

# Q1 2012 Earnings Call

## Company Participants

- Almir Guilherme Barbassa, CFO & IR Officer
- Jose Carlos Cosenza, Chief Downstream Officer
- Jose Miranda Formigli, Chief Upstream officer
- Lucas Mello, Investor Relations Manager
- Unidentified Speaker, Unknown

## Other Participants

- Allen Good, Analyst
- Brandon Mei, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- John Herlin, Analyst
- Marcus Sequeira, Analyst
- Osvaldo Tellus, Analyst
- Paul Cheng, Analyst
- Pedro Medeiros, Analyst

## Presentation

### Operator

Ladies and gentlemen. Thank you for standing by and welcome to the Petrobras conference call to discuss the First Quarter 2012 results. (Operator Instructions) As a reminder, this conference is being recorded.

Today with us we have Mr. Almir Guilherme Barbassa, Petrobras CFO and Investor Relations Officer; Mr. Jose Miranda Formigli, Chief Upstream Officer; Mr. Jose Carlos Cosenza, Chief Downstream Officer; and Mr. Jose Alcides Santoro, Chief Gas and Power Officer; and their staff.

At this time, I would like to turn the call over to Mr. Lucas Mello, Investor Relations Manager of Petrobras, who has some additional comments.

### Lucas Mello {BIO 17682021 <GO>}

Good morning, ladies and gentlemen. Welcome to our conference call to discuss the First Quarter 2012 results. We have a simultaneous webcast on the Internet that could be accessed at the site [petrobras.com.br/ir/english](http://petrobras.com.br/ir/english).

Before proceeding, I would like to draw your attention to slide two. We may make forward-looking statements which are identified by the 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 we have already released the results both in reals and dollars, in accordance with the International Financial Reporting Standards. However, this conference call will

discuss Petrobras' results in reals only.

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

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## **Almir Guilherme Barbassa** {BIO 1921476 <GO>}

Good morning, everyone. Thank you for being with us in this conference when we are going to analyze the results of the First Quarter of this year.

To start with, next slide, we have the highlights of the quarter that shows we had a very good quarter with BRL9.2 billion of net income and EBITDA which was volume of BRL16.5 billion. We have increased over last year our production by 2% and we made during the quarter discoveries in the Campos Basin and Santo Basin, Espirito Santo. And Solimoes Basin.

We increased our oil product output in Brazil by 3% and we sold 10% more during the year when comparing the First Quarter of this year with the last year same quarter.

We started producing in the Gulf of Mexico using the first FPSO installed in the Gulf in the Cascade field and we did raise \$7.2 billion in the international capital markets with record-low rates.

We did invest, as well, BRL18 billion in all segments, with the dominance of E&P. Next, please?

The main indicators of our Company shows we have improved over the last quarter of last year. And the reasons, the main reasons, are due to the fact that we sold more Brazilian product to international markets. We used less international products to be sold in the domestic market. We had a better price in the domestic market, due to international oil price increase and due to the adjustments we the First Quarter in diesel and gasoline. And we had no structural costs during this First Quarter that have accrued during the First Quarter.

Next, we have an increase in total production of the Company by 2%. While our international production has been stable, we had in the domestic production the same increase with (inaudible) of the gas production that came mainly from two fields, Mexilhao and Urugua.

We are working the target, production targets, for the current year and we (inaudible) dependent at this moment of the revaluation of the production efficiency of the assets, mainly in the Campos Basin, as well as the return to production of the Frade fields.

We expect to have this information to be given by the moment we are going to release our five-year business plan that we expect to be done at August of this year. Next please?

We increased 22,000 barrels per day in the oil production in Brazil. We had to add 273,000 barrels per day of production of new systems. But at the same time we had a decrease in total production of 251,000 due to natural decrease in production and some loss in efficiency on the operation of the assets.

The main assets that have contributed to increase our production during the period was P-56, P-57, the pilot of Lula. And Aruana, (inaudible) -- well, the TLD of Aruana. Next, please?

In the pre-salt, I would like to call your attention for two main information, that we expect to have 20 rigs operating by the end of the year in the region and the production we have today in the Lula pilot that has reached 94,000 barrels per day through 4 wells only. These are important to say

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what is going to be happening in the area and what is the productivity we are finding there. Next, please?

Next we have the oil price. We had a better performance in terms of spreads when compared -- comparing prices of the light crude and heavy crude. In the quarter, we had only \$6 spread, what made it possible to make more profitable our production.

On the domestic market, we saw a price increase due to the diesel and gasoline price correction we had last November. But international -- and due to the international oil price that has increased in some oil products we purchase to be sold in the domestic market.

The international prices have increased and these have expanded into, as well, the spreads between the prices we are selling domestically and internationally. Next, please?

In terms of costs, we have observed that due to more intervention in our old assets, we -- and more maintenance costs, we had a cost increase in our lifting costs and the (inaudible) has improved, too, because of international price. Next?

And refining cost -- refining costs returned to the level of the First Quarter last year. So this was caused by lower stoppage for them, the stoppage in refineries what has occurred during this quarter. Next?

We had in the domestic market in Brazil, we have increased our production of oil products used in our existing refineries by increasing our utilization factors that have reached 94% during the quarter. And we have optimized the mix of products we are producing by increasing the production of diesel and gasoline that has increased, as well, the sales in the domestic market.

As you can see, we had a 24% increase in the gasoline demand and 9% in diesel, largely due to the economic activity up this year. But the gasoline is related to the ethanol market, as well.

Next we have the trade balance that shows mainly on the export side we have increased substantially our sales to international markets of crude oil and part of this crude oil in our stocks, in our subsidiaries outside Brazil. But we have imported, also, a little more of oil products and this has happened mostly in the end of the quarter and it was imported aiming to attend demand that we expect to grow, certainly, during the Second Quarter this year. Next?

Natural gas we had sold more for thermoelectric purposes and this gas we have sold more came from domestic production, mainly due to the startup of the Urugua and Mexilhao fields. Next?

Operating income of the Company has increased by BRL4.2 billion, almost BRL4.3 billion and this increase came from sales. We sold a higher price and a larger volume during the quarter. When you add what we have sold outside the country with what we sold in Brazil, it's more than the previous quarter, although we had sold less in Brazil and more outside, what is a good contribution of this sales.

And cost of goods sold has reduced, mainly because of the composition of the imported products in the mix of products sold in Brazil.

And there were no occurrence of costs that were -- that has occurred in the Fourth Quarter that were not expected to repeat, like impairment and -- or the higher exploratory costs and extemporaneous depreciation that was recognized during that quarter. Next, please?

You can see that the net income received all the increase from operational income because the financial results were very stable during the quarter. Next?

Looking at E&P operating income, we can see that they had received a better price for the quarter and had lower costs due to the revision in the approved reserves that has reduced the depletion cost of the Company and they had no occurrence of the exceptional costs that has occurred in the Fourth Quarter last year. Next?

Downstream. Oh, we lost the presentation. Okay. But let's go on.

The downstream we had an increase on the revenue due to the price effect. As I said, we sold more in the international markets where the oil price has increased and we have a correction in the domestic markets in the Fourth Quarter that applied too for the First Quarter, as well as the corrections of prices we do on some products in the domestic market when the oil price internationally moves.

The volume we sold, in total we sold more during this quarter. So this increased our revenue, as well. But we paid more for all products we sold during the quarter. As well as selling more, we had to use more products that has increased by volume the cost of goods sold, then reducing even more our operational results of the downstream. Next, please?

In terms of capital structure, we performed very well, very stable. Our leverage -- we maintained our high liquidity of the Company, even increasing during the quarter and we have, as I said, we have accessed the international capital markets, raising \$7.2 billion by one transaction with tenors from 3 to 30 years and a record low rate.

With that, I finish the presentation and invite you to make questions that I will be answering, together with my colleagues that are present here. Thank you very much.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions from investors and analysts. We remind you that each participant will be allowed to ask two questions only. (Operator Instructions) The first question comes from Frank McGann of Bank of America Merrill Lynch.

**Q - Frank McGann** {BIO 1499014 <GO>}

Hi. Good morning. Just two questions.

One is looking at the First Quarter and then comparing it to the Fourth Quarter, it's clear that in this environment that we're in right now where international prices for products are fairly volatile, as well as currencies fairly volatile, that a lot of the profit move has to do with the interplay of currency and inventories and international prices for products.

And I was just wondering, as you're looking towards the second and Third Quarter, how do you see those factors affecting results relative to what you saw in both the Fourth Quarter and the First Quarter?

Then second question, in terms of production and production levels as we're looking out through this year, the maintenance levels that you're expected to have in the Second Quarter, if you could comment on those and how you think that might affect Second Quarter production versus First Quarter production? Also, how much the Frade field cost in the first in production versus the second? Then in terms of production on the -- for the new systems that you -- that added

production in the First Quarter, will those continue to -- is there further upside from those units in the second or Third Quarters?

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

Okay, Frank. I don't know if we can help you much because you are looking forward and we do not give this kind of guidance. But let's see what we can say here.

Regarding Fourth Quarter and First Quarter in terms of what we expect to sell internationally, all will depend on how well production will perform on the quarter. And what I can tell you at this moment is that when we did build inventories outside the country during the Fourth Quarter, as we had said during the analysis of that quarter, this does not -- did not happen during the First Quarter of this year. We did not build inventories outside the country of crude oil as we did during the Fourth Quarter of last year.

Regarding production, I don't know if Formigli can tell you something regarding Frade and what the expectation on the production of the Second Quarter. We cannot say much. But ask Formigli, please.

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Okay, Frank. Relative to the projection of production as we have said, we will only make this public when we announce the business plan or even for the production of this year end for the coming year.

Currently, we are working hard on the performance improvement plan for the Campos Basin, especially on that area, because we consider that we have definitely room to increase back that production to -- for the growth of efficiencies, considering not only platform upside. But also subsea equipment and the ability in well variability. So, considering the whole system.

We are working hard at this moment on the projection of the predictive and preventive maintenance, plus corrective maintenance. And that will support the targets of production that Petrobras will announce with the business plan.

I cannot tell you more than that, because as Almir said, we are not at this moment making comments on even the level of preventive maintenance that we are going to do on the coming quarters.

You have asked about Frade. Today we are losing 18,000 barrels of oil per day in our work interest on the Frade production. As you are aware, this is a Chevron-operated field where we are partners.

There are discussions running beside Chevron and the Brasil Petroleo Agency for the conclusion of what happened in the field that led to the (inaudible) of oil in some areas. And based on that, we will be able to return production.

If you ask us when this will happen, we are following the guidance of Chevron as the operator and before they give any publicity on that, we are not able to make this public from our staff, okay?

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. And if -- just to follow up, if you -- when you look at the units that you're still ramping -- ramping up production that have already been installed, is there additional upside from those units, P-56, P-57, that you might see adding to production as you go through the rest of this year?

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Yes. We have a fairly high level of wells to be connected until the end of this year. We -- currently we forecast close to 40 wells. I won't give you the exact number, because this changes depending on the reservoir performance.

As you are aware, that (inaudible) project beside the big projects that you have mentioned like P-57, P-56. So there will be more, I would say, new oil coming.

There are two big systems to start up during the second semester. The (inaudible) Dome Project, which is now called (inaudible) and there will be another called (inaudible) for -- the name is (inaudible). So these two FPSOs will be running on the second semester, which will add additional oil with new facilities.

And there are many other wells to be connected to the already established facilities, okay?

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. Great. Thank you very much.

## Operator

The next question comes from Paul Cheng of Barclays.

**Q - Paul Cheng** {BIO 1494607 <GO>}

Hi, guys. Good morning. I had two questions. One is for the downstream and probably one for the upstream.

On the downstream, can you give us an update in terms of the timing of the startup and any revision on the CapEx for the new refinery that you currently has been under construction, the one in the northeast and also that (inaudible) and also whether you have started spending any serious money in the Premium I and II refineries?

For the upstream, (inaudible) that when I'm looking on page six, you guys showing it looks like the underlined decline curve, about 12.8% because you're saying on the base operations it dropped by 251,000 barrels per day, year over year. If that is a reasonable (inaudible) we could use on a going-forward basis or this is also going to subject to change based on what is your analysis going to look like on the maintenance capital and all that on the going-forward basis? Thank you.

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

Cosenza, could you give us information on the downstream regarding the new refineries?

**A - Jose Carlos Cosenza** {BIO 17643628 <GO>}

(inaudible). Well for CapEx for new refineries, the range that we expect is from \$30,000 to \$40,000 per barrel per day of capacity and timing and overall CapEx (inaudible) will not be announced now. We'll be announcing those figures in the business plan.

**Q - Paul Cheng** {BIO 1494607 <GO>}

How about the two already under construction, the Northeast refinery the 230,000 barrels per day. And also (inaudible), that 165,000 barrels per day? I think that previously you gave a budget of \$13 billion for the Northeast refinery and \$9 billion for the second one and supposed to come on stream in 2013 in both. I just want to see if there's any update on those.

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

Just a moment, please.

**A - Jose Carlos Cosenza** {BIO 17643628 <GO>}

For the Northeast refinery and (inaudible) refinery, we do not have -- well, the numbers are that. But we do not disclose those figures for each specific project.

**Q - Paul Cheng** {BIO 1494607 <GO>}

Can you tell us whether the number is higher, much higher, now or that it's still roughly about the same and whether that is still going to be on stream into 2013 or is being delayed?

**A - Jose Carlos Cosenza** {BIO 17643628 <GO>}

It will be running in '13 and '14 and (inaudible)

**Q - Paul Cheng** {BIO 1494607 <GO>}

Because you did give us a budget on both, previously. So I just want to see if that budget now is going to be much higher or is still roughly about the same.

**A - Jose Carlos Cosenza** {BIO 17643628 <GO>}

Around the same that were announced, the public numbers that you already have.

**Q - Paul Cheng** {BIO 1494607 <GO>}

Okay. Thank you. And how about in the upstream question?

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

Formigli, please?

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

When we look at that reduction of production you have, of course, both effects, a decline of the reservoir and the -- in this case, we have reduction of efficiency. What we can tell you is that in terms of decline of the reservoir, they are running in accordance of the previous quarter. So we don't -- we didn't have any decline which was accelerated at this moment. So of course, we keep on working on opportunities to reduce this decline. But they are running in accordance what was projected by the reservoir guys.

When you look at efficiencies, that's exactly where we have room to improve and we look -- when we look forward, this is currently our main target to be establishing a program to recover efficiency, especially in Campos Basin. So after that we will be able to announce the production target. So we don't disclose specific numbers for each specific item that contributes for the reduction of production. But you can consider that for reservoir decline it's running accordingly and there is room for improvement on the efficiency. Okay?

**Q - Paul Cheng** {BIO 1494607 <GO>}

Right. So should we interpret it that while there's room for improvement in the future. But when we're looking at the First Quarter, there's really nothing, say, extraordinary in the quarter that had led to a higher-than-usual decline rate? So if you have no improvement, then that 12.8% year-over-year decline is a reasonable proxy and that on top of that we would base on what we think your improvement is going to be. Is that a fair interpretation?

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Well you have always to consider which was the amount of new oil that was introduced on that. But, okay, you are right. When you look at the, I'll say, old oil, you may consider that the forward decline will be running in accordance what is the historical numbers. Please, we don't project specific numbers at this moment for any of the coming quarters. But, as I told you, the historical decline of reservoirs in Campos Basin is the same ones that we are forecasting at this moment. Okay?

**Q - Paul Cheng** {BIO 1494607 <GO>}

Thank you.

**Operator**

The next question comes from Marcus Sequeira of Deutsche Bank.

**Q - Marcus Sequeira** {BIO 4622700 <GO>}

Hello. Good morning, everyone. I had two questions on refining.

The first one is that if you guys expect any maintenance in the refineries in upcoming quarters. You said that your imports of refined products increased at the end of the quarter. You have now a bigger inventory and that inventory made -- was made to meet increasing demand or just to make up for some maintenance shutdowns in the upcoming months?

And the second question is regarding to prices and if there is any plan being discussed by the Company and the government so that Petrobras will start subsidizing imports of gasoline and diesel? Thank you.

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

Marcus, related to prices, we keep doing our appraisal on what we expect, looking at the market. And reading the law as far as we can read in terms of price collusion [ph] and presenting these -- our conclusions to our Board and our Board has declared comfortable regarding what is prevailing market right now.

Regarding the first part of your question of maintenance and how we expect the market -- why we did import more oil products, as far as I can say is that we expect seasonally that oil product demand on the Second Quarter. That's why we did increase our inventories of oil products in Brazil. But regarding maintenance, I will ask Cosenza if he has any information on that.

**A - Jose Carlos Cosenza** {BIO 17643628 <GO>}

The level of maintenance in refineries is the Second Quarter is very low. But we have a very important, at this moment, maintenance in pipelines, (inaudible) pipeline, a crude pipeline in Sao Paulo. This is the reason for having more crude oil storage.

**Q - Marcus Sequeira** {BIO 4622700 <GO>}

All right. So we could expect a bit of a lower utilization rate in the refineries because of this maintenance (inaudible) maintenance in the Second Quarter?

**A - Jose Carlos Cosenza** {BIO 17643628 <GO>}

No. There is no maintenance in refineries, not very strong impact in our refining field.

**Q - Marcus Sequeira** {BIO 4622700 <GO>}

All right. And just going back to the prices, I understand Barbassa, your policy, pricing policy. But now Petrobras has been -- I think the main question is on the imports, because as imports have



been increasing over the last quarters, last two years, Petrobras is now in a situation that is really buying expensive and selling cheap in Brazil. So just been using a lot of precious (inaudible) faster than -- maybe I'm just wondering what our response for your investors, especially the ones that participate in the capital increase, when they ask why Petrobras really subsidizing imports in the country? So it is something that, obviously, not everybody is talking about. But I think it is a very important issue for the Company.

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

Marcos, it's not a matter of subsidizing. It's a matter of pricing policy. And we have a moment where we were selling domestically at a higher price than internationally. What happens is that there are different moments for considering our pricing policy and this is a moment where we are selling here at a lower price than international. But it's not subsidizing policy established, it's a pricing policy established that happens to keep our domestic price more stable.

What I can tell is that we do appraise our -- as I said, we see how we expect the performance and the volatility of the price. As you saw, there were international oil price reduction in the last days. Today we are -- this morning we were below \$110. We saw during the end of the First Quarter \$125.

(inaudible) volatility and we do not transcend [ph] the volatility and we appraise that and present to the Board. But there is no subsidy established as a policy for the Company.

**Q - Marcus Sequeira** {BIO 4622700 <GO>}

All right. Thank you very much, Barbassa.

**Operator**

The next question comes from Gustavo Gattass of BTG Pactual.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Hi, Barbassa. There's actually two questions that I want to ask.

A bit of a follow up on the Brazilian call, the very first one, I just wanted to understand in the last quarter you guys did a fairly good job of trying to explain what the extraordinary items were that affected the quarter. I just wonder if we could do something similar for this quarter and the one number that I was thinking about, which is basically the offset from last quarter, was your oil exports or, actually, the sale of the inventory that had been built last year.

I was just wondering can you guys share, let's say, what you believe was the impact of that on your EBITDA? Then, more importantly, then, for me, is it possible to say where this was accounted for, if it was accounted for in international refining, international E&P, or somewhere else in the numbers? That's the first question.

Then, later on, I just wanted to have a brief question about the imported product mix.

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

We gave the main information on -- that made the first a good quarter and this is in line with the information we provide you in the Fourth Quarter. In the Fourth Quarter, we said that we had exported from (inaudible) but not so from the products system. So it kept the value in our inventory that we realized during this quarter. This was an important element to explain the results.

The second one was the reduction due to the seasonal demand in Brazil of oil products, namely diesel. And so we used less imported products that reduced -- often did have a (inaudible). But both of them have a (inaudible) part on the EBITDA of the Company.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay, Barbassa, let me phrase that differently. In last quarter you guys said you had an EBITDA of about BRL750 million from the building of inventory. Since oil prices were higher in the First Quarter, I just wanted to check, should I think about the impact as having been about BRL750 million, or could it have been larger because oil prices were higher? That's what I was trying to catch and just try to understand where it was booked?

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

Gustavo, I don't have this information on my mind now. I don't know if, Jose Carlos, you have, it's not --

**A - Jose Carlos Cosenza** {BIO 17643628 <GO>}

No, Almir, I don't have any additional information. I just said we didn't have the same increase of the stocks this quarter. (inaudible) I can't give you any additional information.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay. Then if I just may, let me jump to the second one. It's a very quick one. I just want to understand, Almir, when you said during the call that during the Fourth Quarter you had 32% of import participation and then in the First Quarter, that dropped to 24%, I just really wanted to understand how I should think about those numbers, because we were doing some math on the total volume sold.

So Fourth Quarter you sold 2,229 [ph] barrels and 32% of that is roughly 713,000 barrels a day. Is that how I should think about it, or is that number something that includes imported oil that goes into the refineries, as well? How should I think about that number, because it seems a little bit too high?

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

Gustavo, well, I gave you that number 32% and 24% it refers to oil products only, oil product sold. I don't know if this makes clear for you.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Yes. The number that I was looking at oil product sold, as well. But what I'll do is I'll follow up with the team. Don't worry. I just wanted to understand because it seems like a little bit too big. But I'll give you guys a call a little bit later. Thank you.

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

Maybe you want to know if the oil products we sold, the oil products that were produced here, took more of imported crude value or less, compared with former quarters. I don't have this information now to give you.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay, no problem.

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

I don't expect that this was a relevant figure. The most relevant was imported oil products.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

All right. Thank you.

**Operator**

The next question comes from Allen Good of Morningstar.

**Q - Allen Good** {BIO 16212285 <GO>}

Yes. Good morning. I just had a question to follow up on some of the operating efficiency that you mentioned in the Campos Basin as being (inaudible) there. In the Third Quarter of last year you enumerated some issues regarding lift and then some hydrates and then some other things. And I just wondered, are those still issues that are persisting or are you running into different issues on the Campos? Then I have a follow up, as well.

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Please, could you repeat which kind of problems? I understood hydrates.

**Q - Allen Good** {BIO 16212285 <GO>}

Oh, yes. I'm sorry. So in the Third Quarter of last year, you mentioned equipment efficiency, as well. But problems with lift, hydrate formation, compression failures, et cetera. I'm just wondering, are those the same issues that are persisting today on the Campos or are you running into a new set of issues? Or have you made progress on some of the issues, as well, or dealing with different ones? I was trying to get a little more information as far as the exact issues with operating efficiency.

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Okay. We'll try to decide which problems we are facing. In terms of wells and subsea, we have problems associated with hydrate formation and in some cases we have also to make workover on the wells for sim [ph] control and, I would say, traditional workover for replacing gas lift valves.

So this is a very traditional workover that we have to do in our fields with the mature areas that we have in Campos Basin.

Besides that, in some areas, we have also (inaudible) immersible pump replacement work to be done. For example, this affected P-67 production during the First Quarter.

Of course, we are working hard on these issues in order to not happen. But there is a solid number of wells which demand a big movement in order to guarantee that they come again with the original operational efficiency.

Looking to the platform, there are some issues related to processing plant availability and we are working on these areas with preventive maintenance, especially through what we call UMS, which are similar to flotels, where you can put more people involved on the turnover of the unit so you can do that in a shorter time.

So today we are working on this scheduling of all this maintenance that we have to do above sea surface and below sea surface and that's the reason that today we are not announcing production targets for this year and we will do that when we announce a business plan. Okay?

**Q - Allen Good** {BIO 16212285 <GO>}

Yes and just to follow up on those production targets, I assume the business plan will be later this year, maybe later than typical. If so, that would probably be most of the way through 2012. When we get production targets, will that be just for 2012 or do you think there will be some more clarity as far as we get into 2013 and maybe even beyond that?

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

No. We will do it as we do for the business plan. So there will be not only short-term targets. But also intermediate and long-term targets. Okay?

**Q - Allen Good** {BIO 16212285 <GO>}

Okay. And just one quick one, is there a -- do you have an update on the asset sales and if there's been any progress made there?

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

Please repeat, because this was -- this is really difficult to understand. Could you repeat again?

**Q - Allen Good** {BIO 16212285 <GO>}

I'm sorry. If I could get an update on any asset sales to date or any anticipated sales the remainder of the year?

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

We are working our plan. We have announced \$13.6 billion, I believe of asset sales we have done. It's not all asset sales. But there is a good portion to that is better location for working capital, releasing working capital to (inaudible) investment plans. And we are, the next quarters, announcing a few of the important sales we are planning out of the asset sale we have announced.

**Q - Allen Good** {BIO 16212285 <GO>}

Okay. Thank you.

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

Okay. Just to complement the information of Gustavo in the former question regarding the composition of imported crude in the total cost of our oil products sold in Brazil, we had a decrease from the -- an increase, sorry. In the Fourth Quarter, we had 19.1% of imported crude in the total cost of oil products produced in Brazil and during the First Quarter of '12 this was 22.8%. Of course, we had 8% of increase in the international oil price, which is factored inside this figure, as well.

But there were, in fact, an impact on the oil, imported oil, crude oil, in our total cost of oil products produced in Brazil.

**Operator**

And the next question comes from Brandon Mei of Tudor, Pickering, Holt.

**Q - Brandon Mei** {BIO 16954887 <GO>}

Hi. My question is on exploration. It appears you're currently drilling about five wells in the deepwater Sergipe-Alagoas Basin having both pre; and post-salt prospectivity. I just wanted to see if you could provide some color on those wells and any potential analogy to the (inaudible) in the conjugate basin.

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Let me see if I understood. You are asking about the (inaudible) margin in Brazil and how are things running on the well that we are drilling there and a potential analogy of that to (inaudible) West Africa. Is that right?

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

Yes, I just wanted to get some color on the wells being drilled in the Sergipe-Alagoas Basin.

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Ah, Sergipe-Alagoas. Okay.

So yes, we are drilling an (inaudible) well on the Barra [ph] discovery and whenever we have something to make public, we will do it. So unfortunately, we cannot tell you at this right moment. But you are right, we are drilling this well and, of course, as an appraisal, we have expectation for the well. But I cannot tell you anything more than that. Okay?

**Q - Brandon Mei** {BIO 16954887 <GO>}

Any expectation on when that well will reach TD?

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

I don't have this information right now. But probably in the next four or five weeks we might reach TD and have all the logging off the well reached. Okay?

**Q - Brandon Mei** {BIO 16954887 <GO>}

Okay. Thanks.

**Operator**

The next question comes from John Herlin of Societe Generale.

**Q - John Herlin**

Yes, hi. Two quick ones.

How's the ramp going with Cascade?

Then, with respect to the pre-salt, I believe you're going to use some horizontal wells, rather than just vertical wells. Could you comment on what the status is on your horizontal drilling?

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

Let me have my colleague from the national department to update us on this information.

**A - Unidentified Speaker**

Well the Cascade we're going to have another well until the end of this year and we expect (inaudible).

**Q - John Herlin**

Okay. Thanks.

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Okay. Now, commenting on the drilling of horizontal wells versus vertical wells in the pre-salt in Santo Basin, we have finished the drilling of a horizontal well. It was a very good success in terms of operational performance. This well will be starting producing in two or three months.

The reason for that is that we have already reached, as Barbassa has said, we are top with the production in the current (inaudible) system. I would say that confirms our expectation. The vertical (inaudible) wells in the pre-salt, considering the thickness of the reservoir and permeability, gives us better economical results than drilling a horizontal well.

But at the same time, it was very important to make feasible that. So we know that whenever it's necessary we are able to do that. It will depend, of course, on the reservoir completion but to know for Lula, the (inaudible) area, the (inaudible) and the (inaudible), we are still, I would say, prioritizing the development using vertical and deviated wells.

### Q - John Herlin

Thank you.

### A - Jose Miranda Formigli {BIO 16037392 <GO>}

Okay. Relative to the question of the Barra (inaudible) well, the current forecast for total depth will be 60K [ph]. So it will -- we still have two months of drilling ahead of us. Okay?

### Operator

The next question comes from Pedro Medeiros of Citi.

### Q - Pedro Medeiros {BIO 16187063 <GO>}

Hi, guys. Thanks.

Formigli, I have a question for you. Kind of a little bit more on the performance of the (inaudible) and specifically on the (inaudible) formation. I think a lot of development that you guys planned was pointing for a requirement of (inaudible) reservoir and increase the production.

Is there any new guidance on how you guys plan to work on that? Or when should we expect production to bounce back on that specific field?

### A - Jose Miranda Formigli {BIO 16037392 <GO>}

Yes, okay. Let me comment on (inaudible). We are reducing (inaudible) the fractured carbonate, as you aware. We currently -- we are -- we have drilled 6 wells. They are all producing, fairly good production. And for other wells to be drilled over there, we have identified that we need to go for (inaudible) and that we are currently still on the economical analysis of the feasibility to go that with the potential day rate for a rate to be described for that.

Don't consider that we will have new wells in 2012. It's not put on our production target for this year. So, that's what I can make public now. Okay?

### Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. Thanks. And I do have one other question and it's actually a follow up to a previous question for Almir. Almir, I think on the last call you said that on the asset sales program we could expect the bulk of the assets to be sold through the first half of this year. How has this guidance or this program changed?

And I understand that almost 50% of your original guidance was actually coming from working capital improvements and as far as First Quarter goes, we are actually seeing higher working capital being billed relative to your revenue growth. Is there any change to that or how long do you expect this program to effectively mature?

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

We did announce last year this program and we said that we'll be implementing it in two, three years time. It was a program for five years, of course, the five-year program. But we expected to have it done by the end of second or third year. So we have yet another two years, as we did announce firstly.

And what I can tell you now is that we are progressing in very good timing and we'll have in the second half of this year good information on these programs.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Okay. Okay. Thanks. And maybe one last question.

I think on the last price increase announced back about the end of October, early November, last year the federal government of Brazil has reduced the CID [ph] tax and that specific decree curiously had an expiration base pointing for the end of June. Can you comment a little bit of what are the scenarios that Petrobras is working for to the expiration of that decree? Are you considering the CID tax will be -- will recover to the former level or will continue at the current level or maybe even change?

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

Of course, this will depend on the government. But we expect that -- this all depends on price. CID is a buffer for oil prices (inaudible) gives the government the control they would like to have on it, on this price. So this all will depend on the condition of prices. So I cannot tell you what's going to happen next June.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Okay. So the base scenario is basically it is unchanged as of now? Okay. Thanks.

**Operator**

The next question comes from Osvaldo Tellus [ph] of Espirito Santo Securities [ph].

**Q - Osvaldo Tellus**

Hi. Good morning. Going back to the lower efficiency in the Campos Basin, you have mentioned that Campos Basin is a mature field and this is one of the reasons for what is going on. My question is, do you believe that the problems that change from time to time are permanent or temporary that makes this field less efficient now?

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

(inaudible).

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Campos Basin is still with a part that is mature and there are many new fields and we have today three -- as a matter of fact, considering the (inaudible) part. But we still have big systems scheduled to be installed in the coming years in Campos Basin, like P-65, P-62.

So we have definitely mature areas that has been producing since the beginning of the '80s and that's the reason that we have to be taking care of them in order to recover efficiencies that we believe that are totally achievable.

So the current situation is not applied to the whole Campos Basin. It's applied to those more mature areas. And no doubt that we will be able to recover to a better level of efficiency. So that's our point in relation to your question, okay?

## Q - Osvaldo Tellus

Okay. Thank you.

## Operator

The next question is a follow up from Frank McGann.

## Q - Frank McGann {BIO 1499014 <GO>}

Yes, hi. I just wanted to follow up, more or less on the same theme. In terms of the decline rates, I was a little confused by the response. The impression I have is that the decline rates on average for the Company historically is 7% to 10% is the range you've always used. And my understanding last year was closer to the low end of that range or maybe even a little bit below. I just was wondering if that -- any First Quarter issues you're seeing that you have the efficiency issue plus the decline rate issue, the underlying decline rates are still either in that 7% to 10% range or lower in that range?

## A - Jose Miranda Formigli {BIO 16037392 <GO>}

No. It's on that range. That's what you may consider at this moment. Okay?

## Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

## Operator

And the next question is a follow up from Paul Cheng of Barclays.

## Q - Paul Cheng {BIO 1494607 <GO>}

Hi. Barbassa, in the First Quarter, your CapEx is BRL18 billion. Your budget for the year is BRL87 billion. I understand that typically that you spend more in the second half. But should we still, based on this run rate, assume that more likely than not you're going to under spend your this-year budget by about 10%?

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

Oh, if you did multiply by 4 the BRL18 billion, it would be less than the total. Yes, okay, I see. But we are in an increasing mood in terms of capital expenditure in the Company. So it all depends on the performance of many different factors.

What we can tell you is that we are going to have more rigs available and this is an important factor. This means about 50% of the development today, or plus, depending on the field and we are all the time dependent, as well, on the performance of our suppliers. But I cannot give you more than that.

## Q - Paul Cheng {BIO 1494607 <GO>}

Can I -- Barbassa, can I ask it in another way, that in the First Quarter, comparing to your internal budget, if the actual spending is lower and if it is, by how much, or was it just roughly the same as what your internal budget?



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

You mean, the --

**Q - Paul Cheng** {BIO 1494607 <GO>}

I mean, you spent BRL18 billion. What is your internal budget that you previously assumed you will spend in the First Quarter?

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

I don't have these figures. Someone have the information on the First Quarter? Just a moment, Paul.

**Q - Paul Cheng** {BIO 1494607 <GO>}

Thank you. While you're looking for that, if I can ask my second question. On the upstream for Formigli, do you have a unit cost inflation rate assumption or estimate that you can share for this year and next year?

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

Regarding what was expected in the First Quarter, we were -- the volume we did was in the range of 95%. And the question regarding the downstream --?

**Q - Paul Cheng** {BIO 1494607 <GO>}

No. In the upstream, the second question is that in the upstream do you have a cost inflation assumption or estimate you can share for 2012 and 2013?

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

You are meaning cost inflation in relation to the CapEx or you are talking about OpEx?

**Q - Paul Cheng** {BIO 1494607 <GO>}

OpEx, I'm sorry.

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

OpEx?

**Q - Paul Cheng** {BIO 1494607 <GO>}

OpEx, operating cost.

**A - Jose Miranda Formigli** {BIO 16037392 <GO>}

Operating cost. Well we -- as was shown previously, there is part of our addition cost this First Quarter in relation to the previous one, which is associated not only to the amount of work that we have been doing. But there is some inflation on that. But not so that much.

For future, we don't make forecasts on this range. So we cannot anticipate to you if we are going to have inflation on that. Please always remember that Petrobras normally runs with long-term contracts. So for rigs, for supply boats, for (inaudible), most of them are done on a long-term contract. Of course, if you have long-term escalation of prices related to these inputs, there may be inflation. But short-term escalations are not -- normally do not affect us. Okay? But we are not making any projection of OpEx at this moment for -- at least make public at this moment. Okay?

**Q - Paul Cheng** {BIO 1494607 <GO>}

Thank you.

## 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>}

Thank you very much for being with us during our analysis of the First Quarter result of 2012 and we expect to have you all with us in the next quarter analysis we expect to be in August. Thank you very much.

## Operator

Ladies and gentlemen. Your host is making today's conference available for replay starting one hour from now. You may access this replay at the Company's IR website at [www.petrobras.com.br/ri/english](http://www.petrobras.com.br/ri/english). This concludes Petrobras' conference call for today. Thank you very much for your participation. You may now disconnect.

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