

Q3 2009 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO & IRO
- Eduardo Alessandro Molinari, Strategy and Portfolio Management, E&P
- Roberto Portovillas, Company Representative
- Theodore Helms, IR
- Unidentified Speaker, Company Representative

Other Participants

- Christian Audi, Analyst
- Emerson Leite, Analyst
- Gustavo Gattass, Analyst
- Marcus Sequeira, Analyst
- Mark Caruso, Analyst
- Neil McMahon, Analyst
- Paul Cheng, Analyst
- Sergio Torres, Analyst
- Thomas Adalus, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Petrobras Conference Call to discuss the Third Quarter 2009 results. (Operator Instructions) As a reminder, this conference is being recorded. Today, we have with us Mr. Almir Guilherme Barbassa, CFO and IR Officer. And his staff.

At this time, I would like to turn the conference over to Mr. Theodore Helms, Investor Relations Executive Manager of Petrobras, who has some additional comments. Please go ahead, Mr. Helms.

Theodore Helms {BIO 15433381 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our conference call to discuss Third Quarter 2009 results. We have a simultaneously webcast on the internet that could be accessed at the site, www.petrobras.com.br/ri/english.

FINAL

Before proceeding, I'd like to draw your attention to the slide two. We will make forward-looking statements, which are identified by use of the words will, expect. And similar that are based on the beliefs and assumptions of Petrobras management and on information currently available to the Company. Finally, let me mention that this conference call will discuss Petrobras's results in accordance with Brazilian GAAP. At this moment, we are unable to discuss any issues relating to US GAAP results.

The conference call will be conducted by our CFO and Investor Relations Officer Mr. Almir Guilherme Barbassa. He will comment on the Company's operating and financial highlights and the main events during this quarter and he will be available to answer any questions you may have.

Mr. Barbassa, you may begin.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Thank you. Thank you for joining our conference call to discuss Third Quarter results. These results reflect the combination of steady rising international oil price, higher sales volume, slightly lower price for products sold in Brazil, stable operating costs. And the strengthening of the real. The provisioning of the settlement relating to the special participation tax for Marlim Field partially offset our positive result.

Going to the slide three -- during the Second Quarter, total oil and gas production was up 4% year-over-year and flat sequentially. International production increased as a result of higher production in Nigeria, offset by declines in Venezuela and Bolivia. In Brazil, we have now reached the milestone of exceeding 2 million barrels of oil production per day for two consecutive months. Year-over-year growth in production of oil in Brazil would have been higher except for the shutting in of 69,000 barrels of oil equivalent daily of gas capacity due to the limited domestic demand.

Next -- the next slide is an update of the production units installed in the First Quarter of this year. The three units produced around one-half of their capacity during the Third Quarter, which is consistent with the production wells being connected. As additional wells are completed, these units will continue to ramp up, offsetting natural decline rates and increasing production.

In pre-salt, we continue with activities we have previously announced. Results continue to meet or exceed our expectations. In Guara, the recent concluded formation test indicated estimated recoverable reserves of 1 billion to 2 billion barrels of oil equivalents and well productivity that could exceed 50,000 barrels per day. The formation test in the northeast Tupi has continued our prior estimates of 5 billion to 8 billion barrels of recoverable oil. The extended well test of Tupi is back online and we have increased production to 20,000 barrels per day.

Next includes new wells in the preparation for the Tupi payloads and new exploratory wells in the BM-S-9, 10. And 11. Our activities will be supported by the arrival of three new rigs that shall arrive in the first half of next year.

Let me turn now to some key operating data that influenced our quarterly results. In this slide, you will see the average price of Brent increased from \$59 to \$68 per barrel. At the same time, the light-heavy spread decreased from \$10.00 to \$4.00 per barrel. The lower spread increased income for our E&P segment, while reducing downstream earnings. To the extent we process our own heavy crude oil, the spread does not make a difference to our overall earnings.

However, because we export 500,000 barrels per day of heavy oil while importing 400 barrels per day of light oil, the Company's margins are positively impacted by the lower spread. Lifting costs remain stable, despite the price of Brent increasing by \$25 per barrel during the last two quarters. Lifting costs, excluding production taxes, only increased by \$1.00. Even this is largely explained by the strengthening of real against dollar.

Next -- the reduction of gasoline and diesel price in June and the strengthening of real reduced our average realization price in reais during the quarter. Our average sales price in dollar increased by 5.4%. Our pricing policy has benefited both the consumer and Petrobras by avoiding the volatility of international markets, achieving parity between the two markets over time.

Brazilian GDP growth bottomed during the First Quarter of this year and has rebounded sharply since. The Brazilian market for oil products and natural gas has tracked the performance of the economy with consumption now growing. Diesel is recovering in line with GDP growth, as is the case with many of our other products. Gasoline consumption is lower as a result of increasing consumption with ethanol. Natural gas sales to industrial sectors are improving. But this growth has been offset by continued lack of demand for gas for the thermoelectric sector.

Higher oil production improvement to our refining system and reduced demand have contributed to a substantial improvement in our trade balance. As we continue to reduce products imports by increasing our domestic capacity to produce these products, we improve our overall margin. For the nine months, year-over-year, we have swung to a substantial net export position and improved our trade surplus by \$3.6 billion during the period.

Before turning to financial results, it's useful to explain (inaudible; technical difficulty) of averaging inventory costs on our cost of goods sold. During periods of rising prices, the average cost of goods sold for the period is below what it would have been if costs were recognized concurrently with the period.

Conversely, during the period of declining price, costs are higher than they otherwise would have been. Essentially, when prices are rising, it is tailwind results. When prices are declining, it becomes a headwind. In this slide, you will see that in the Third Quarter, the benefit from lower cost to average inventory was BRL621 million, while in the Second Quarter the benefit was BRL323 million.

Let's now turn to financial results. Net revenue increased as a result of higher sales volume and higher price for oil price, offset by lower average realization prices in Brazil. Higher

FINAL

costs for imports partially offset by inventory average led to a higher cost of goods sold. The provisioning for special participation tax related to Marlim production, higher cost from greater sales volume. And the expense associated with new international operations and charges related to annual salary increase led to higher operating costs. The result was decline in operating income of 26%.

In a reversal of the prior two quarters, lower operating income was largely offset by positive financial expenses. The lower pace of revaluation of the real against the dollar reduced financial expense for exchange variation related to our net asset position on foreign subsidiary, while disbursement of the BNDES loan indexed to dollars created a substantial gain monetized variation.

The decrease in minority interest expenses from BRL1.9 billion to BRL928 million is also a result of the real slowing appreciation. Also, effective sequential financial result was the BRL533 million improvement in the financial expense from commercial hedges. Hedging gains or losses are largely offset by higher or lower costs of goods during the period, which in turn decreases or increases the operating income. For the Third Quarter, operating income was decreased relative to the Second Quarter because of the positive financial results from the hedge in the Third Quarter.

Income tax in the Third Quarter was higher because of higher deduction for interest on capital, greater recuperation of financial credit related to exploration activities. And fiscal losses abroad Second Quarter. The net profit for the quarter was BRL7.3 billion, a decline of 5.6% from the prior the quarter.

Higher international price compounded by the decrease in the light-heavy differential contributed positively to our Brazilian exploration production segments earnings. Higher cost of goods sold were primarily the result of higher lifting costs, including production taxes. The BRL2.04 billion provisioning of the Marlim special participation tax caused the substantial increase in operation expense and reduced operating income when compared with the Second Quarter.

Next, please -- operating income for our Brazilian downstream segment was reduced as the Brazilian realization price approached the international levels. Higher volumes were offset by lower average prices. Higher cost of goods sold was a reflection of increased international price, partially offset by the increased benefit from cost averaging. The absence of programmed maintenance during the quarter reduced unit refining costs and contributed to our utilization rate of 94% during the period.

Our gas and energy segment generated its second consecutive quarter of positive operating income despite electrothermal gas[ph] generation. The gain was largely a result of greater availability of natural gas and more developed gas infrastructure. As capacity to deliver gas increases, the segment has more flexibility to capture incremental revenue and profits from power and natural gas sales. The growing supply and the infrastructure has also eliminated the contractual penalties, which adversely impacted earnings in the past.

FINAL

The improvement in the international segment was due largely to growing production, particularly in Nigeria, offsetting decline in production elsewhere. Higher price and reduced operating costs also contributed to higher operating income. Our distribution segment continued to demonstrate the steady results and margins, generating BRL620 million in operating income (inaudible; technical difficulty) maintaining market share of 38%.

Capital spending increased to BRL50.7 billion during the first nine months of 2009, a 49% increase from the same period a year earlier. 46% spending was for domestic E&P and the remainder for our integrated operations. Gas and energy spending nearly doubled as it works to complete the gas infrastructure in Brazil.

During 2009, Petrobras has contracted \$34.8 billion of additional debt to meet the financial needs required by our business plan. The bulk of this amount raised is long and is long-term funding from the BNDES and Chinese Development Bank. The average life of all this financing that has been contracted so far is 10.6 years, what gives to the Company a lot of comfort.

Additionally, we completed our repayment of two years \$6.5 billion commercial bank bridge loan contracted at the beginning of 2009. We had two years to do that. But we were happy to do during the course of 2009. We did so by tapping the bond market in October of -- for \$2.5 billion of 10-year notes and \$1.5 billion of 30-year notes.

Total debt increased by BRL22 billion during the quarter. Virtually all of this increase in debt was held in cash with a cash balance of BRL30 billion on September 30th. The relatively small increase in the net debt kept our net debt-to-capital ratio at 28%, well within our target of 25% to 35%. With the contracting of additional long-term obligation, short-term debt as a percentage of total debt fell to 11%.

Our accumulated operating cash flow during the first nine months of 2009 was BRL4 billion more than the same period of 2008 despite substantially lower oil prices. Higher capital spending in dividends had led to the expected funding gap for this year, which has been fully covered. Additionally, we have built up a substantial cash position. These figures do not yet reflect the loan from the Chinese Development Bank. We had also managed to expand the average life of the total debt from 4.2 to 6.4 years, which we will extend further when the recent 4 billion bond issue is factored in.

To conclude the discussion of our financial results, I think it is important to emphasize our commitment to a sound capital structure. We still have much to do, not only to achieve the targets in our existing business plan. But to take advantage of new opportunities that are sure to arise as Brazil's economy expands and as we continue to realize Brazil's hydrocarbon potential.

To meet the needs needed capital requirement, the executive has proposed (inaudible; technical difficulty) capitalization of Petrobras as well as the acquisition of the rights to produce up to 5 billion barrels of oil. The bill has passed the special commission within

the lower House in the Congress and it will now be debated before the general assembly of the lower House. Afterwards, it is going to be addressed to the upper House.

So far, the response to the proposed capitalization position has been very positive from the Congress from the Brazilian society. And from our shareholders. We remain optimistic about its passage and execution next year.

Thank you. With that, I will be happy to answer any question.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. (Operator Instructions)

Our first question will come from Neil McMahon from Sanford Bernstein. Please go ahead.

Q - Neil McMahon {BIO 5988658 <GO>}

Hi. Thanks for taking my question. I've got two questions, really. One is looking at the exploration and appraisal program over the next few quarters. Could you go into some detail on what are the large wells we should be looking out for in the next few quarters and any new drilling tests that are likely to come up beyond the early production scheme? And I've got a follow-up question as well. Thanks.

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

I'll have Molinari from E&P to help me in this question. Please, Molinari.

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

On the exploration side, we will continue to drill on BM-S-9, 10. And 11. We are receiving four new drilling rigs the first half of 2010 and two others in the second half of 2010, to continue the program. And our main target in the P south are those areas I mentioned, okay?

Q - Neil McMahon {BIO 5988658 <GO>}

Okay. And in terms of the well flow rates from what you've seen so far, are you happy that you think that a sustained rate of around 20,000 barrels a day may be the initial production rate from the pre-salt from what you've seen so far?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Yes. We are producing 20,000 barrels per day in the extended well test of Tupi. And we are still limited to (inaudible; technical difficulty) we are allowed to flare. So we are happy so far with this result.

FINAL

Bloomberg Transcript

FINAL

Q - Neil McMahon {BIO 5988658 <GO>}

Could you give us an estimate of what you think the potential would be if you were not constrained on gas?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

This not restricted for Bartha[ph] will have a better idea when we start the pilot system in December 2010 because, that time, we will have a gas pipeline to Michigan platform. So we will not have this (inaudible). So we have to wait a little bit until then.

Q - Neil McMahon {BIO 5988658 <GO>}

Okay. This would be useful for modeling purposes, given your capital raising coming up for purchasing some of the government's reserves if we could get a good idea of what the sustained initial flow rates would be in a production -- a fuel production setting. That's all.

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

We cannot anticipate that. But all the information we have collected so far, given the very positive (inaudible; technical difficulty) the tests we've ran in Guara, for example, that was able to produce more than 50,000 barrels per day. And Marlim, we were able in Tupi, I mean, Tupi, the extended well test, we were able to get the approval of E&P to go to 20,000 barrels. And they responded very well. But how much we can go beyond that, we don't have this information handy.

Q - Neil McMahon {BIO 5988658 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question will come from Marcus Sequeira from Deutsche Bank. Please go ahead.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Hello. Good morning, everyone. Just two questions -- one is on the capitalization. I know the structure is going to be done in two parts. And actually, the capitalization's the second part. But I'm just wondering if you have any conversations with the CVM with regards to this transaction.

And the second question's on natural gas. If you could talk a little bit about natural gas demand trends for the next couple of years, given the fact that today demand is pretty weak and you expect a large increase in gas production. So what are your plans for let's say five years from now in terms of commercialization of natural gas? Thank you.

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

Regarding the capitalization, we had no contact so far. We had all the regulation that CVM has issued. And we are committed to follow, of course, all of them. But there is no need

Bloomberg Transcript

we had so far to have contact with CVM.

Regarding the natural gas production in future demand, I will ask my colleague from gas and energy to help me.

A - Unidentified Speaker

For five years is a quite long period because we don't know for sure the prospect of production of natural gas in the new field. But what we expect is that, for example, the demand in the industrial sector come back from the previous period after the crisis. And we believe that it can go -- about like the GDP. We also believe that the thermoelectrical generation, the power plants that are gas fired, they are going to play a more -- much important role in the power generation in Brazil. So we believe that in the next years, probably some of that generation could be a kind of base load.

We also are looking for new ways to incur possible growth in supply of natural gas and E&P. So we are looking in some kind of fertilizer plant, optimizing -- we have two fertilizer plants and we're looking to optimize these two plants so they can grow up their consumption in the short term.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you. Just one follow up -- on electricity, what's your position in the spot market because I remember the last quarter, one of the reasons why your results were positive, it was because, if I remember correctly, that spot prices were very low. But in this quarter, you guys say that spot prices being low is actually bad for Petrobras. So just like to understand if with spot prices being low, you could just buy from spot market and not dispatch from your plants. Thanks.

A - Unidentified Speaker

That is quite confusing because in the same way that the low price in the spot market do improvement in our commercialization income, they also are a reflection that the thermo-power plants are not dispatching. So what we try to say in the comparison of Second Quarter and Third Quarter is that the low demand in thermo-generation plants is a reflection of the low price in the spot market. The spot market in the last quarter is a kind of minimal price. This is a reflection that there was practically no generation and this impact are having from generation.

But we compensate partially that loss in comparison with the Second Quarter with the improvement in our margins in the contractual business because, as you know, we have some power selling agreements that will liquidate that with the spot market. So what we try to balance is our position day by day with objective to maximize our hedge week[ph]. So depending the spot market, the price probably would hurt the generational side. But in the commercialization side, that's a good position.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you very much.

Operator

Thank you. Our next question will come from Paul Cheng from Barclays Capital. Please go ahead, sir.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you. Hi, guys. I'm wondering if we're looking at in your last year's offshore basin, the equatorial margin, can you tell us what kind of acreage position that -- acre position you have there and any drilling plan for the next 12 to 18 months? The second question is that I want to see is there any update what is the 2010 CapEx program? Are we still talking about \$35 billion, \$36 billion? Or that may have changed. Thank you.

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

I'll have Molinari to answer the first question regarding equatorial margin of Brazil exploration and then, I will talk about the CapEx.

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Yes. In the equatorial margin, we are going to drill other well in Bajareinias[ph], in the Bajareinias area. It's a deep water. We have not found oil so far in that area. We have drilled one well. But we are going back there to evaluation the potential of that area.

Q - Paul Cheng {BIO 1494607 <GO>}

When you going to drill the second well?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

I think beginning 2010.

Q - Paul Cheng {BIO 1494607 <GO>}

And so far in the one well and also the seismic that you guys are looking at, have you seen the trend or the structure and also then maybe the source of -- are they fundamentally different than what we see in the offshore done trend or that they have a pretty close similarity?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Sorry. I'm not a specialist on that area. I'm not a geologist. I don't know.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. Can you tell us then what kind of position you have, how many thousand or hundred of thousand acres that you currently have in terms of the position?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

On Bajareinias, I don't have this data here. But we can provide that later.

FINAL

Bloomberg Transcript

Q - Paul Cheng {BIO 1494607 <GO>}

That would be appreciated. Yes. If Ted, if you can just shoot me an email with the information.

A - Theodore Helms {BIO 15433381 <GO>}

Sure.

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

And regarding the CapEx for -- we have not yet released our next year CapEx. We are working it; hope by January, we'll have it maximum. But we have an average of \$35 billion if you take our business plan as a base. It may change a little bit up or down, depending on the level of activity. But what is expected is that range.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. Very good. Maybe can I just ask one quick one? On the lower House approach, did you mention the day when they're going to vote? You said that they are in discussions. So do we know when they're actually going to vote?

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

They are in the process of voting starting today.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. Starting today. What's that mean? I mean, is there a number of days? Or that is a one-day event?

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

No, no. Of course, this is open and on the agreement and discussions and we have four bills. And the first that is expected to be voted is the one that allows for the creation of a new stated controlled company. The --

Q - Paul Cheng {BIO 1494607 <GO>}

Oh. So, they're going to vote one each of the four proposal, one by itself? It's not like one overall bill that you just vote, saying that whether you go on with that or not?

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

What?

Q - Paul Cheng {BIO 1494607 <GO>}

No. I'm just trying to understand the process.

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

Yes, each bill.

Q - Paul Cheng {BIO 1494607 <GO>}

Each bill will get a separate vote.

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

Yes, yes, that's it.

Q - Paul Cheng {BIO 1494607 <GO>}

I see. Okay. Very good. Thank you.

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

Welcome.

Operator

Thank you. Our next question will come from Christian Audi from Santander. Please go ahead.

Q - Christian Audi {BIO 1825501 <GO>}

Thanks. Hi, Barbassa. Two questions -- the first one on the topic of flow rate, you mentioned in the case of Tupi and the extended well test that you were able to negotiate with E&P so as to be able to increase the production there a little bit to 20,000 versus the 15,000 barrels from before. Does that mean that between now in December 2010 when you have the pilots starting that we could see maybe this happening again and therefore see the flow rates that you're getting out of the extended well test actually increase beyond --?

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

Molinari, you have some information on that.

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

The extended well testing is limited to the amount of gas, no. We reduced in all the areas the gas value in order to be allowed to increase the production to 20,000 barrels per day in the extended well test. But the pilot system will be relevant because then we will have a gas pipeline to show off to Michigan platform and we will have both restrictions on the gas flaring.

Q - Christian Audi {BIO 1825501 <GO>}

Right. And the -- how much cushioning have you left between when the pipeline is expected to be finished next year and the actual beginning of production of the pilot program because that's a key part of this, right, if you don't get the pipeline done on time? You may run into similar limitations in terms of how much you can produce of the

pilot. So how many months have you left between your expected conclusion of the pipeline and the actual beginning of the production of the pilot program at Tupi more or less?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Yes. The pipeline, gas pipeline, will be led by technique in the first half of 2010. But we have some months now to December. We have some time before the pilot starts.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Okay. And the second question, Barbassa, related to the right offering -- on the press release on the CEO statement, you mentioned that, given the size of the capitalization and its magnitude and importance, that you have been fine-tuning your corporate governance procedures so as to allow for better transparency.

Can you -- I was just curious -- can you mention are there any specific things that you've done already when you say fine-tuning your corporate governance? Are there any examples or anything you can give us some color on that you've already adjusted to make this an even more transparent process?

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

According to our internal regulation, we are committed to in this case to sound the minority shareholder. Sorry. And this is what we are studying, how to do it. We don't have yet a final decision on the process and which one we are going to use. But we are working and we hope not too late we'll have something to you.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thank you.

Operator

(Operator Instructions)

Our next question will come from Emerson Leite from Credit Suisse. Please go ahead.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. Thank you. Good morning. I have two questions about the results in the Tupi cluster area. First, on BM-S-11, it seems you have concluded formation tests in Tupi Northwest with the recent announcement. Also, there are works taking place in Aidasema[ph]. I would like to understand whether this formation test would enable the Company to start to work with a higher recoverable volume estimate for the Tupi discovery or if they only confirm what has been already said.

In other words, should we continue to look at 5 billion to 8 billion barrels or maybe closer to 8 billion barrels now or eventually more than 8 billion barrels now and whether this

different prospects Tupi Northwest to be Tupi, assuming they are one single area or they are insulated prospects? That's one question.

The second question is about BM-S-9. We had a statement from Repsol over the weekend that Carioca itself is probably over 700 million barrels big and the whole area could be -- could have somewhere between 2 billion and 6 billion. I know you had Guara at 1.1 billion to 2 billion barrels. But from Repsol's statement, the rest of the block could still have another 4 billion barrels at least. So could you comment on these numbers? And what's your take on that block as well? Thank you.

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

Molinari, would you please?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Hi, Emerson. The result that we have in the BM-S-11 are confirming the volume between 5 billion to 8 billion barrels of oil equivalent, as we mentioned in the revisit that we made after the test. Regarding volumes in Carioca, BM-S-9, we have not evaluated yet. We have not brought numbers to this area so far.

Q - Emerson Leite {BIO 4003528 <GO>}

Yes. On BM-S-11, can you elaborate a bit more because the difference from 5 billion to 8 billion barrels, if I'm not mistaken, was attributed to different layers in the reservoir? Now with the formation test, you probably have more information about the different layers. So does that bring any higher confidence that we are in the upper part of the range or not yet?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

No. The results we have not confirmed the volumes between 5 billion to 8 billion, gave us more confidence that the volume is in this range that we are announcing.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. All right. Thank you.

Operator

(Operator Instructions)

Our next question will come from Gustavo Gattass from BTG. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, guys. I had two quick questions. First one, just I was looking at my notes. Second quarter, you seemed to indicate that in 20 days we might have some kind of indication from Iara and in about 45 days some kind of indication from Guara. And the Guara press

release has come out a long time ago. But we've heard really no update from you guys on lara. I was wondering if you could give us some kind of indication on that front?

And the second question -- just with regards to the mapping out of the 5 billion barrels and the wells that are yet to be drilled along with the E&P, I just wanted to understand -- from a step-to-step basis, is this something that has to happen before you kick off your capital increase? Or is it not correlated? Do you need to have the results from the wells before you do that? Or is it something that you guys are -- don't see as linked to one another?

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

Molinari?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Regarding lara, lara still has the same volumes, between 3 billion to 4 billion barrels of oil equivalent.

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

Regarding the test that has been running there.

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Yes, regarding the test that's going, we are finishing the test of lara but probably do not change the volumes, the recoverable volumes there.

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

We have tested the last two layers and we are working the last one I believe. This is what we have a lot to do there before coming to any conclusion that I (inaudible; technical difficulty).

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. And any indication on the timing of the E&P?

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

Gattass, we are working with E&P to find the spot where we are going to drill the two wells we are planning to drill for better valuation of the right transferring, the right to produce up to 5 billion barrels of oil transport[ph] the Republic of Brazil to Petrobras. So we don't have yet the location. And timing -- we expect to finish in the course of the first half of next year, when we expect to have the transaction then.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Barbassa, just so that I understand, is whatever the result you get at the well going to be something that needs to be taken into account before you do the transaction or not?

FINAL

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

Yes. The drilling is going to add new information there. It's going to be taken into consideration. But don't forget that we have the option to reevaluate the oil that is being transferred in the future. So these are not the only formation that will be added. These are important information but not the ones that will complete the -- that (inaudible; technical difficulty).

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question will come from Sergio Torres from J.P. Morgan. Please go ahead, sir.

Q - Sergio Torres {BIO 7078415 <GO>}

Good afternoon, everybody. I have a couple of questions. One is -- when I look at the ramp up for 2010 production and the three platforms that you still are ramping up, it looks like P53 and P51 are on track when I look at the wells connected so far relative to the target. But I'm curious to understand what is happening if anything in Sildad and Itaroy[ph], you have not connected any new well since the First Quarter. And it looks like the second well you connected there had by far a much lower productivity than your first well. And I'll leave it at that with the first question.

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

Molinari? Sildad and Itaroy.

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Sildad and Itaroy, we are going to reach the 100,000 barrels per day in the second half of 2010. In the Third Quarter, it's producing 38,000 barrels per day. But the peak production will be only second half 2010.

Q - Sergio Torres {BIO 7078415 <GO>}

Yes, I understand that. Thanks for your answer. But is there anything that -- can you explain why you haven't connected any new well there? Is the productivity of the second well -- being so dramatically different from the one of the first well that is -- is that a cause of concern for you?

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

No. It's a question of drilling. We need to drill all the wells before we can increase the production in that system. It has to go with the pressure of the reservoir is a technical issue.

Bloomberg Transcript

FINAL

Q - Sergio Torres {BIO 7078415 <GO>}

All right. Thank you. And just as my second question, I wanted to clarify your earlier comments about the number of rigs you have scheduled for 2010. You mentioned that you're expecting a total of six wells, four in the first half and two in the second. But it was my understanding that you had eight rigs scheduled for 2010. So this new number of six rigs was a little bit of a surprise to me unless there has been any delays or reprogramming that I'm not aware of.

A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

We have four drilling rigs starting in the beginning of 2010 in the first half, which is Silvan drill, Days Dea[ph], we have occasion (inaudible; technical difficulty) and S.S. Victoria. And what the mid of 2010 in the beginning of the Second Quarter, we have two other drilling rigs starting production Roam Sta[ph] and we have East/West Aurium[ph] from Sibrio[ph]. And we have others starting more in the end of 2010. But I don't have here the schedule when they are going to start drilling.

Q - Sergio Torres {BIO 7078415 <GO>}

Yes. Okay. I guess we can follow up online with the schedule. Thank you, Molinari.

Operator

(Operator Instructions)

Our next question will come from Thomas Adalus from UBS. Please go ahead.

Q - Thomas Adalus

Good afternoon, gentlemen. I have two questions on the pre-salt Santos basin, firstly on FPSOs. Your guidance to date is for the third FPSO to go on lara. However, some reports suggest that it may instead go to Eurosema[ph]. Could you comment on that? And the second question I have is on Guara and lara regarding gas commercialization. Are you going to tie back the Mishialo[ph] platform as well? How are you going to commercialize the gas reserves? Thank you.

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

Yes, under the FPSOs question, the first pilot will be Guara in 2013. And the second pilot is not decided yet whether it will be installed, maybe lara, maybe other area, maybe Eurosema. We haven't decided yet. And regarding the gas, we have the possibility to tie back to the Tupi Michigan gas pipeline. That will be available in that area.

Q - Thomas Adalus

Just sort of follow up maybe on the -- given you've talked about flow rates on Tupi potentially exceeding well above 20,000 barrels per day at the pilot stage once gas production comes online as well. Are you changing your guidance in terms of producing injectibles that needs to be drilled, given the higher flow rates expected? Thank you.

Bloomberg Transcript

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

I didn't quite catch what you said. You mean the injection of --?

Q - Thomas Adalus

Clearly, if you can realize higher flow rates per well, then obviously you need fewer producer and injector wells and thereby reducing the CapEx per barrel quite a bit. So I was just wondering whether anything has changed on your guidance.

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

Regarding the number of wells that will be connected to each platform, when we determine its phase will depend on the pilot who sees the test that we are going to do in the pilot system. So we have to wait until we have a decent foundation to give us a better guidance to determine its systems. Today, the pilot system will have five oil producers and three injectors, will have water injection, gas injection. And we may use alternate water and gas -- in the case of gas, natural gas or CO2 to improve the recovery factor of the Tupi area.

Q - Thomas Adalus

Perfect. Thank you very much.

Operator

Thank you. Our next question comes from Mark Caruso from Millennium Partners. Please go ahead.

Q - Mark Caruso {BIO 7316830 <GO>}

Good morning. I just wanted a clarification to one of the answers you gave earlier about the rig schedule. Did it change because I believe when you were in New York at Barclays, you were talking about nine for 2010. And I just was also trying to figure out if there's an additional rig being added or if you're still on the same schedule.

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

Yes, I mentioned these platforms pipeline that are important for the schedule of 2010. But the drilling rigs will come up in the end of 2010 and it will not change very much the drilling program of 2010.

Q - Mark Caruso {BIO 7316830 <GO>}

Thank you.

Operator

Thank you. Our next question will come from Paul Cheng from Barclays Capital. Please go ahead. Mr. Cheng, you may have -- you may ask your question, sir. Okay. Our next question will come from Neil McMahon from Sanford Bernstein. Please go ahead, sir.

FINAL

Bloomberg Transcript

FINAL

Q - Neil McMahon {BIO 5988658 <GO>}

Hi. Just a quick follow-up question on your presentation. Can you give us an idea how internal oil demand looks within Brazil in terms of diesel and gasoline demand and what your expectations are this year and also any expectations on LNG imports into Brazil over the next year. That would be great. Thank you.

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

Roberto Portovillas, would you help us on the diesel and gasoline demand for the remainder of the year?

A - Roberto Portovillas

Yes. For diesel, we have for -- to give you an idea, we sold on the First Quarter 158 barrels a day, on the second 714 barrels a day, on the third 752 barrels a day. And we expect almost the same on the last quarter. This shows that we -- the diesel demand has grown as Brazil GDP growing. And gasoline, we sold 300 barrels a day on First Quarter, two 288 on the second, 291 on the third. And we expect to sell a little bit more, 303 barrels a day on the last quarter of this year.

A - Theodore Helms {BIO 15433381 <GO>}

And I think also the question was what we expect or foresee in terms of LNG imports into Brazil next year. Is that right, Neil?

Q - Neil McMahon {BIO 5988658 <GO>}

Yes, Ted. That would be right, yes.

A - Unidentified Speaker

We don't see any imports in the first half of 2010, most because we see the reservoirs of waters in the intergeneration. And they are full. So we don't expect any imports from LNG in the first half. But we may contract some just in case.

Q - Neil McMahon {BIO 5988658 <GO>}

Great. Thank you very much.

Operator

Thank you. Our next question will come from Emerson Leite from Credit Suisse. Please go ahead.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. Thank you. Just a follow up on the capitalization process -- assuming that the project, the draft bill is approved in Congress at some point in the Second Quarter, I guess you mentioned in other occasions that the idea would be to carry out the capital increase a couple months after it's approved in Congress.

Bloomberg Transcript

FINAL

My question is -- given the fact that Petrobras is in no need of extra cash at the moment, probably in a year from now, you would not be needing cash as well, given your CapEx program is fully funded. You have BRL30 billion, \$10 billion more coming from the Chinese. So why not waiting or using the full 12-month period that the draft bill allows for the deal to be done and in the meantime, gather more information about the wells, more information about the barrels and therefore the economics so you can have a more clear-cut transaction for the Company and for minorities? So why rushing up and doing it next year?

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

Emerson, we have, as you well know, we have a very large CapEx program and the world has given us some concern in the last year. So to be in the safe side in terms of liquidity is very important. We have very good projects. We have a good prospect of growth. Why to put this challenge or why work in a situation where this can be damaged in some way by the international financial system? So as we have this in hand, the better is to have all the conditions we need to implement it. This is the first point.

The second point, why to do it as soon as we can, is that acquiring up to 5 billion barrels of oil is a not common event in the world today. This is a very unique opportunity and situation that presents to an oil company and the sooner, the best in this case. You know that there are many variables that can change with time. We can, of course, improve the valuation. But there are other variables in the game also. So it's (inaudible; technical difficulty) reason, it's better to do it as soon as we can.

Q - Emerson Leite {BIO 4003528 <GO>}

So Barbassa, if that is the case, why don't you then do a global offering together with the process instead of just making an offer that is restricted to existing shareholders? Why don't you do an open transaction to other investors so you can raise cash with everyone that is really willing to participate in the story and strengthening even further your capital base?

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

First, privilege the current share owner and second, we believe that doing -- following this track this way, we'll be able to raise all the money we are in need. So these are important issues for the Company.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. And how much money do you think you need?

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

The more, the better. But of course, there is some I cannot tell you. But there is the most probable figure that is expected. And this is what we think is enough for the time being.

Q - Emerson Leite {BIO 4003528 <GO>}

Bloomberg Transcript

Okay. Thank you, Barbassa.

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

Welcome.

Operator

Thank you. Ladies and gentlemen. there are no further questions at this time. Mr. Barbassa, please proceed with your closing remarks.

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

Okay. Thank you very much for being with us during this release of the results of the Third Quarter. We consider it very good and expect for the next quarter you'll be here also and that we have good results as well to present to you. Thank you very much.

Operator

(Operator Instructions) This concludes Petrobras's (sic) conference call for today. Thank you very much for your participation. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript