards, IFRS. However, today's conference will be limited to figures expressed in reals.

At this time, I call on CEO, Graças Foster, who together with other Directors will present Petrobras results and the main events that took place in the first quarter of 2014. Afterwards, we will be answering questions from participants. Please, Mrs. Foster.

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

Good morning, everyone. We will begin by looking at our operating income in the first quarter which was R\$7.6 billion, 8% higher than our operating income in the fourth quarter 2013. Comparing the first quarter 2014 to the first quarter 2013, if we exclude provisions of R\$2.4 billion related to the separation incentive program, the operating income of this first quarter 2014 would have been the same as the income in the first Q 2013, approximately R\$10 billion in both quarters.

Now, we've had an effect of diesel and gasoline price adjustments approximately - well, 8% in diesel and 4% in gasoline took place in November 2013. Therefore, in the first Q 2014, we had the full effect of these price adjustments that happened on November 30, 2013. We've had a lower share of imported diesel in our sales, which also favored our results. Absence of the impairments in the first quarter 2014, lower oil production reducing exported volumes and provisions for the payment of the separation incentive program equaled R\$2.4 billion.

In our next page, we can see our net income 14% lower than the net profit of the fourth quarter 2013. The difference is approximately R\$900 million. Some effects led to this result. Basically, what we had in the fourth quarter 2014, which was the tax benefit, equals R\$3.2 billion, which was a provision of interest on capital as well as provisions for the separation incentive program, which impacted on the net income by R\$1.6 billion. Were it not for the separation incentive and other minor effects, we would have had a net income in the first quarter 2014 of R\$7 billion in line with the first quarter of 2013 which was R\$7.7 billion.

In the next slide, we are talking about Petrobras operator. As of this quarter, we will be showing you, ladies and gentlemen, Petrobras operator production, and in a separate slide, Petrobras production for our own consumption. So we can see that in March 2014, in March as I said 2014, one more time, in March 2014, our production was 2,014,000 barrels per day, which means a production of 88,000 barrels per day offered to our partners. So our average production was 2,004,000 barrels per day in the first quarter 2014. You can see circled in red the months when we had new units coming into production such as Cidade de Sao Paulo, campo de Sapinhoá on January 13, next Cidade

de Itajai Baúna in February, next Cidade de Paraty in June, P-83 Papa Terra, then P-55 and P-58 in Parque das Baleias; therefore Petrobras operator projection 2,014,000 barrels per day.

Our next slide, please, you can see Petrobras production in the first quarter 2014, which was 1,922,000 barrels per day in line with our plan for this quarter. You can see the green curve at the top, and they - maybe blue curve below that one. This is the difference between our production at Petrobras operator and Petrobras production generating results for our own balance sheet. I can tell you that this participation of 88,000 barrels per day will grow, that is our production for our partners is very significant now in April.

We've had a few events that favored production, and we've also had a few events that postponed our growth, nothing too different from our projections. It is a fact that the limited availability of PLSVs have slowed the pace of wells' interconnection. However, we have been able to overcome this limited availability, because in 2014, we will receive eight additional PLSVs so that we will be able to interconnect our wells at a faster pace. We've had the demobilization of FPSO Brazil and the complete stoppage of Marlim P-20 for 103 days. We informed you actually we had fire in the chemicals line in Marlim field. But the fact is that we have been able to overcome this challenge in a very short period of time. At first, we believed we needed nine, 10 or even 12 months for recovery. However, we were able to recover in 103 days. Today this unit is producing regularly.

We've also faced challenges regarding the P-63 and P-61 BSRs, the buoyancy riser support. These are innovative systems, and they required more man hours, more operating care, and actually they posed more operating difficulties than planned. However, we've been able to overcome the challenges regarding the buoyancy riser support system, and the interconnections of P-61 and P-63 were also difficulties that we've been able to overcome. We've had delays in the delivery of platforms by shipyards on average, except for P-55, which had a delay of one year regarding the plan. But the other units were also delayed between four to five months as regards the estimates for first oil, which were prepared early in 2012. So for us, this was a difficulty we had to overcome, because we need this first oil as soon as possible. But we are still in line with international metrics.

Regarding production records we've hit in this quarter, our calendar was very successful in February, March. Up until now, May, we've had the interconnection of the first well on February 18 with FPSO Cidade de Sao Paulo. This well has the highest production in the country, 36,000 barrels a day. On March 17, Parque das Baleias, we were able to conclude the interconnection of yet another well. So, in three wells, we had 50,000 barrels per day. Then we've interconnected the second well to the first buoy of Cidade de Sao Paulo, 35,000 barrels. And May 9 was also a very good day for us. Last Friday, when we had the board meeting, one more well was interconnected with BSR2 in FPSO Cidade de Paraty. On that date, May 9, 32,000 barrels per day. But as these wells have a high productivity, I would say, exceptional productivity.

Also on May 9, an extremely important landmark, we've completed the installation of the fourth BSR, the final buoyancy riser support system. The size of this BSR4, we've spoken about this innovative technology because it is spectacular. This buoy is 40 meters wide,

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50 meters tall and 10 meters long. You can see the yellow central portion on the slide. It's precisely the buoy. On top of this buoy, we've had workers, we've had operators. You can see the height where they are working because this is truly a huge buoy. Now this is innovative technology. We've been able to overcome the challenges and we and our partners today have mastered this innovative technology.

So from February 18, up until March 9, we've had an extremely successful calendar. And today, we will have P-62 producing first oil in the next few hours. Now our record curve; let me call your attention to April 18. This was the record for the day, 444,000 barrels on this date coming from the pre-salt.

Next slide, you can see our production target for the next few weeks. P-62 shows up here. May 14, is our expected date. Actually we expect that during this conversation, we may be able to announce first oil coming from P-62. However, we've kept our target of 7.5%, one percentage point. Both our units are already producing or practically ready to start production. This is the case of P-62 then P-61 too plus TAD. We expect to have first oil not in the second quarter but now safer on the third quarter 2014. We also have FPSO Cidade de Mangaratiba with 91% completion or physical completion and Cidade de Ilhabela; we kept our expectation for three quarter 2014. (15:22) Iracema fourth quarter 2014, that is, our new units are ready or almost ready. These two, Ilhabela and Mangaratiba, are actually ready to start productions.

Now, for 2014, we have 65 production wells to interconnect. Until now, we've interconnected 20 wells already. As I said, the PLSVs are still challenges that we expect to overcome very soon. Formigli will provide further information about the PLSVs.

We've spoken about the maintenance of our production curve. Today, we have the oil production from existing systems - that is the systems that have already been producing in the company. One more time, in April, we've had very good results in Campos and Rio operating units. In Campos operating unit, we've been able to increase average production and operational efficiency came up to 81%. This was an achievement of our program to increase operational efficiency working specifically in the existing systems and the highest value in the last 46 months in terms of operating efficiency in Campos Basin. We've had a production gain of 43,000 barrels per day in the first quarter.

And in Rio operating unit in the last 40 months, we've been able to post the highest operating efficiency of all time, 96%. So, Campos and Rio operating units during the first quarter, we produced 58,000 barrels per day, which is a very good result. This is a struggle we maintain every day. Not only do we produce more oil from existing systems, but we also provide safer conditions, which is only fair on our part. So after two years of efforts, we have been able to bring these two operating units to the levels we consider adequate, considering the age and the conditions of these production units.

We launched this month, we launched in Espírito Santo operating unit the same PROEF program to increase operational efficiency. We were there together with the managers and now we will do the same thing at ABS. We have to maintain our capacity to plan and to maintain high level of our existing systems.

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Costs, more operating activity, and here I want to talk about lifting costs. We've been working strongly to reduce lifting costs. This is our routine work. We want to increase refining, increase capacity, but always keeping an eye, keeping a close watch on cost. We've had more operational activities with constant oil production. We've had more activities for example in the last line days of workovers from PROEF. So, we've had a very significant growth.

If you look at 2013, 3,479 days, we have more stationary units today, and until the end of this quarter our production has been kept in line. We therefore have been able to stop or to break the growth of costs if we compare the first quarter 2014 to the last two quarters of 2013. Also in dollars, but also in reals, we've had cost reduction. The production was kept at the same levels and we've had much more activity in cost reduction. If you look at our productivity increase, this was the main factor.

Let us talk about refining now. For refining, the oil production totaled 2.124 million barrels per day. In the first quarter of 2014, we had a production that was higher at 19,000 barrels of oil per day vis-à-vis the fourth quarter of 2013 and also production virtually in line with the third quarter of 2013.

As to sales, in sales, due to seasonal reasons in the first quarter, the sales of oil products went down. It went down in the first quarter of 2014 vis-à-vis the fourth quarter of 2013. I'd like to call your attention to the fact that the same sales that went down compared to the previous two quarters, went up by 58,000 barrels vis-à-vis the first quarter of last year.

On the right hand side of the slide, diesel gasoline had dropped in sales for seasonal regions and also LPG. Like I showed for E&P, now I show the record production of oil products in Brazil in our 12 refineries. In March, we had a new record, monthly records, in these 12 refineries. You will see that if we considered from 2012 until we are 2014, if we subtract 2,151 minus 1,997, our refining gain with the same (21:49) is 154,000 barrels. And it's slightly more than two years of intense work pursuing this increasing productivity. So that's precisely where something very close to one (22:06) train, which was 155 barrels. H1 (22:09) RNEST is 115 barrels. RNEST, the first train, is expected to start in November this year. So we'd have 154,000, which is less than 115,000 barrels from RNEST that starts in November this year. What about 2003? 1,639,000 barrels per day compared to 2,151,000. The difference is more than 500,000 barrels. 500,000 barrels without a new refinery is more than our greatest refinery, which is REPLAN, with a capacity of 415,000 barrels per day. These are excellent efficiency levels. The factor of use is 96% in the first quarter of 2014.

On the next slide, we show our refining costs in Brazil. In this case, the whole effort to improve our productivity and lower costs is very clear in refining, both in dollars and also in Brazil reals. We had a significant drop in these costs, which are lifting costs. As to refining more specifically, reduction - or increased productivity and reduction in costs stems from something very clear, not only due to optimization and improvement of our operations, but particularly due to the increase in oil products.

In fact, we had a significant reduction in refining costs in Brazil. For Gas & Power in the first quarter of 2014, supply to the market was 89 million cubic meters per day supply to the market. Additional 9% compared to the fourth quarter of 2013.

If you look at the first quarter of 2014, the first quarter of 2013, we can check the supply of natural gas. And you see that domestic gas delivered to Gas & Power, there was a variation from the third quarter of 2013 to the first quarter of 2014 of minus five million cubic meters per day of gas delivered to E&P. And because we have a demand of 88.5 million cubic meters per day, we'll have to provide additional gas to meet the thermal and non-thermal stature with liquefied natural gas, which has a higher cost compared to gas produced in Brazil.

We also had to bring more gas from Bolivia with a new agreement with Bolivia in order to meet the thermal sector demand. Actually, by buying more gas from Bolivia, Gas & Power had 100% of the thermal demand and 100% of non-thermal demand.

On the next slide, we have record delivery of natural gas in Brazil on March 26. We delivered 101.1 million cubic meters per day. We also had a monthly record in March. Our monthly record was 96 million cubic meters per day of gas delivered. We also opened a terminal of regasification in Bahia providing more or safer supply of natural gas in Brazil with a third regasification terminal in Brazil.

In the international area, our result is very good in our international area. That's for the first quarter of 2014. Our result was R\$753 million, greater than the result achieved in the previous quarter, in the fourth quarter and also higher than the first quarter of 2013. This result stems precisely from oil and natural gas production. We had a higher production in Cascade and Chinook wells, exceeding 18,000 barrels of oil equivalent per day, lifting costs from \$11.72 per barrel to \$7.85 per barrel.

As to refining, I highlight Pasadena. In Pasadena, during the first quarter of 2014, exactly as in the fourth quarter of last year, we had 113,000 barrels per day of processed oil or light oil coming from non-conventional oils stemming from Bakken and Eagle Ford. So this light oil has brought to us a good opportunity to generate results in this refinery, Okinawa, lower refinery rates stemming from steady maintenance for 39 days. And this refinery runs around 50,000 barrels per day, Okinawa refinery, for economic reasons. Refining costs also went down with a good performance at Pasadena. Refining costs went down 18%, reaching \$3.66 per barrel.

What about our structuring programs? This is how we've been working for the last two years, seeking efficiency, productivity, cost reduction, working within programs, programs that have been followed-up and whose goals or results have been followed-up by the management of the whole company on a monthly basis. So, this is how we work, with clear goals, clear indicators, and results achieved.

During the first quarter of 2014, we had a positive effect on the net result of the company of R\$2.8 billion during the first quarter. The main highlight is PROCOP, due to the reductions that we have achieved and also the optimization of our work between

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companies. A very interesting example by PROCOP in the first quarter is the interface between downstream Gas & Power; if you look at the joint result, the best result of the company. Locally, we might have some loss in Gas & Power or downstream, but the overall result is positive to the company. And that's the goal pursued, for instance, in the generation of electric energy, with prices and high different settlement price. So if it weren't for PROCOP, if we didn't have PRODESIN, which also had a lower stake this quarter, but also contributed to PROEF, our net income would not have been R\$5.4 billion this quarter, but rather R\$2.6 billion this quarter.

Now these structuring programs have an impact on cash, and now we consider that divestment program or the INFRALOG program that has integrated management of logistics program and the cost reduction planned for subsea instillation and also for reduction in well costs and also PROCOP like we mentioned before. So, all these programs all together bring a direct impact on the final cash of the company.

We are speaking of an impact of R\$3.1 billion delivered by these programs rather than R\$78.5 billion in the company's cash at the end of the quarter. The first quarter of 2014 we would have had R\$75.4 billion, once again, and once again highlighting our operating expense optimization program.

Now let us look at the financial indicator for Petrobras. Petrobras is a company that keeps on having full access to financing. What about access to the market? Let us start on the left upper part of the chart. In the first quarter 2014, two bond issue took place, one in January and the other in March; in January in euros and pounds and in March in dollars. In January, in dollars, the issued totaled \$5.14 billion. And I call your attention to demand, which was higher than we supplied in securities or bonds. Demand was \$15 billion. In March, we totaled \$8.5 billion. And once again, demand was higher, \$23 billion.

If we also consider funding that occurred in the first quarter of 2014, in this quarter, our cash and cash equivalent totaled R\$78.5 billion. As to indebtedness indicators, when you look at the right right-hand chart, our leverage remains between around 39% and net indebtedness or net debt over EBIT will move from 3.52 to four times. This growth stems from PIDV or our voluntary separation incentive program accrual. This amount or this voluntary separation incentive program provisions also have an impact on EBITDA and that explains the reduction in net debt or this growth rather in net debt over EBITDA ratio. A sensitivity analysis excluding the effect of the voluntary separation incentive program indicator would be 3.43 times in the first of 2014.

Concluding this part of the presentation, I show you the slide with a voluntary separation incentive program - PIDV; and due to this plan and also on the next slide we justify my presence in this meeting. Usually, I don't attend this meeting or this presentation or the earnings presentation. However, the voluntary separation incentive program or PIDV 2014 is actually a plan that happens after another 14 voluntary separation programs that happened throughout the company's history. The last one happened in 1999, but there is no doubt that this voluntary separation incentive program is the most comprehensive of all the plans we've had so far. Enrollments come to 8,298 employees or 15% of our employee compensation.

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As I said before, the cost of this program is R\$2.4 billion. And this program is also part of the actions related to PROCOP, the operating expenses optimization program of our company. Cost reductions that will be achieved over 2014 to 2018 is R\$13 billion and this shows the importance of this plan. It is actually extremely relevant to deliver our performance and productivity by our company, so we can really meet our business and management plan from 2014, 2018. Our assumption is a replacement of 60% of our separation and certainly top priority is to replace the operating areas.

Separation forecast, 55% of our employees are expected to leave the company, those that were voluntarily enrolled to the program. And this is expected to happen by the end of 2014. The bottom chart if you look at 2013 and 2014, we can see the exit of these employees, and this is expected to happen in this year, it's something around 4,600 employees approximately. In reality, employee compensation performance from - it's close to 18% per year, and we expect that from 2014 to 2018 this performance will be around 3% per year. So the numbers that appear now in blue will show the number of employees, which is expected to be flat and confirm over June and July. We'll have a program known as (36:58). In this program, we also adjust more properly in future weeks our projections for the number of employees that will be year-on-year.

Actually, we have a constant number of employees. Our head count will remain flat. And we'll be - we expect to see the same kind of progress over career building, the same promotion programs. But this time we'll have employees that will be staying for a lesser time at the company, younger employees that imply lower costs. So that's a big important program to our company.

Right now, I would also like to share with all of you and also thank you on behalf of Petrobras management. We do recognize all these colleagues that are leaving our company or that will leave our company over 2014. Several employees have already left us on May 5, others will leave us on July, so our special thanks and our acknowledgement to this amazing company that our Petrobras colleagues have helped to build over their stay at the company. Thank you very much on behalf of the company's management.

Finally, this is not a slide, but it's my final comment to you, refers to the processes of investigation we've set up in the last few months. We have answered different questions. We have been inquired not only at the House of Representatives, but also at the Senate. We have answered questions about facts, which are extremely unfavorable for our company, and we have been working hard to investigate many of these episodes, such as the SBM Offshore situation. We have our own internal investigation committee. They conducted investigations during 45 days, and regarding Petrobras action regarding our operations, there are no facts or a document that would document the payment of bribery to any employees of Petrobras. The final report by the Investigation Committee was offered to the national authorities as not only executive and legislative, but also judicial authorities.

In addition, we have other investigation committees, one about Ecoglobal, whose objective is to investigate the possibility of non-conformances in the agreements signed with Ecoglobal, Ecoglobal Service Company and Ecoglobal Overseas. At the same time, we have investigations regarding the agreement with Astromarítima to disclose or to

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discover possible non-conformances in these contracts. Both Ecoglobal and Astromarítima will have the investigation completed until the end of May. And there are also two other investigation proceedings about - well, one of them about the acquisition of a refinery. We're now speaking about RNEST refinery and Comperj refinery and these two investigation committees - I'm sorry, I said acquisition, but it's not acquisition. It is the contracts for the implementation of RNEST and Comparj refineries. These investigations will continue in June.

And finally, the investigation about Pasadena; we are close to the completion of this investigation procedure, which is investigating the acquisition of this refinery - Pasadena refinery. We will identify responsibilities if any during the acquisition of this refinery. We will investigate all facts that may have led to losses for the company. So, talking about these investigation committees, the number one message is the commitment of the company's management and the commitment of the company's employees. This is a commitment of the whole company with ethics values and transparency in all operation of Petrobras.

So, thank you very and have a good day. We are now ready to answer questions from participants.

Q&A

Operator

[Operation Instructions] Mr. Bruno Montanari from Morgan Stanley has a question.

Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you for the opportunity. My first question is about downstream. You now have refineries in a partnership. I know there is a discussion with possible partners and one of the issues of discussion is premium and also CapEx. Now, also talking about price adjustments, we've had just one increase, which has contributed to reduce the gap. We still have a lot of pressure. I'd like to know from you what we can expect from now onwards about the possibility of price increases.

A - Operator

Now, about our new refineries, we are working to implement international metrics until the end of May. We will launch the IPC proposal for these two refineries. Now, about the possibility of partnerships, we are analyzing that and the evolution of this joint venture will have a final position until year end. About methodology and the discussions with the board of directors, every month as we present results to the management, we also have an outlook. We also discuss an outlook for the year and the affect on our business and management plan. This is something we discuss regularly and it will be applied as decided. So the board of directors also holds a monthly meeting. We receive guidance from the Board to adapt our net debt EBITDA. So we have received this guidance a few months ago. Every month, we present to the Board our CapEx and the price evolution and the non-parity between diesel oil and gasoline. And we also talk about projections in probability and also - and deterministic its terms. So, we are following this guidance, and

we are currently analyzing when this methodology will be applied, possibly still this year, 2014.

Mr. Vicente Fyan (46:16) from Bank of America has a question.

Good morning, everyone. I have a few questions. First, about Promega evolution, when do you believe we will be able to see the results of the import reduction program? We paid 24% income tax. I'd like to know what we can expect for the future if we can expect a reduction or if this was only this quarter. Thank you.

Consenza, please?

A - José Carlos Cosenza

Promega is a program to optimize the production of diesel and gasoline using the existing facility. And the results can be seen already; a capacity increase in the last few years came strictly from improvements in operating efficiency, new units that came to our refining facilities, which allowed for different scheduling in oil projects and now together with our new plans conversion coke, it allowed us to have a significant improvement in our refining operations without any additional investment. That is, additional to what we had originally planned. So these results are already coming from Promega. Now, complexity has increased by 40%, which is very relevant piece of data and also what we see happening in the company as a whole, higher oil production so we have more production of light products such as C5+. They are at the same level as gasoline in the refining column.

Now, about your second question, could you please repeat the question? We could not really hear you. Thank you.

Q - Operator

What is the average we can expect? Do you have any projection - average income tax? I mean you paid 24% in the first quarter, but historically, it's closer to 30%, so what do you expect in terms of income tax? Thank you.

Good morning. This is Paulo Alves (49:13). In fact, the income tax rate - the effective rate was reduced during this quarter, because some tax credits were posted especially regarding losses in Holland vis-à-vis projections of future profits we have for our business in Holland. So we were able to post tax credits. In addition, we had income tax revenue in this quarter. Regarding the future, regarding the next quarters, I do not have this information, but we do not expect to have the same rate as in the third quarter. That is, this tax rate will possibly go back to historic levels - 30%.

Thank you very much. Very clear answer. Thanks.

Mr. Luiz Carvalho from HSBC has a question.

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

I have two questions. One about leverage, You have hit four times EBITDA. Net present value would be 3.4, but without including the voluntary separation program, but there is this concern that your leverage would surpass four times, which would be a point of attention although we know it's very much related to the resilience of reclassification, but perhaps we would have a further downgrade more than what we've seen. So, are there already conversations about this? And my second question, could you give us some more color about the monetization in Parque das Baleias? I know or we've heard about an arbitration procedure with ANP with the Brazilian oil authority. I'd like to know more about this.

A - Operator

About net debt over EBITDA, we informed that today not including the voluntary separation program that would be 3.4% or 3.4 times, but in the first quarter 2014 and depending on the foreign exchange rate, we have actually showed during the presentation of the business and management plan, we actually announced that this ratio could reach four times. So, we will achieve our production targets. We will apply the pricing methodology. We have made investments this year and also we have plans for investments next year. Actually we will not reduce investments. We want to deliver on the business and management plan. So depending on the foreign exchange rate until year end, we may keep this level of four times including the voluntary separation program. I have spoken to the rating agency together with our Financial Director, and we've shown our true potential, because one thing is to say that in four years, we will have that; a very different thing is to say that P-62 will begin production in a few hours.

We will also have Cidade de Mangaratiba, Cidade de Ilhabela that is we will have new operating units, and they're almost ready to start operation. If you go to shipyard Brasa, a few blocks from here, you will see the USPs (53:16) already. So this is something very close to completion and with these new facilities, we will be able to deliver on these targets. And we are working very hard to control CapEx. So, this is what we are showing to rating agencies. We are also showing our production curve. Brazilian and International shipyards that are serving Petrobras have shown that they have enough capacity to deliver these units on time, so the PLSVs. Actually as we talk to rating agencies, we show them evidence, not only a plan that we expect to do. Everything begins from the plan, but now we are going through phases of materialization, and the net debt over EBITDA will be reduced. I am certain of that. They will come down to more comfortable levels, more comfortable for Petrobras and for its investors. Let me now give the floor to Formigli.

A - José Miranda Formigli Filho

About these units, so let's begin from Lula field. Lula and Iracema area, we believe these two fields, actually we have technical reasons to believe this. We have expert opinions from two other organizations. And we started an arbitration procedure. This is something which is included in the contract. The ANP, the Brazilian national authority, believes this topic should not go through arbitration. We know or we've heard there was a court decision favoring the opinion of ANP, but we have not yet been notified. And this is a confidential matter in the judicial system, therefore we cannot really say anymore. We just have to wait for the legal notification to decide on the next step. We want to clarify that we

are not doing this because we wanted to pay less tax. However, we are doing this because our interpretation of Brazilian regulations, as we have two separate areas. We, therefore, must try and advocate for our interpretations.

Secondly, Parque das Baleias, we were surprised by this decision made by ANP. These fields have been declared commercial a few years ago. There are projects already implemented there, so this change in the criteria by ANP, we believe, it's not valid or fair. And for this reason, we decided to file a procedural also about this. But again, we cannot really speak more about this. Just like Lula field, the fields of Parque das Baleias are also under confidential proceedings.

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

Thank you, Formigli. Just a follow-up, I had asked this question before, when you presented the business and management plan. I would like to know about the assumptions in the negotiation for the transfer of rights. I'm sure you cannot tell us about values, but I'd like to know about the process and where you stand right now.

A - Operator

Carvalho, negotiations continue. We have a team sitting around a table for a periodic negotiation with the Brazilian authority, ANP, the Ministry of Finance and the Minister of Energy. But as you said, we cannot really talk about the numbers. Last week, we disclosed important results. The final commitment of exploratory well had a very good result in Yara field. So, we feel confident that there will be enough volume, and we are now looking at its valuation. As soon as we have relevant information, we will inform.

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

Thank you. I'm Carvalho and not Carvalhal, by the way.

A - Operator

I apologize, Carvalho. I'm sorry.

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

No problem.

Operator

Caio Carvalhal from JPMorgan has a question.

Q - Caio Carvalhal {BIO 16605563 <GO>}

Now this is Carvalhal speaking. Thank you for taking my question.

Based on what Formigli said, I have two questions; one about operations and the other accounting. Operations, Formigli, my question is quite philosophical when it comes to the BSRs. I remember that we first started with the BSRs and the delays from China. We had

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this question, this problem, not only the delay, but also difficult connections and installations. We wonder if that would lead us to a review, in other words to abandon this solution would be normal in a test for big equipment, and then we will move to another solution with new systems? I must confess that - well, this is based on previous conversations, but based on what I saw in this presentation, and correct me if I'm wrong, there was a specific problem that was solved and maybe we will see this technology being repeated in a structure system? What about these plans? If my assumption is correct, when should we expect to see this? As far as I know, none of these systems that are scheduled to start up in this strategic plan consider the use of BSRs. So do they expect to review the systems or we should expect only to see that later on?

My second question is to the short-term accounting. There was a strong increase in receivables balance and a reduction in securities. So, there were some changes in terms of receivables, an increase in receivables and an increase in investments and securities in the company's cash flow. I'd like to understand if this is non-recurrent, and if we expect to see an adjustment later on. Or should we consider this as a recurrent factor, particularly when it comes to receivables, what about the timing for receivables? I would like to better understand your expectations for realization of this R\$2.6 billion. Thank you very much.

A - Operator

Good morning, Carvalho. BSRs, buoyancy system, that's a problem that has already been solved in our minds. It was overcome. And my excitement in the presentation comes from the fact that for two years, we've been weekly following-up the performance of BSRs in China, BSRs arriving in Brazil and buoyancy systems being taken offshore, installation, difficulties, success and solutions achieved. Actually there is a lot of excitement when it comes to overcoming this challenge related to BSRs and Petrobras. But above that, we consider the volume of oil that has been delivered in the wells. These are high-producing wells. If you put these things together, a challenge that sounded hard to be overcome at first and now our excitement to see it up and running and also the excitement to see the fourth buoyancy system fully installed and the satisfaction of having more than 30,000 barrels per day produced. So, we feel very happy. We also have options to BSRs. So I'll give the floor to Formigli, so he can add to the comments and answer your question.

A - José Miranda Formigli Filho

Caio, Formigli speaking. As the CEO said, the solution has been mastered. However, something that we should not forget when it comes to BSR versus flexible line is the timing of decisions. When they first decided for the BSR, it was the only alternative for Paraty and Cidade de Sao Paulo last year. Otherwise, we would have to wait until we had a reliable solution for flexible lines or pipe laying, so we could implement the project. And it took us about a year to come to that conclusion back in 2011. In 2013, we would never have the systems under production if we hadn't had that. Now, today luckily we have both solutions available and expect to have a third solution available, for other risers that we also installed in Cidade de Mangaratiba. So when we look at the three alternatives altogether, decisions will be based on two points; first, operating flexibility - that's a critical issue. The mandatory or specific naval requirements for installation and to consider completed wells and platforms ready to get the oil, so that's a critical point that will always be considered in our accounts. And actually, this turns out to be a component of the economic point, which is the cost of acquisition comparing flexible lines.

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Today this is properly approved, so we can work with pre-salt versus the cost of the decoupled solution. They can be the buoyancy system, BSR or the Steel Catenary Riser or the steel Lazy Wave riser. So that's how we base our decision. If you ask me if today we have another system already contracted based on this concept, the answer is no. All the other systems we're working on today consider a flexible alternative, but that doesn't mean we will stop monitoring availability on the cost of flexible plus PLSVs compared to the decoupled solution and come to a specific solution. The four BSRs are installed - we're very happy. They're responding well, but for the moment, that's all we have and we have no concrete project for the new application.

Barbassa?

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

Caio, the balance of receivables has grown primarily due to the electrical sector, supplied by our subsidiary BR (01:05:13) to the electric sector in the north of Brazil, growing by 1 billion and 100 (01:05:20) approximately during this quarter or since the last quarter and this is being addressed, this is being negotiated and we expect to come to a solution until next month.

As to securities, marketable securities, this is just a classification of our cash and cash equivalents, because in Brazil, our cash and cash equivalent is only invested in government securities. So, we have these securities with maturity date over 90 days. So that's why they are classified as marketable securities. But actually they had immediate liquidity. And for cash and cash equivalent calculating purposes or practical calculation, we consider this as immediate cash and cash equivalent to the company.

Q - Caio Carvalho {BIO 16605563 <GO>}

That's clear. Thank you.

Operator

Gustavo Gattass from BTG Pactual has a question.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Good morning. I have a couple of questions. My first question, I'd like to have a better understanding to what extent does the board believe, or based on your presentation and your data about (01:06:57) could you assume that Petrobras would have a lower leverage with no adjustment in the short term? I imagine that on a monthly basis, you are coming to the conclusion that this is not necessary yet. I would just like to have a better understanding of how much room do we have? Or might we not have any adjustment by 2015 or 2016?

The second question has to do to accounting. In the press release, you mentioned a cost reduction in refining based or stemming from a reduction in actuarial costs. So, I'd like to understand if this is something non-recurrent that later on will be increased again or is that something that will continue on a quarterly basis? Thank you.

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A - Operator

Good morning, Gustavo. Our discussion with the board is permanent and systematic and is also standardized. We have three challenges. We have to produce, we have to make investments, control our after tax. And when you have a price mismatch, we have to correct it. The board guidance is that we should not pass this volatility to the market. And therefore we should work at this restatement by not transferring this volatility. The fact is that real is less depreciated now, so we move from R\$2.3 to R\$2.2 as variation rate. And as a result, we're closer now to the convergence that we have a smaller gap.

As long as you don't have full parity, we have to consider a price rise. And this has been shown. We have a limit. We have a deadline so we can really have a better condition in 2015 with higher projection, CapEx under control with all the platforms delivered, with higher refinery capacity, Gas & Power all still improved in terms of procurement. We need to buy the long-term gas. So, we have all these variables and from 2014 to 2015, we have to deliver a better scenario. And certainly price is factored in. Net debt over EBITDA ratio as of next year we'll be able to reach better amounts.

Moving away from this constant increase in this ratio into a period in which we will begin to change our path, I know this is harder for elaborate purposes, but we have to make it happen. I know it's hard in 15 months, but that's what we are focusing our efforts to and also price rise is Petrobras' management responsibility. And the board is monitoring our performance. Last meeting we had a long presentation on production with a level of detail that we don't usually work on. But this is it. We understand that from 2014 to 2015, the company has to deliver better figures. That's our duty.

Now, the other part of your question, Gustavo Gattass, will be answered by Barbassa.

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

Hi, Gattass. Something that affected our operating costs for downstream - not only downstream actually, but the company as a whole; this results from the actuarial costs because over year 2013, the interest rate went up in Brazil. And therefore we adjusted the discount rate over actuarial liabilities that the company has. With a higher discount rate, actuarial liability goes down and therefore that will have an impact and lead to a lower cost to all the areas over 2014. By year end, we will see how the interest rate will behave domestically, in-house, and see whether the discount rate is adequate or not. But what happens today is only the provisioning of lower costs for several areas.

Operator

Okay. Thank you. (01:12:21) from Citigroup has a question.

Good morning, everyone. Actually I have three questions. I'd like to understand about the - your calendar. First, can you give us an update about the start-up of each one of the new production units, RNEST, Comperj, for example? Second question, I know that perhaps you cannot give me full information, but what do you expect about a price review and the transfer of rights? When do you expect to tell us whether these areas are commercial or if they have a commercial volume or not? If this information will be broken down by blocks

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or if we will only receive information after the process is completed in each area? Finally, I'd like to understand if you've had progress in the divestment program as you announced in your business plan? And can we expect new transactions or changes in the business plan already in the second quarter? Thank you.

Now about the start-up of the new refineries, the first train of Abreu e Lima, 115,000 barrels. We'll start operations in November, 2014; second train in Abreu e Lima, May, 2015. And the first Comperj train in August, 2016. These are the expected dates for the partial or full start-up of these refineries.

May I continue? How long do you expect to reach full production in each train?

This is immediate. Start-up will be in November, 2014, right? So, I would say that after commissioning one month or 40 days, we have mastered these processes, there's nothing different in this refinery. So, I believe in 30 days, we will be in full production. And the same thing applies to Comperj. A ramp-up would be one month. This technology is well known for us, coke distillery; at Comperj, we have one operation with radial cracker (01:15:10). This is something that we still don't have here, but this is something we know how to do. We train our teams somewhere else, we make an agreement, and our team, they travel, even they travel abroad to be fully trained and fully prepared to start operations. So one month is actually conservative.

But it's a good reference. Thank you. Thank you very much.

Now talking about these negotiations, we will declare whether this area is commercial or not up until September this year. We do have additional time, but perhaps we will not have to use this additional time. Perhaps only a few more days, perhaps we still have to reach convergence with other areas. But in terms of exploration, everything is under control. About valuation, my answer we expect to be able to inform valuation block by block at the same level of information we provided to investors during the original round of negotiations. We wish to maintain the same, let's say, philosophy now in this review process. About timing, I cannot tell you how long after we declare whether it is commercial or not.

I mean we are now in - on schedule. We are discussing the assumptions, and we will soon begin to discuss specific issues of CapEx and OpEx in each area in addition to the production curve. But the production curve is very clear, as the systems start up they are all included in our business and management plan. So, there is nothing to hide. First oil is quite clear there. This is also going to be discussed, the volume of oil versus the number of wells, which is very important for CapEx. This is something we will go back to discussion. And the information will be provided to you area by area or block by block of this area of the transfer of rights.

In terms of divestment and financial restructuring, it is a big challenge. Our executive management today is highly competent and mature. We have a history of success in the first divestment program. We are better structured today. We have people fully dedicated to divestment and to financial restructuring. They are working with a lot of intelligence

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together with the financial area, also the Gas & Power department. They also have very interesting challenges or opportunities for financial restructuring, also downstream. So this year more than last year, we are working with a lot of cohesion. We will not provide information about the advances so far, because we wish to avoid speculation information leaks, but I may tell you that we feel more confident today than we were in the first divestment program that we implemented.

Thank you. Thank you very much. Now I'd like to ask if there a possibility-

I apologize. We could not hear the question.

I will repeat the question. About what Formigli said, he said the information will be provided block by block, but the declaration of commerciality in Franco field and Guara field - these have already been declared last year. So, do you believe that we will be able to see the information about these two areas before the other?

No. The answer is no. We cannot provide this information now, at least not in the short-term, because we must have an overall view, because some of the infrastructure will be shared. For this reason, we cannot provide information about these first areas as you suggested. It is true that (01:20:34) is more advanced and also the south of Tupi and the south of Lula, because the commerciality has been declared and the projects are already being implemented there, but I cannot tell you that we will provide information about valuation before that. I understand the relevance of this issue for the market. We know this is a very important topic for investors to understand the value of this business and we will inform as soon as possible, but I cannot promise that we will provide information about these areas first; because as I said, the infrastructure is shared. So I must have an overall view, so that I will know the weight of each individual area. Okay?

Okay, understood. Thank you.

Paula Kovarsky from Itaú BBA has a question.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Good morning, everyone. I'd like to ask two questions. First about Gas & Power, I think many of us face difficulties in trying to predict the results from Gas & Power, but as we look at results and not including the sales of assets, apparently the results are very close to the breakeven in this quarter, where Petrobras would have sold between 1 and 2 gigawatts of energy at R\$422 (01:22:03). So I know that there was an issue regarding the purchase of NGL, the price is quite high on the international market. There was a reduction in the availability of domestic gas; however, there was an expectation of higher results. And, so I'd like to request your help for us to better understand how to calculate the dynamics of Gas & Power. And also try to understand what will change now with the 500 coming in at A minus zero, so how can that improve the expectations for results in the second quarter.

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Now my second question is about production. Everything seems to point to an improvement in production from now onwards, but I would like to confirm a piece of information. You spoke about relevance in efficiency improvement in Campos operating unit as well as in Rio operating unit, which will continue to deliver at the same high levels as now, so I'd like to revisit our old discussion about what is effecting lower production in Campos (01:23:20) operational efficiency and maintenance. Perhaps what was not explained today in today's presentation was the average maintenance cost in terms of barrels per day in the first quarter 2014 and what we can expect for future quarters if we can expect higher production after April.

A - José Alcides Santoro Martins

Good morning, Paula. This is Alcides Santoro.

Paula, although the different in settlement price was almost twice as much first while generation had a decrease of 20% and we also had a 33% reduction in power contracts; these two factors impacted revenue. About cost, we had import of LNG and also imports of gas from Bolivia at higher prices, approximately 5% higher compared to the first quarter of 2013. And at the same time, we had the effect of the foreign exchange rate, which was 19% higher in the first quarter 2014 than it was in the first quarter 2013 - 1.9%. That is why we've had this 41% reduction this quarter compared to the first quarter 2013.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. You said there was a 33% reduction in the average price of the contract.

A - Operator

No. In volume of sales, we had a reduction of 33%, R\$1,934 in 2013 and R\$1,252 (01:25:15) in 2014, the difference is 33%.

Q - Paula Kovarsky {BIO 15363001 <GO>}

But could you please tell us what was the volume of sales compared to inventories?

A - Operator

Well, no, I cannot. I cannot disclose these numbers about how much was spot, how much was sold in the spot price and how much was sold in long-term agreements.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you.

A - Operator

Paula, I know we still have to continue to answer your question, but let me use this opportunity. I have received excellent news from Director, Formigli. We have just started production with P-62. Ten minutes ago, P-62 started its operation. We are coming closer to having higher production. Thank you all very much.

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Okay, Paula, answering your question, efficiency is going up both in Campos Basin and also in Rio, where we have younger platforms. We've had stability and an up-trend and we are actually production more oil. The decline is below 10%, fully under control. Why is production not going up then? Well, because although the decline rate is below 10% and although efficiency is going up, if I don't have new oil from the new systems, production will not go up. When will it go up? As soon as we begin to have the ramp up of the new units operating in Campos (01:27:06). P-63 Papa Terra, and now a new well, Papa Terra 7 that started operations last night; P-55, we already have two wells also going up with production. P-58, although it is producing from the pre-salt, it's also Campos Basin. These are the Parque das Baleias as well and now P-62, another unit at Roncador, one more well. So this new oil will make production go up.

And we will continue to struggle to reduce our decline rate. But a decline rate below 10%, I mean, there is a limit to efficiency improvement. But old oil has responded very well to our initiatives, and that is why this is a highlight in the CEO's presentation. We said that we have predictability regarding the production of old oil.

The last part of your question, you asked about maintenance stoppage.

Q - Paula Kovarsky {BIO 15363001 <GO>}

I'd like to know the average cost of maintenance stoppage in volume.

A - Operator

Well, the average cost is how much flow or how much the flow will be impacted. Well today, our average loss when we have a maintenance stoppage is about 50,000 barrels a day. That's very similar to what we had last year. Why is it not lower? Well, because we need to have our scheduled maintenance, so that in one year or in two years, our efficiency will not decline. If you look at Rio de Janeiro, over 800,000 barrels a day, and Campos Basin was about 400,000 a day, I need scheduled maintenance. And together, the impact would be 50,000 barrels a day. That's why I need new oil to offset this. And our numbers, as you look at efficiency, they include scheduled maintenance. Okay? So, I want that to be very clear.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you. Congratulations on your work in Campos Basin.

A - Operator

Paula, I'd like to add another comment you said well. But in Rio operating unit, you're always around 90% or 92%. It's more than that because 1%, 2%, 3% in Rio operating unit means many barrels of oil. So when reached 95% in the first quarter 2014, it's the highest number. It's our historic record and when you have 800,000 tons a difference of 1% or 2% is highly relevant - highly significant. We have new operating units that will start operations in 2014 and 2015. We have two more this year and eight more next year and we have to assure our future. And to do that, we need good planning and we also have to realize existing oil, because this is what's going to offset any delays we may have in the new units.

If you do not have predictability in the units that are already producing that is the old oil, then you may face adverse consequences. That's why we need to be very careful and that is why we provide a lot of attention - we give a lot of attention to the existing oil or to the old oil. And every day, we celebrate. Every day, we visit Rio operating unit. We thank our teams there, because their gains are very, very important. We are also celebrating that.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Thank you. Thank very much.

Operator

Lilyanna Yang from UBS has a question.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you for taking my question. About your investments for 2014 and 2015, I would like to know if you have any slowdown or the level of flexibility in investment reduction in the short term for the next two years. I would also like to understand the gas price - Bolivia gas in terms of the commercial agreement and have you already started to renegotiate the price agreements for the whole volume that will be starting in 2015 and 2019? Should we expect it to go up or down? Thank you.

A - Operator

Answering your question about investments for 2014 and 2015, 2014 it is virtually zero; zero possibility of reduction or reduction in investments. 2015 is an important year. We have a bidding process of some of the platforms that will start up producing later on - three or four years down the road. So we are working in order to be in time, so changes to E&P are not on our radar. Our plans include performing all the investments plan for 2014 and 2015. We have the bid in process, a big number of them. We have P-61 and 62 within the international metrics. We're strongly active, and we're working to grow, focus on growth, but we might change our CapEx, particularly after 2015.

Q - Lilyanna Yang {BIO 14003234 <GO>}

So what about the level of CapEx, R\$100 billion including the investments?

A - Operator

Just one second. I want to understand this better. So, you want to know if our investment is constant year-on-year.

Q - Lilyanna Yang {BIO 14003234 <GO>}

No. You actually have investment in guidance R\$7 billion. So, I wanted to understand about SPF and also the level of CapEx for the year, which would be around R\$190 million.

A - Operator

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We have a problem with the sound. But for 2014 and 2015, our possibility to change our investments is really small, very, very small, minimum probability.

These investments have already been contracted.

Okay. Lilyanna, answering your question about negotiations with Bolivia, we haven't started negotiations yet, and therefore there is no expectation of negotiation for 2019.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you. You also mentioned more gas from Bolivia with a different price. Is my assumption correct? Something that explained at the beginning of the presentation, I would like to understand if the gas or additional volume of gas in Bolivia was under the same terms or different terms for the current price gas from Bolivia.

A - Operator

This additional from Bolivia is to meet the needs of Cuiabá thermal power plant. The price is slightly higher compared to our contract, our GSA agreement that we have with Bolivia.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thank you.

A - Operator

Was the answer clear about the GSA or gas supply agreement, gas in Bolivia? The price that was contracted for TPP in Cuiabá is a different price

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Q - Lilyanna Yang {BIO 14003234 <GO>}

Right. That's clear. Thank you.

A - Operator

Please, you have another question to ask?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Actually, I would just like to understand if the gas price for the future will be closer to \$10 of BTU unit or will be lower than that? I would like to understand how you envisage prices of gas.

A - Operator

Look, we have to guess prices with Bolivia today. One is the old agreement, which is the GSA. The second is the volume for a shorter time for Cuiabá TPP. And the third gas price for 2019 and 2020, this gas price has not been negotiated yet. Discussions have not

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started to address gas price in the future for 30 million cubic meters per day, the gas from Bolivia.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Got it. Thank you.

A - Operator

Thank you.

We have a question in English. Please go ahead. Mr. Frank Mitchell (01:37:53), please go ahead with your questions.

Okay. Thank you. Just I was wondering if you could talk about cost trend as you go through the rest of this year. You're going to be adding what looks like a very large amount of production, and I was wondering do you think that will lead to improvement or perhaps a rise in cost as you go through the next two quarters?

So your question was focused on costs. You talked about cost production. Production increased and this is related to E&P.

So Frank, I would kindly ask you to have a look at the slide presented by our CEO. It's slide number 10. On this slide, you will see that we have an increase in production. This increase will start in the following months, actually, now that we have a higher ramp-up of the platforms. And certainly that will be rise in the denominator of these costs. We don't want the numerator to increase. Any of the new units when they start up; they virtually have the full costs with a lower production. The big variable in costs for these units are for chemicals. These are variable costs; the heavier costs in the units, but all the rest of the costs are full costs. So, our projection is that our listing costs will be lower in the future and under control, having the numerator under control vis-à-vis the full cost.

As to pre-salt, the cost of \$9 per barrel, the trend is also to go down. When we worked on the costs that was in March, year-to-date figures, we were not including the benefits of the full production for Cidade de Sao Paulo, Cidade Paraty. It was focusing on full Lula pilots in terms of production, but not for the other two, so the trend of Lula operating costs, which is a good representation of the typical cost for pre-salt, would go down. I just made a mistake when I mentioned Cidade de Sao Paulo in Lula, actually Cidade de Sao Paulo is in Sapinhoá, which also had equivalent costs and will also go down over time. That's a very short period, actually.

Okay. So over the next 12 months, we should see with the folding-in of the lower cost units and the ramping up of production, what could be potentially a material decline in average costs, you think?

I don't know exactly what material would be. That's fairly relative. But what I can tell you is that we keep costs under control. We also have to remind that new units will be starting

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up in the second half of the year. So, we already have existing units. I also have Mangaratiba, Ilhabela, P-61 (01:41:52) before. So unfortunately, I don't have this full number for this year, but it will be in 2015. On the other hand, it will be offsetting the smaller production in the second half of the year of these units with a lot of volume from the previous units. So; if you'll ask me if that will be a material decrease, I don't have this projection, because Petrobras does not make this disclosure about costs. But what I can tell is that costs will be under control as we can see already with the behavior and performance this quarter and the goal of PROCOP is very significant for E&P this year too.

Good. Thank you very much.

The question and answer session. Will give the floor to CEO, Graças Foster for the final remarks. Please, Ms. Foster, you have the floor.

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

Okay, ladies and gentlemen. Thank you very much for this opportunity of talking about the results of our company in the first quarter 2014. As you've seen we have in fact achieved quite a few records in our operations. The calendar of exploration and production has also been very successful in February, March, April, May. We have just started the production of P-62.

Our costs are on a downtrend. Refinery has also hit a record with very favorable results, more refining, lower cost in Gas & Power. We have been able to meet the demand and also optimize cost. If we were not able to meet the power demand, we would have had very big consequences. And so actually Gas & Power has been able to overcome operating challenges. We have been persistent in terms of cost reduction and also in productivity increase in trying to reduce costs and improve operating efficiency. PROEF not only translates into more oil, but it gives us more confidence in our operations. Today our company is better than before.

So, I thank you for being with us this morning, and you can rest assured we will continue to have the same level of discipline and rigorousness in all of our operations. Thank you very much. See you next time.

Operator

Ladies and gentlemen, this slide presentation will be available at www.petrobras.com.br/ri.

This concludes today's webcast. Thank you very much for participating. Please disconnect your lines and have a good day.

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