

Q2 2013 Earnings Call

Company Participants

- Almir Barbassa, CFO
- Jose Alcides Santoro, Unknown
- Jose Carlos Cosenza, Downstream Director
- Jose Miranda Formigli, Exploration and Production Director
- Mario Georgiou, Unknown
- Theodore Helms, IR
- Unidentified Speaker, Analyst

Other Participants

- Auro Rozenbaum, Analyst
- Bruno Montanari, Analyst
- Caio Carvalhal, Analyst
- Christian Audi, Analyst
- Gustavo Gattass, Analyst
- Jose Carlos Consenza, Analyst
- Marcus Sequeira, Analyst
- Paul Cheng, Analyst
- Paula Kovarsky, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(interpreted) Good morning, ladies and gentlemen. Welcome to Petrobras' conference call with analysts and investors to present Petrobras' Second Quarter 2013 results.

We would like to inform you that participants will be in a listen-only mode during the Company's presentation, which will be in Portuguese with simultaneous translation into English. Following the presentation, a Q&A session will begin in Portuguese and in English, when new instructions will be provided. (Operator Instructions)

This call is being recorded.

Today, with us, Mr. Almir Guilherme Barbassa, Petrobras CFO and Investor Relations Officer; Mr. Jose Miranda Formigli, Exploration and Production Director; Mr. Jose Carlos

Cosenza, Downstream Director; Mr. Jose Alcides Santoro, Gas and Energy Director; and other executives here with us.

Before we start, let's hear from Mr. Theodore Helms, Executive Manager of Investor Relations. Please, Mr. Helms, you have the floor.

Theodore Helms {BIO 15433381 <GO>}

(interpreted) Good morning, everyone. We will begin one more Petrobras conference call with analysts and investors to present Petrobras' Second Quarter 2013 results.

This conference call is available live on the internet at our website, www.petrobras.com.br/ri in Portuguese. To listen to the conference by telephone in Portuguese, please dial 11.21.01.1490 or 11.31.93.8000. To listen to the conference simultaneous translation into English, please go to our website, www.petrobras.com.br/ri/en, or call from the United States, 1.866.890.2584 or, for participants from other countries, 1.646.843.6054.

Before we continue, I would like to remind you that this meeting is being recorded. And please be mindful of slide number 2 which contains a notice to shareholders and to investors. The words -- believe, expect -- and the like related to projections and goals are mere forecasts based on the expectations of executives regarding the future of Petrobras.

Lastly, I would like to inform you that results have already been disclosed in Brazilian reals and US dollars, both in accordance with the International Financial Reporting Standards, IFRS. However, today's conference will express figures in Brazilian reals only.

At this time, I call on CFO Almir Barbassa, who along with the other Directors will present Petrobras' results and the main events that took place in the Second Quarter of 2013. Afterwards, we will be answering questions from participants.

Please, Almir.

Almir Barbassa

(interpreted) Good morning, everyone. Thank you for being with us in one more earnings presentation at Petrobras. As we have been doing in previous conference calls, today we have the participation of our directors from business areas to explain each one of the segments. And also we have Executive Manager Mario Georgiou [ph], who will talk about PROCOP.

Let us now begin our presentations, beginning from Director Formigli. Formigli, you have the floor.

Jose Miranda Formigli {BIO 16037392 <GO>}

FINAL

(interpreted) Good morning, Almir. Good morning, everyone. Well let me begin talking about Exploration and Production. Second quarter of 2013 had results in Exploration and Production which was very much aligned to our projections, according to the Company's business plan which shows that our efforts in the last few months has shown consistent results.

Beginning from the first slide, on the top left, you have the production of oil and NGL. In the Second Quarter of 2013, we had an increase of 1% in the average output compared to the First Quarter -- 1,931,000 barrels compared 1,910 [ph] barrels. Now, why have we had this 1% output increase? Well because we have continued with our philosophy of scheduled stoppages to attain the highest possible efficiency. This is regarding our oldest assets in Campos Basin.

Now, regarding the new assets, we're also conducting scheduled maintenance so that we have high levels of efficiency, as you will see in a few minutes as we show you our results of PROEF, our efficiency improvement program.

In this period of time, the natural decline of our fields continued. And it is approximately 10%. On the other hand, the number of installed platforms reached four. However, most of them are still in the beginning of their ramp-up phase. So we still have not had a considerable volume of new oil to offset the natural decline. However, we continued with our program of scheduled maintenance. In terms of offsetting this drop, we've been able to deliver 3,000 barrels daily average. And this is additional in this semester.

The natural gas production is close to 62 million cubic meters a day, delivering to the market over 40 million cubic meters day, about 43 million, a bit more than 43 million. So our output has been very good.

And let me also highlight that Pre-Salt production month after month, quarter after quarter, is posting a growth, as you can see in the slide bars, growing from 240,000 barrels a day to 233,000 barrels a day. This is Petrobras' stake, or Petrobras' equity in production. This shows we've had a very good response from Pre-Salt fields in Santos Basin and Campos Basin.

Now, on the right top corner, we have specifically the Pre-Salt production. We have set one more production record -- 326,000 barrels per day. This operation is fully under Petrobras control. So we almost doubled Pre-Salt output, by sustaining this production in Lula and Cidade de Angra dos Reis and with the new systems of Sapinhoa and Nordeste, in addition to Cidade de Anchieta [ph] installed last year in the Pre-Salt of Campos Basin in the Parque das Baleias area.

Now, the startup of these new production units is according to our plans. We have been able to install up until June four new units, four additional units -- Cidade de Sapinhoa, which was already in production since January; Cidade de Itajai, that had its startup in February. So it is now in the ramp-up phase; then, Cidade de Paraty, that had its startup in June '13; now, Papa-Terra P-63 is ready, just waiting for a few modifications we had to conduct onboard, because we had to make some adaptations in the subsea area to allow

Bloomberg Transcript

for the environmental licensing in the second half of the year. We will soon show you the situation of the four new systems that will start production by the end of the year.

Now, in terms of connected wells, we've been able to connect in the first half of the year 15 wells, 7 in the Second Quarter. And we have 36 wells planned to be connected, which will add approximately 440,000 barrels per day of potential production. We will further elaborate and provide more details of how we will obtain these connections, this interconnected system, considering all activities -- drilling, well completion. And especially in the face of subsea connections -- by installing the new systems of submersibles [ph] for Sapinhoa and Bauna Nordeste.

Now, in the next slide, I would like to highlight the behavior of our drilling activities in the Second Quarter and throughout the first half of the year, compared to 2012. In the Second Quarter of 2012, we had to write off dry wells, which led to a result of expenses BRL3.3 billion.

In the second half of 2012, we worked very hard to establish and approve by Petrobras executive directors an exploratory policy which looks at the right risk and the Company risk acceptance capacity, considering our revenues and a good ratio of reserves over production, which is today about 19.

As we announced, we've decreased this minimum value. Instead of 15 years, we're now working with 12 years. With that, we worked hard to reallocate our drilling rigs and also in the control of our locations, considering the risk. And we actually had some sharing; that is, we had some farm-out operations so that our process is fully under control.

So now, the Second Quarter prospecting expenses BRL1.15 billion, which is lower than what we planned in the annual business plan. So this process is fully under control.

The Second Quarter, we've had 13 wells write offs, none of them in the Pre-Salt, compared to last year in the Second Quarter 2012, we had 41 wells write offs, 2 in the Pre-Salt area.

In terms of discoveries, in this quarter we had only one discovery. But this is connected to the fact that we are now working in trends, where exploratory wells have not reached the right levels. We had a large number of discoveries in the First Quarter 2013. And a smaller number of discoveries in the Second Quarter '13, which is associated to the drilling dynamics, to the exploratory process.

Now, this discovery was in the Pre-Salt region. So we maintain 100% success in the Pre-Salt region. And we want this success to continue. It was 70%, compared to 64% in 2012, which is already a high number. In the Pre-Salt, as I said before, we've had 100% success this year.

We had a very important result with the discovery of good quality oil in a region around Iara. We call it Iara Surroundings.

So in this chart, we can see 30 relevant discoveries -- the 30 most relevant discoveries in the last few months, all of them offshore except for Igarape Chibata, where we had one discovery in the Amazon region.

Now, talking about PROEF, as you can see in the title of the slide, we've had total gain, total results from PROEF initiative of 62,000 barrels a day; that is, we no longer have a loss. And if we had not implemented PROEF, we had this loss of 62,000 barrels, 15,000 in Campos Basin where we have our oldest assets, in Campos Basin, including Albacora and Marlim.

And with the new assets, we've had maintenance of operating efficiency at a very high level, close to 93%, which would not have happened had we not implemented PROEF. PROEF is a program that has preventive action in the case of newer assets last year, when PROEF was implemented. And these initiatives are ongoing. PROEF in BC started last year. And PROEF in Rio started in November last year.

Now, let us talk about PROEF in further detail. We've had a production increase in Campos Basin of 15,000 barrels a day. And what is even more important, these 15,000 barrels a day together with the other production bring to us a net present value of \$626 million. Up until June 2013, \$1.2 billion.

Now, in case of PROEF of operating unit Rio, the figures are even more significant because, as I said, this is preventive work. So the cost for us to provide adequate maintenance and keep this high operating efficiency is much lower. Therefore, by spending only \$3.2 million. But with huge management efforts being applied in the whole operating unit and in the platforms, we have been able to ensure not losing 47,000 barrels per day. And we keep this level of production of 887,000 average daily output, which brings to us a VPL of \$596 million.

So if we add BC and Rio operating units, we come to \$1.2 billion up until now.

Now, the next slide, we are talking about lifting costs. Now, here, it is very important to keep in mind, as we mentioned in the first slide about the ramp-up production curve, we've had four units coming into production. Out of these four units, two of them are still in the beginning of their ramp-up phase. So their production is still low.

Therefore, we don't have a high value in the denominator regarding the costs, except for variable costs related to chemicals. But in terms of fixed costs, they've already been amortized in the total operating cost. And this is the reason why we have a higher temporary lifting cost.

You can see on this slide that we have Cidade de Sao Paulo and Cidade de Itajai in the Second Quarter had a production of 11,000 and 31,000 barrels per day. Cidade de Sao Paulo, this production is growing now in the second half. Finally, Cidade de Paraty also has a small production, because it had its startup in June. But now in August it will reach its full production. And from now on, with the installation of new equipment which is

happening at this time, in the second half Cidade de Paraty will have a much more robust ramp-up.

So as we look at the behavior of operating cost, it is clear that our lifting cost in reais per barrel was BRL67.88 per barrel.

Now, government stake has fallen compared to the First Quarter, because of lower price. And the operating cost, as I explained, increased slightly because of these new units coming into production and they are not yet producing at full capacity.

Also important regarding cost increase is the Brazilian real depreciation, or devaluation, because Santos and Campos basins, they receive inputs denominated in US dollars. So the FX devaluation produced a 3% impact in our costs in Brazilian reais.

It is important to say that we already have very important results in this operating cost, which is the benefit which is the result of PROCOF. Mario Georgiou will further elaborate on that.

Let me also highlight that among the main areas where we are working -- productivity improvement of our onshore and offshore workovers; the consumption of chemicals in production processes; we had a significant reduction in the consumption of diesel and other inputs; and finally, we've had the optimization in the use of maintenance resources onshore and offshore. This is extremely important, because somehow it offset the impact in cost of personnel because of the actuarial restatement we had in pension and health plans. Actually, this is included in the BRL31.25 per barrel that you've seen in the Second Quarter.

Net income, therefore, when it comes to E&P, if we consider our production and also expenses and lifting costs, went down in the Second Quarter of 2013 vis-a-vis the First Quarter. And this is due to brand price, basically, since production was 1% higher. BRL8.9 billion in the Second Quarter this year, vis-a-vis BRL10 billion in the First Quarter.

So what about the behavior of costs expected for next year -- or, I mean over the next half of the year? What you'll see is in this case startup of PMA-3 which is ready, just waiting for the conclusion of small changes. So we already have the installation of the section piles. And therefore all the anchoring system will be ready to start up and running by the end of August. August 23, that's the expected date for location.

So if we add to that the other units that are in the conclusion phase, both in Rio Grande do Sul and also in Angra dos Reis Basin, P-56 and P-58 are scheduled to start up navigating in the area now in September. And PMA-1. And as a result, all these units will start up in the second half of this year, therefore allowing the interconnection of wells, which together with the others that are interconnected to existing platforms, will come to the total that we mentioned before -- 36 offshore wells with production potential of 440,000 barrels of oil per day.

FINAL

Bloomberg Transcript

Another important fact is that production in the second half of the year remains in line with what we had in the Third Quarter -- or, the Third Quarter in line with the production that we have been seeing in the first half of the year. And therefore, it starts growing over the second half of the year, with a very significant ramp-up at the end of the Third Quarter and in full scale in the Fourth Quarter of this year, once we have the startup of the wells we mentioned before.

That's it for the moment. Thank you very much.

Almir Barbassa

(interpreted) Next, let us talk about Downstream. Cosenza will be speaking now.

Jose Carlos Cosenza {BIO 17643628 <GO>}

(interpreted) Thank you, Barbassa. Good morning, everyone. I'll be addressing the operating performance of our assets in Brazil for Downstream.

And the numbers reflect the strategy that has been adopted for Downstream in order to minimize imports in a very safe manner and also leading to strong integration to achieve results in the areas that make up Downstream -- logistics, commercial, refining -- which are the support to allow us to achieve these results. And also strong efforts when it comes to costs, particularly with PROCOP in 2013.

When it comes to numbers, what is the impact of our strategy? If we look at slide number 7, oil product production on the left bars, in the Second Quarter of 2013, if we compare it to the Second Quarter of 2012, there is an increase in oil product production basically focused on diesel and gasoline amounting to 6%.

And we also have significant results when we compare the First Quarter of 2012 with the Second Quarter of 2013. There is an increase in oil product production also focused on diesel and gasoline of 196,000 barrels per day for oil products, equivalent to COMPERJ, the first stage. So our efforts to have lower import rates and also maximize our units led us to these results.

We can also see the same trends when it comes to oil processing, which is an obvious consequence of what we process, oil products and processing. There was a significant increase in processing from the Second Quarter of 2013 compared to the Second Quarter of 2012, increasing our average of 1.936 million to 2.102 million.

And this has to do with the use rate of our facilities. Today, our use rate is 99% in our refineries in a safe manner without compromising the environment or the integrity of our equipment. This stems from all the investment made and that is still being made when it comes to Downstream. And results are seen right now.

FINAL

Bloomberg Transcript

And this shows consistency and stability of our figures, if we check the variance from the First Quarter of 2012 until the Second Quarter of 2013. And also the fluctuation of the use rate which is very small, reflecting stability in the process and also reflecting a system under control, which is very important to us.

As for oil product sales, we continue selling them, detached from the GDP as traditionally happened in our reference figures to come to sales estimates. If you compare the second Q of 2013 year on year, there is an increase in the market, about 6%. And the First Quarter of 2013 with the second one, we have 3% increase, reflecting significant numbers for diesel when we compare the Second Quarter of 2013 with the First Quarter of 2013 at 6%.

Refining costs. When we compare once again the Second Quarter of 2013 with the Second Quarter, there is an increase of 2% in this indicator, reflecting basically an actuarial review of pension plans, which was offset by the rise in process, or through-put, in our refineries, just as we begin to see the results of PROCOP.

It's important to highlight PROCOP, which will be detailed by Georgiou. But basically I'd like to remind you of some very important topics that lead to improved results, basically for standardization of maintenance of our refineries, an increase in energy through-put. And also evaluations for chemicals. We've had significant studies considering the international benchmark for chemical consumptions in our refineries, leading to cost reduction in a very significant manner.

On the following slides, when we compare prices, domestic and foreign prices, we can easily see that part of the Second Quarter of 2013 there was a very important reduction between the difference of prices in Brazil and in the US Gulf. And this reduction, that you can see on the green dots to the right of the slide, is basically due to an increase in selling prices that happen around 10% for diesel and 6.6% for gasoline.

By the way, the drop of foreign prices also helped for oil and oil products as a result and also lower imports, because our processing adds margin to the Company when we refine, be it domestic or foreign oil in Brazil.

On the next slide, we have a general balance of oil and oil product balance sheet in the country. As you can see in the exports column, you see there is a very significant reduction in oil exports -- 351,000 barrels to 162,000 -- basically due to lower production but also associated to a significant increase in production at our refineries. And that led to this figure.

In oil product imports, now moving to the last chart on the right, significant figures. When we look the Second Quarter of 2012, with global imports basically diesel and gasoline of 239,000 barrels per day, in the Second Quarter of 2013 the numbers are 81,000 barrels per day when it comes to imports.

As I said before, it shows several meanders behind management, which is -- increased productivity in our facilities; higher processing through the ventures that are being made; the yield in our units; and, above all, huge efforts when it comes to the maximum use of

our processing abilities in our refineries. So our refineries, as you can see, we are operating at very high levels, mainly associated to the good use of these facilities.

The net balance sheet of the Company when it comes to business and Downstream, it's important to show that it started with BRL4.2 billion [ph] to minus BRL2.5 billion, showing an accrued value to the Company's numbers of BRL1.7 billion this quarter, which reflects all the efforts that have been made.

That's what I had to say, Barbassa.

Almir Barbassa

(interpreted) Thank you, Cosenza. Now, let's move to Gas and Energy. Alcides Santoro will be analyzing the area. Thank you.

Jose Alcides Santoro {BIO 17547916 <GO>}

(interpreted) Good morning, all of you who are listening to us. We are on slide number 10. And we show the operating performance of Gas and Energy, which was very good this last quarter.

Natural gas demand delivered to the market added to 89.4 million cubic meters per day, which was a record figure for Petrobras quarter. On May 25, we had a record daily delivery of 105.9 million cubic meters per day. This volume delivered to the market was 2% above the previous quarter, or the First Quarter of 2013. And 20% above the Second Quarter of 2012.

I'd like to highlight that with the increased demand, non-thermo power from 37 to 39.3percentage points which accounts for an increase of 6percentage points in consumption. And this stems from the industrial use that considerably increased the last quarter.

Thermo power demand dropped down from 39.9% down to 38%, also due to better hydrological conditions of our national system. It's worth mentioning that the delivery reliability index for gas was (technical difficulty) % for the period.

As for supply, our volume delivered was 90.1 million cubic meters per day, or 2% above the previous quarter and 21% above the Second Quarter of 2012. I'd like to highlight an increase in imports of LNG, approximately 30%. And this comes from the reduction of national gas supply which dropped 4.5% owing to scheduled maintenance in Manati Field, Mexilhao, Urugua. And Lula.

When it comes to fertilizer production, our result was just outstanding. Volume of 419,000 tons over the Second Quarter, which was 38% greater than the First Quarter of 2013 and 43% higher than the Second Quarter of 2012. The use factor in our facilities was 82%. At this production volume, we are not including the production of Parana's fertilizer plant

which was acquired in June 1, 2013. Please know that fertilizer production today is the one that best pays for natural gas to Petrobras.

As to electric energy generation, there was a reduction of 12% vis-a-vis the First Quarter of 2013, an increase of 100% vis-a-vis the Second Quarter of 2012. This reduction stems, as we said before, from improved hydrological [ph] conditions of our reservoirs. Petrobras' generation was 4.5 gigawatts on average. And total generation of electric energy considering Petrobras generation and third-party oil and gas was 8.2 average gigawatts, or 14% of the through-put of the national interconnected system.

Net income for gas and energy in the Second Quarter of 2013 was BRL0.6 billion vis-a-vis a result of BRL0.9 billion in the First Quarter of 2013. This difference is explained by higher costs of LNG and also a reduction of average price of energy vis-a-vis the First Quarter of 2013.

That's all I had to say.

Almir Barbassa

(interpreted) Thank you, Alcides. Next, let us analyze our program of operating cost reduction and let's hear from Mario Georgiou, our Executive Manager.

Mario Georgiou

(interpreted) Good morning. Now, I would like to report the results delivered by PROCOP. The annual average is related to savings of BRL3.8 billion. And at six months in the year we had savings of BRL2.9 billion. In other words, 78% of our annual goal.

Before we get into more details of the chart, I would like to remind you all that operating costs is driven by three main drivers -- the level of activity, productivity. And unit costs. We are a Company that is growing. Petrobras has been growing and will keep on working on its activity level. And PROCOP's levers, or drivers, are basically focused on improved profitability and unit cost. And that's why we report here our savings; in other words, what we didn't spend in order to perform our activities on schedule.

Having said that and now getting to the charts, which summarize how we follow up our results of 2013, the horizontal axis shows our operating activities from left to right.

Starting with E&P, onshore production, offshore, support services, shipments, well intervention.

Downstream, related to refining, logistics, oil products, marketing, commercialization, administration and support.

Gas and Energy, with drivers related to fertilizer and natural gas logistics.

FINAL

Bloomberg Transcript

Our Engineering, Technology and Materials Office has drivers both for inventories and also stocks and supplies, ITC.

Corporate and Services, at the end of the chart. And everything related to traveling and lodging expenses, optimization building management.

And last but not least Transpetro, with drivers to optimize maintenance, ships, pipes. And tanking.

Now, in the y-axis, you have a comparison of our savings month after month, comparing the plan, the dark line, with the accomplished, in green. It is green because the results are above the plan, as you can see on the chart.

In several levers, we have so far attained even more than 100% of the annual target. It does not mean that from now on we will double the target, because I have already reported, when we spoke about the First Quarter results, some savings that were planned for the second half have been anticipated; that is, they are already material in the first half. But it's not additional savings. It is that we have captured these savings in advance.

In many cases, our efficiency is better than planned. Then, we are talking about true upside that is more efficiency than we had originally planned for.

Now, some activities that were planned to take place in the first half were delayed for the second half. One of them is maintenance. So then, we can only measure the savings obtained when these activities are actually held.

We must also consider that in our monitoring of outcomes of PROCOP we don't look only at the past; that is, every month we also look at a projection for the future periods. And we know already that some of these initiatives will not attain the results we planned for. Some had to be replaced by other new initiatives, whose results do not come up to the same savings we had originally planned.

For this reason, despite we've had an extraordinary result so far, we maintain our annual target for 2013 -- BRL3.8 billion. We already know in which initiatives we will be above the plan. And in which other initiatives we will be below the plan. We are confident we will be above the 2013 target. But we maintain the same guidance -- BRL3.8 billion in savings.

Almir Barbassa

(interpreted) Thank you, Mario Georgiou. Let us now talk about the consolidated results of Petrobras, beginning from financial highlights of the Second Quarter.

In the Second Quarter, we've had significant gains in operating profit and Petrobras EBITDA. Our net income has also grown, compared to last year. We will give you further details during our analysis.

FINAL

Bloomberg Transcript

But the operating income and EBITDA made a contribution coming from the divestment program, PRODESIN, with the sales of 50% of our assets in Africa. This divestment program has contributed BRL1.9 billion to our operating income in this quarter. And it brought cash of BRL3.4 billion. So a cash contribution of BRL3.4 billion.

Now, we've had \$1.8 billion divestment during this year. But the divestment program shall continue, as we plan to attain the year [ph] target.

Now, in terms of net borrowings, the Second Quarter we had \$15.1 billion in net borrowings, in addition to the amortization and prepayments we made that is already net of that. And included in the \$15 billion we have the May placement whereby we placed \$11 billion in global notes. Actually, it was a very timely issuance, in terms of cost to finance our future plans.

Also during this quarter, we've extended our hedge accounting to protect future exports. By doing that, we have been able to neutralize the impact corresponding to BRL8 billion, which we would have had on the Company's results. These BRL8 billion, they come from evaluations equivalent to 70% of our total net debt, which is exposed to foreign exchange variations. They have been recorded in the shareholders' equity account. So you can see them in this line.

In case the foreign exchange rate goes back to previous levels, then this is going to show in the shareholders' equity. If the foreign exchange rate remains at the same level as in the end of the Second Quarter 2013, then as we continue with our exports transactions, then this amount, BRL8 billion, will gradually migrate to the Company's results.

On the next slide, you can see our operating income. This is a comparison between the first and Second Quarters 2013. We've had a significant impact from diesel and gasoline price adjustments which took place in the First Quarter. But it was applied in the Second Quarter to its full extent. And we've also had an increased demand for oil products in the domestic market which helped increased sales during this quarter. And also the impact of our divestment program, or divestment program.

With that, we've obtained this operating income; higher revenues, thanks to higher prices and higher domestic demand; and higher sales volume. Which also represented an increase in the cost of goods sold and contribution of BRL1,783 million coming from the divestment program.

Our cost of goods sold is higher in this quarter due to a higher sales volume in the domestic market. And also because of a higher processing of imported oil. Our refining operations are more efficient. So we are producing more oil products in Brazil, which means that we've used more imported crude oil. So this is the reason why the cost of goods sold are higher. And also because we've had higher LNG imports. As we've seen during the Gas and Power presentation, Gas and Power set a new record in gas sales.

Now, when we look at our net income, BRL6.2 billion, lower than the First Quarter because of our financial result.

The operating profit has added value compared to the First Quarter. But not all the net debt was used to hedge our exports. As we've already mentioned, we used only 70%, which means that the remaining 30% were not used to hedge our operations. So that it is possible to have its value being posted in the quarter results.

Now, considering that also in the First Quarter we had a favorable foreign exchange impact, then the difference is actually bigger, reducing our net income in almost BRL5 billion.

Because of a lower net income, we're paying less tax, or we are posting lower tax payment which has contributed to improve our net income in the quarter.

We've also excluded FX effects on items that are not under our direct control.

With that, we reached BRL6.2 billion in net income.

Now, the next slide, you can see a breakdown of our investment. As we analyze our investments, refers to the 155 largest projects which are currently ongoing at Petrobras.

As we look at the level of realization, you have a difference of 2% between physical and financial realization. What does that mean? Well it means that we are certain of attaining our targets. We are talking about 155 important projects whose implementation is very close to what we planned for, which leaves us to the conclusion that these projects will have their startup at the time planned and they will contribute to increase our production and they will also have a contribution in cash generation.

Most of these investments were made in Exploration and Production, E&P. Director Formigli has already provided us details. And he has spoken about the expectations for growth we have in the near future.

The next slide, please. Now, you can see our capital structure. We've had a new borrowing, which helps us finance our operations. These net borrowings summed \$15.1 billion. But when you look at our net debt, we can see that we're using \$4.8 billion of the total \$15.1 billion. This was used in this quarter. The remainder is now posted as cash and cash equivalents. But with this additional borrowings, we closed the Second Quarter with BRL72.8 billion in cash and cash equivalents.

This represents \$32.8 billion which is enough to ensure to finance our operations up until year-end. So we will not need additional financing to deliver our plans until year-end. We already have enough cash to fund our operations. So if we have new issuances or new borrowings, it is because the Company decided to do prepayment, or prefunding for the next year. That is, as you look at our current cash and because the market is in a more complicated situation, we wish to say that our Company has a very favorable situation in terms of cash and cash equivalents to fund its operations.

Let me thank you all now for being with us. And we will begin the Q&A session.

Questions And Answers

Operator

(interpreted) The Q&A session will now begin, with questions in Portuguese followed by questions in English. Each participant will be limited to two questions. Please speak slowly and clearly. And ask your two questions at once. We inform you that questions in English will be translated into Portuguese for Petrobras executives. And their answers will be translated into English. (Operator Instructions) Auro Rozenbaum, Bradesco.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

(interpreted) Good morning, everyone. I have two questions. First, about the disinvestment operation in Africa. On page 29, we can see a result from the sale of assets. And you also had a restatement in the remaining assets and a loss in the recoverable value of these assets. Now, I would like you to further elaborate and give us more details about this, especially when you talked about the value restatement and the loss of recoverable value. This is to help us understand these values.

Now, my second question is related to oil production, about the new systems which have had their startup recently, or will have their startups soon. I'd like to know about the potential numbers and the ramp-up curve. Did you make any changes to these plans?

A - Almir Barbassa

(interpreted) Okay, Auro. Let me answer the question about the sale of assets in Africa. Well we sold 50% of these assets through a subsidiary in Holland which was the holder of these assets. And the amount was above book value. For this reason, we posted gains in this sale of assets.

Now, because we sold 50% for an amount above book value, we therefore had to restate the remaining assets; that is, the remaining 50% of the assets that we kept. And that is why you had the restatement gains.

Now, as you looked at the assets that we sold, there were some bonus amounts which we had to pay as we acquired some of these areas. And this bonus represented a plan for these areas. However, as we sold these assets, then these assets had to be considered completely explored; that is, without further value to be realized from them. For this reason, we did the write off of these amounts. So the write off amount was related to these bonus we paid as we acquired these assets.

After doing all of these calculations, the results are as posted -- BRL1.9 billion gains after the disinvestment transaction was concluded.

Now, the second question, I will ask Director Formigli to answer, please. Thank you.

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

FINAL

(interpreted) Good morning. About the output target, it is still valid as announced in the business plan. That is, an increase 2 million barrels, approximately 2% increase, with the startup of the new systems and wells, especially in the Fourth Quarter. Our output projection is within this range.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

(interpreted) Okay. Thank you. Now about Africa, Barbassa, as you posted the restated amount, is that always considered operating result, because that --? Theoretically, do you expect to have the same kind of gains in the new disinvestment transactions, or operations?

A - Almir Barbassa

(interpreted) Well yes, if we can sell above book value.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

(interpreted) And this would be considered operating income, would it?

A - Almir Barbassa

(interpreted) Yes. That's considered operating income.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

(interpreted) Okay. Thank you.

Operator

(interpreted) Paula Kovarsky, Itau BBA.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(interpreted) Good morning, everyone. I have two questions. The first question is to Formigli. I think it's impossible not to congratulate you on the performance of E&P. And actually production will eventually grow, if not this year, next year.

But I need your help in order to reconcile what happened in the first half of the year and understand how we should think about production performance in the second half of the year. If we stop to look at the Fourth Quarter results in 2012, in the First Quarter you said that maintenance would have gotten worse. Production is something about 23,000 barrels per day. And apparently it was reversed in the Second Quarter when it went down at 18,000. So if the reading is correct, we would be speaking for the future of maintenance levels similar to what we had in the Fourth Quarter.

However, when you think for instance in the increase of Pre-Salt production, comparing fourth to Second Quarter, it accounted for about 70,000 barrels per day. And PROEF prevented the drop of 62,000 barrels per day. But still, production did not grow, actually compared to the Fourth Quarter. It actually went down.

Bloomberg Transcript

So maybe my math's on the impact of maintenance is wrong. Can you help me better understand the math's. So we can fine tune our projection for growth, or the turnaround production considering the second half of the year? That's my first question.

Second question. The numbers for refinery. In reality, they are hard to understand. Let me explain. Clearly, you increase light crude oil production in order to increase API in the refineries. And this increases the production of light oil and also lowering imports and increasing exports.

But the domestic through-put went down to 79%, basically the lowest rates in recent times. And oil exports from E&P and Downstream also went down. So it's hard to work on the math's. And apparently, there was significant inventory consumption this quarter.

So if we think about the Third Quarter of 2013, you said that probably we expect to have maintenance in refineries. Foreign exchange rates will significantly make a difference in imports. And considering we had a high inventory consumption and maybe foreign exchange effect the last quarter was not significant. So once again, we'll have higher exchange rates and also maybe scheduled maintenance.

And now when we check the price difference, domestic and international, diesel and gasoline particularly imports, we're close to 30%.

What can we expect for refining then? Or the level of results that we saw in the Second Quarter, do you think this will be recurrent? Or, is this the kind of result you expect? What do you envision considering the Third Quarter for refining purposes?

A - Almir Barbassa

(interpreted) Formigli is going to answer first. And then Cosenza will be the next to speak. Formigli?

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

(interpreted) Good morning, Paula. First of all, thank you for your comments vis-a-vis our production. We've been working heavily. And results are beginning to appear. Actually, they have been appearing over months.

So answering your question, last quarter of last year we had a very low number of scheduled maintenance. And the reason was that in our schedule we could realize that we could work with the scheduled maintenance in 2013.

In some of them, we did not have all the resources ready to do in a short timeframe. That's something, as you can imagine, to stop a platform, any platform but particularly large platforms. They go through a preplanning phase in a lot of detail. We also had to consider the so-called safety maintenance units or plotals [ph]. And they really help us to predict and foresee the time required for scheduled maintenance.

As a result, the last quarter of last year had few scheduled maintenance.

Now, when you look at the First Quarter of this year and the Second Quarter, now in this case we already had scheduled maintenance. And we will keep on having them during the Third Quarter.

Consequently, once this drop is under control. And that's something that is crystal clear in recent months, be it in older Campos Basin fields in which several analysis were carried out in the past and today we can see that as we have water injection and also management with the interconnection of new wells in field drilling, we have 10% to 11% in big fields.

Now, for Campos Basin, there is apparently no drop in production. The reservoir wells have very good response. And as a result we are not suffering with this problem. So we have at least considering the size of the buildup [ph].

So where should we focus? On new oil. And in new oil, if we compare last year to this year, the new oil that we are considering was not enough to offset what we actually need in terms of volume, considering the drop and scheduled maintenance.

So if we add that all together -- and, by the way, that's why the result of the Second Quarter of 2013 is 1% better compared to the First Quarter of the other year. But not over than that, because we keep on having to work on scheduled maintenance still at a high level.

If you look at our monthly announcements for oil production, you will see that even when we have a higher production, we make a point in mentioning that we did have scheduled maintenance. So everybody can see that -- how should I put it-- that's a burden that is outside our control. Otherwise, we will fail to improve production, as you could see, that we've achieved in Santos Basin, from 67% to 74% efficiency and in Rio. Rather than dropping further down in production, we managed to maintain 93%, or 92% to 93%, which is the level we consider to be proper.

Our long-term goal is 94%. But for Campos in that order of magnitude one well, if it needs a workover, that's enough to have a huge impact in the platform efficiency. But we are still doing everything in our power to meet our goals and have good results in a mid; to long-term basis.

Did I manage to explain where we have the reasons why we fail to have a higher production in the Second Quarter vis-a-vis perhaps what we had expected based on the behavior of the fourth and First Quarter?

Q - Paula Kovarsky {BIO 15363001 <GO>}

(interpreted) Formigli, maybe if you consider the total maintenance impacts in each one of the quarters broken down, it would be helpful.

FINAL

Now, just to confirm two things. What about your expectation? Papa-Terra is expected to start up in August and September in the first platform. And not only by year-end due to environmental issues? Or, anything else to be set? And that might change productions for the second half of the year? And could you clarify that, as well?

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

(interpreted) Okay. Let's start talking about Papa-Terra. P-63 moves from Santana Island for location. And the first oil is expected for late October, the last week in October. October 23 is our deadline today to start up production in P-63.

P-61, by the end of December this year.

So you want to know the losses by scheduled maintenance. Right?

Q - Paula Kovarsky {BIO 15363001 <GO>}

(interpreted) Right. What is the impact for stoppages in general? We had in mind something about 50,000 to 60,000 barrels in the past.

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

(interpreted) Right. We maintain these numbers. You can stick to your model with this size for scheduled maintenance. You're right. Your model is in sync with what we've been trying to do, at least in the first two quarters. So that's the numbers we've been working on.

Now, Paula, if I may, I would just like to add something. Within these efforts, obviously we need scheduled maintenance. And we do it. But through engineering, we've been able to cancel stoppages without causing any damage, because some causes for scheduled maintenance will manage to be solved without having to stop production. Chemical problems, for instance, to remove problems in equipment, rusty equipment. It happens in Baleias Park. And we had to cancel the scheduled maintenance, obviously trying to maintain the integrity required.

And it's also very important to consider the time required for the stoppage. So if you want to stop for 12 days, we have to do everything in order to try to do it in 11.5 days. We've been managing to achieve good performance in recent months.

Our only major problem that we face particularly at this time of the year are sea conditions, because at winter time usually we have worse sea conditions. And when you involve other vessels, sometimes things get more complicated.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(interpreted) Thank you, Formigli.

A - Almir Barbassa

(interpreted) Now, a question about refining. Cosenza?

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

(interpreted) Now, Paula, regarding domestic oil consumption, indeed we had a decrease compared to the First Quarter 2013, because of the inventory formation for a scheduled stoppage that started about two or three weeks ago in the TEBIG terminal. It is currently with operation restrictions. That is why we had to build up an inventory. And for that we used an oil mix that led to this reduction.

But we continue to work processing volumes at our full capacity, because this is where we have the highest margin.

So this is the goal. This is the target. When you compare 2013 to 2012, you can see we're using more national crude oil.

Now, regarding the scheduled maintenance stoppages, we are doing our maintenance according to the regulations and equipment inspection specifications. And even with these stoppages, we will have a significant recovery, because these units -- if you look at our plan, these units will come back with a higher processing level than today.

Now, when you analyze processing, you have to look at the average. And the trend is towards having equilibrium, because now after these projects we will have a higher processing capacity.

Your final comment was about the imports of diesel. True, in the Second Quarter 2013, we had an increase in terms of inventory consumption. So part of the imports reduction is related to this inventory consumption. But also, we had the impact of additional processing in our refineries. Actually, in June, we attained a new record in average processing -- 2,139,000. That's monthly average. And it's important to highlight this, because it actually shows this additional processing capacity.

I'm not sure whether I answered your questions. But these were the questions you asked about inventory consumption and about the impact of scheduled maintenance.

Operator

(interpreted) Caio Carvalhal, J.P. Morgan.

Q - Caio Carvalhal {BIO 16605563 <GO>}

(interpreted) Good morning. Good morning, everyone. I have two questions here, too. One of them, I'd like to speak a little bit about your investments. I'd like to have an update. We had a number, \$9.9 million, in the last plan. A few things were delayed. A few things were advanced, such as the disinvestment in Africa. So I'd like to understand the timing differences? And when can we expect to have another significant transaction? We

FINAL

Bloomberg Transcript

heard about Argentina, also in the Gulf of Mexico. So one is about this program of disinvestment.

The other question, I'd like to know whether the Company has already analyzed the Libra Field after the auction of that discovery. We always hear about a breakeven in Pre-Salt at approximately \$40. Now, this breakeven for the Pre-Salt region considers, I imagine, government take.

But now, after the changes with Libra, we believe the breakeven will also change. Of course, I understand that it depends on how much will be the government's take. But I'd like to hear your views in terms of percentage. So how much would be the breakeven for the oil barrel in the Libra prospect, or in the Libra discovery now?

These would be my two questions.

A - Almir Barbassa

(interpreted) Hello, Caio. Now, about our disinvestment program, we want to maintain the same estimates -- \$9.9 million -- most of which will be done this year. We have been working hard on a number of projects. And we expect that in the next few months you will receive information about the disinvestment program. At this time, we cannot give you detailed information about which assets and the amounts. But we can tell you we keep the same plans.

Now, about the Libra auction, let us hear what Director Formigli has to say about this.

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

(interpreted) Caio. Good morning. We confirm that in our concession regime, we've been managing to approve our projects in Pre-Salt, excluding infrastructure of gas outflow, at about \$40 to \$45 per barrel. This has proved to be very sustainable and also important to the pace of the projects approved both by ourselves and our partners.

As to Libra, obviously here we are analyzing the conditions of the bidding process and also the draft contract. As you can see, there is a minimum number in the proposal sent by the government. This number, according to our figures, leads to a particular breakeven point.

You want to know what the breakeven will be in the auction. And the answer is, it will all depends on the proposal of the winning consortium. We cannot anticipate a number that we at Petrobras would use at a bid stake in a consortium, let alone anticipate what will be presented by our competitors. So I wish I knew the answer. But unfortunately we cannot tell you right now what will happen, or what the breakeven point will be.

What I can tell us is that in our maps [ph], we have been dedicating very stringently to this topic, as we should, analyzing CapEx, OpEx, all the technicalities in terms of volumes

based on the information available today; in other words, seismic data and everything related to the wells.

And as to Petrobras, we are also based on experience gained from our producing areas. We work on simulations. But you will only have a better idea of this during the auction day.

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

(interpreted) Can I just add a comment, please? I said the average processing rate for June was our record number -- 2,139,000. But actually, the record took place in July. In June, we had 2,200,000.

Operator

(interpreted) Marcus Sequeira, Deutsche Bank.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(interpreted) Good morning. A question to Barbassa. Considering the strategic plan and macroeconomics announced in June, now we can see a difference in terms of foreign exchange. And in your presentation, you also mention a drop, considering all the projects in the plan. If we consider that part of CapEx is dollar-denominated, what do you expect to see as the final CapEx for the year? Any increase vis-a-vis your expectation early in the year? Or, because a lot of it was already contracted, maybe foreign exchange will not have such a strong impact? Or, do you intend to make any changes or any project that will be less interesting and profitable due to the new foreign exchange reality? Thank you.

A - Almir Barbassa

(interpreted) Marcus, we don't have any forecasts considering the direction you've shown us. And I would draw your attention to information that was just given by Officer Formigli, which is the breakeven point of Pre-Salt projects. We've been working with \$40 to \$45 as breakeven point for quite a while now, ever since we announced the first projects.

And costs have evolved ever since then. So in real terms, the Company is working with better efficiency. It has been successfully maintaining the nominal costs with macroeconomic oscillations, fluctuations. So just to give an example, considering a greater complexity which is our business plan, because it involves so many other projects.

But up to now, there are no signs showing that we will be revisiting our business plan. Thank you.

A - Unidentified Speaker

(interpreted) May I just add a comment on Pre-Salt? This profitability, for instance, comes from a lower number of wells by system. Producing wells. And that's because we have more outflow per well on average. And also to sensitive reduction in drilling time. And to complete the wells in recent years, or months.

FINAL

Bloomberg Transcript

This improvement I would say is a monthly improvement. So for every new well that we are completing, on average we will have a downward trend. And that will be very beneficial. So much so that our demand for drilling rigs, as we announced in late last year, was already lower. And now this is increasingly more confirmed, which is the current level that we've been working on.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(interpreted) What about CapEx for refineries? I'm talking specifically about COMPERJ? Do you think you could give us some more information about this project? How much do you expect it to cost? And also the petrochemical portion, if you have new information?

A - Almir Barbassa

(interpreted) Officer Cosenza, would you like to provide more information?

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

(interpreted) Yes, I think I can add some more information. Our investment is not very highly affected by the foreign exchange rate, because in refining most of the equipment and contracts are denominated in local currency. And the feasibility study is being conducted at this time.

Operator

(interpreted) Bruno Montanari, Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

(interpreted) Good morning, everyone. Thank you for the opportunity. Some of my questions have been answered. But I have two additional questions, one for Officer Cosenza. I'd like to understand the imports dynamics for the second half of the year. I know you have the issue of inventories and you had lower product imports in the first half. But I'd like to know if imports will go back to the same levels we had in the first two quarters?

And in terms of crude oil imports, government data point to higher imports in July. Do you also view the same trend of higher crude oil imports?

Now, to Officer Formigli, do you have an update talking about new technologies? First, water-oil separation. And the alternate system for water and oil injection in the Pre-Salt area?

A - Almir Barbassa

(interpreted) Okay, Officer Cosenza.

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

(interpreted) Now, looking at imports, as I said before, in the Second Quarter 2013, we had two important components -- imports reduction due to higher domestic output and also the issue of inventories.

Now, the trend we see today is that the volume of imports will be lower than what we had in the First Quarter this year. Why? Well because we are very well positioned to make gasoline. Our refineries currently have a very high processing capacity, different from last year. And we've also had the alcohol which reduced the need for gasoline A [ph]. So in terms of gasoline, it is important to talk about the processing speed; that is, we will not see this reduction.

Now, about diesel, we still don't have the new refineries. But we are already being able to make a significant volume of diesel and compared to gasoline, it will be at a higher level. But always, the addition will be smaller. Diesel and gasoline.

So let me make a comparison to you. So we had in the First Quarter 2013, 240,000 [ph] diesel and gasoline. And we are projecting no more than 200,000 barrels of imports considering both gasoline and diesel.

Now, Officer Formigli.

A - Almir Barbassa

(interpreted) About the trade balance, when you look at the inflows in our trade balance, the timing is very different when you look at Petrobras deadlines and when you look at the Brazilian IRS deadlines. That is, when we receive imports and we clear them, then we account for them. But this is not true at the Brazilian IRS, because they need more time to receive the documentation and information about these imports.

So in July, we had a number of imports which were processed and cleared in July. So the volume of imports is different because of this. But it doesn't mean that there was a bigger concentration of oil imports in July. This is diluted in time as a function of our refineries' needs.

Okay. Now, Officer Formigli.

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

(interpreted) Yes, Bruno. About new technologies for water-oil separation and subsea pumping. Well SSAO, that is the subsea separator water-oil, it is in P-37. It is in operation. It receives oil from Marlim 141, which is a well with 63% ESW [ph]. Then, it has a very good performance. That is, the flow, oil plus water, is 16,000 barrels a day. So that you have reaching the platform a bit more than six barrels of practically only oil. So this brings a great benefit to us because then, in the plant that is on the platform, we have room for more oil mixed with water.

So the performance has been outstanding so far. Actually, last week, we received an award from ANP, as one of the best technologies implemented. It's a new award that the Brazilian oil authority has introduced.

You also asked about AGAE [ph]. Now, AGAE is something we started in the first half of the year. It is a cycled injection of gas plus CO2. So it's HC gas plus CO2, after an initial cycle of water injection. This was done in Cidade de Angra dos Reis.

Now, this has an indirect impact. What do I mean by that? Well the non-breakthrough that is the fact that we don't have an anticipated breakthrough, compared to the plan of a new gas front. It shows that we are having a good gas dispersion of the gas that is currently being injected, which means that we don't have any problems of what we call percolation through more permeable layers, super permeable layers. We are not having this problem. And when you do not have this problem, this is good news.

So you may ask, now is it ensured that AGAE will be a success? No, because this is a long-term cycle. For us to be able to make a change in our simulators, looking at the results considering the efficiency of AGAE, it will increase our recovery factor. But we need more time to be able to have these calculations.

But so far. So good, we may say.

Q - Bruno Montanari {BIO 15389931 <GO>}

(interpreted) Okay. Thank you.

Operator

(interpreted) Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

(interpreted) Thank you. My question is to Barbassa, Formigli, Cosenza. Barbassa, in the divestment plan of \$9.9 million [ph], how much of this have you already managed to have, in terms of asset sales?

As to ratios and net debt over EBITDA ratio for net borrowings, what is your vision, Barbassa, of what might happen in the second half of the year with these sales? We already have a level of 34% and 2.5 times. Considering the continued real depreciation, any dynamics of the ratios being at the same level, would get worse, or better?

Formigli, just an update vis-a-vis P-55 and P-58? When do you expect to have the first oil? You mentioned that for P-63, it will be in October. And P-51 at the end of December.

Cosenza, what about scheduled maintenance for refineries? Will they happen in the third, or Fourth Quarter? And what about the estimated duration, or how many days?

FINAL

Bloomberg Transcript

Thank you.

A - Almir Barbassa

(interpreted) Christian, answer your question about PRODESIN. This year, we already have \$1.8 billion as divestment. We expect to have a second half of the year more active, compared to the first one. So there is some timing, the right timing for every operation. And they may become more mature at a faster pace. But that's all I can tell you for now, when it comes to PRODESIN. So maintenance, \$1.8 billion realization. And we have to check what will happen in the second half of the year.

As to leverage, it depends a lot on projections of foreign exchange rates. If everything remains constant and because it will depend on part of the money that is cash in order to fund until the end of the year, we do expect to increase our leverage.

As to what we may achieve, considering dollar or real appreciation, it's hard to say anything, considering the uncertainty of these variables. But under stable conditions, possibly by year-end this will still happen, provided we fail to increase the price of oil products in the domestic market and the activity. So that's something we are strongly focusing on in order to have a better alignment of domestic prices with foreign prices, which would also bring more funds when it comes to our operations to fund our plans.

As a result, we expect to see growth in our leverage by year-end. And then that's when we'll have faster growth in production. And we expect that next year we will reversing the process. And by the end of next year, we expect to have the indexes within our expectations and a level of comfort and safety for the Company. Thank you.

Now, let us move to E&P with Formigli.

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

(interpreted) Considering the two units, starting up navigation at location now early September, we expect to see the first oil for the end of November and the first week of December, P-58 and P-55, respectively.

So these are our current goals. And we are working on it. Everything related to anchoring. And we can anticipate drilling and completion which is not critical path now and particularly when it comes to well interconnection. Whatever can be anticipated will be.

As to P-55, there is some peculiar here. We have special equipment. And we need the right location for P-58. It is flexible line. And we can follow the additional routing. So whenever we have the equipment. And we can work faster on the first oil.

Q - Christian Audi {BIO 1825501 <GO>}

(interpreted) Thank you. So P-55 is scheduled for the end of November and P-58 the first week of December?

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

(interpreted) No. That's the opposite.

Q - Christian Audi {BIO 1825501 <GO>}

(interpreted) Okay. Now, just very briefly. Now, when we look at the first oil that you showed on the last presentation compared to now, there was a slight delay. So what are the kinds of risks that might be outside your control that might lead to this kind of change or a slight change in production startup of these platforms, just to have a better understanding of any risks that might be outside your control but that are related to the industry, for instance?

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

(interpreted) Are you referring to short; or long-term?

Q - Christian Audi {BIO 1825501 <GO>}

(interpreted) If we think about P-63, in your last presentation you thought about startup in July. And now it's October. So what led to this change? P-55 at first was more to the end of September. And now it has been postponed. I would like to have a better understanding of the triggers that lead to this kind of change, or the startup of these platforms.

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

(interpreted) Okay. So short-term, right? So for Papa-Terra, this is related to the environmental licensing process. We had not identified at first, or until the second half of last year, the presence of scatter buildups of corals in touchdown point two, flexible regions of PMA-3.

We identify. We communicated IBAMA and to consider the environmental license. So we could have the installation license. It took big changes in the subsea layout of flexible lines in order not to cause any interference among the lines and the coral formations, the coral reef.

So we showed that to IBAMA. And we had the installation licensing and ever since then we started to work on some piles based on anchoring. And that's why unfortunately we had this delay with P-63.

You mentioned P-55. P-55 is not a process associated to well or subsea. It is the works dynamics that are being concluded now, with a lot of effort both on our behalf and also our engineering area. We are working heavily on that. And by the end of August we understand the unit will be ready, ready to start the sea test and start navigation for location.

P-58 is also at a very good completion pace. Just to give an idea, P-58 today has 95% conclusion of the works. What I mean by works, I'm excluding wells and subsea. P-55,

94%. P-63, with 99%. As a result, both P-58 and P-55 are focused on works. And if you get there today, in Rio Grande [ph], you'll see like a human mountain. Many people in each one of the platforms for the final conclusion, led by engineering.

P-61, we have the process under control, because we always had more time available.

And today, we are also heavily working on our drill rig, a tender drill rig, that is being built in China. And also in the final testing phase. So they can strike the drital [ph] here in Brazil in late-August, early-September.

So that was just an overview of what you referred to as -- triggers -- of these adjustments of first oil in the short term. Thank you.

A - Almir Barbassa

(interpreted) Cosenza?

Q - Jose Carlos Consenza {BIO 18679690 <GO>}

(interpreted) Okay, Barbassa. For the second and Third Quarters, we have three stoppages for industrial plants, one in lubricants. Reduc [ph] is scheduled for the Third Quarter. Regap [ph], we also have scheduled maintenance in the Third Quarter. And in the Fourth Quarter, or between the third and fourth, we have Revap [ph].

Both Revap and Regap are our projects. Our projects are showing -- and we're working on this data -- will come back to a higher processing level at these refineries, as I said before.

Operator

(interpreted) We request each participant to ask only two questions. Please speak slowly and clearly and all of your two questions at the same time, for Petrobras executives to answer them.

Now, we have a question in English from Bank of America Merrill Lynch [ph].

Q - Unidentified Participant

Hello. Good afternoon. Just quickly, in terms of the international operations and the reported results, going forward how do you see profitability --? Or, how much was included for Africa, say, that might be excluded in the third and Fourth Quarter relative to what you are reporting in the Second Quarter, obviously assuming no change in oil prices and another factors? But I was just trying to get a feel for what the -- how you've been accounting for it from a profitability standpoint so far this year.

A - Almir Barbassa

(interpreted) Now, about Africa, because we have divested, or sold, 50% of the assets and in Nigeria, we have a production, a significant production, we will have an expected

FINAL

Bloomberg Transcript

reduction in the results, which will be proportionate. And it will begin as of the Third Quarter.

Now, this is part of the cost of the divestment program; that is, we have more cash. We have this cash now. But on the other hand we had a reduction in terms of the operations generated by these assets. There is an expectation of a reduction in the final result coming from the international area.

Q - Unidentified Participant

Do you know approximately what amount in the Second Quarter or the first-half results was related to Nigeria, specifically? (technical difficulty)

Operator

(interpreted) Now, we have a question in English, from Mr. Paul Cheng [ph]. Mr. Paul Cheng, the floor is yours.

Q - Paul Cheng {BIO 1494607 <GO>}

Hello? Can you hear me?

Operator

(foreign language) Paul Cheng

(interpreted) Mr. Paul Cheng, please go ahead.

Q - Paul Cheng {BIO 1494607 <GO>}

Hi. Two questions. First, for Barbassa. I think previously you had set a target of net debt to net capital of 35%, net debt to EBITDA about 2.5 times. In the event if you could not adjust your domestic price much closer to the international price, at what point you may have to change your CapEx? Or, that those targets are just a guideline and doesn't really impact your expectation on that [ph]? It really doesn't impact your CapEx program.

Second question, for Cosenza, can you give us an update in terms of the startup time for the Risnet [ph], the northeast refinery? I think phase one current target is November 2014. And COMPERJ, the target I think is April 2015. Is there any change in the target startup time? Thank you. (technical difficulty)

A - Almir Barbassa

(interpreted) Paul, would you please repeat the question? We had a problem with the line.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. The first question, previously management had a target of net debt to net capital about 35%. And net debt to adjusted EBITDA of 2.5 times. My question is that if the

Company would not be able to raise the domestic price and correspondingly if those metrics continue to exceed their targets, at what point the CapEx program may need to be adjusted? That's the first question.

The second question, related to Downstream, they have two refineries, the Risnet [ph], the 230,000-barrel per day northeast refinery. I think previously their target startup time is November 2014. And COMPERJ is April 2015. Is there any change on the startup dates?

A - Almir Barbassa

(interpreted) Okay, Paul. In terms of leverage, yes, we do have the expectation of a higher leverage in the second half of 2013, considering everything else constant; that is, without changes in the variables of pricing and foreign exchange rate. However, as we mentioned, we're working hard to have a better price alignment between domestic and international markets. But we also have a very favorable prospect for 2014 regarding these amounts; that is, regarding these values.

Even if we go above the limits, or the levels, that we've established internally -- so, I'm talking about 35% net debt over EBITDA, or 2.5 times the EBITDA -- with this growth that we have planned, as we'll have the startup of these new units this year and next year, we expect to have continued output growth which will bring us additional cash generation. And it will allow for us to reduce the Company's leverage.

So this is our view in terms of leverage.

Let me now give the floor to Officer Cosenza. He will talk about the refineries. Thank you.

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

(interpreted) We have two refineries under construction, one in Rio de Janeiro, COMPERJ. And another one in Pernambuco.

In Pernambuco, we have two trains, 115,000 barrels per day. And the dates are still maintained. First train, November 2014. Second train, May 2015.

Now, COMPERJ in the state of Rio de Janeiro, the startup date for the 165,000-barrels a day train is planned for August 2016.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you.

Operator

(foreign language)

Q - Unidentified Participant

(foreign language)

A - Almir Barbassa

(foreign language)

(interpreted) agencies are very comfortable with the maintenance of our rating. So considering the condition that prevails right now, the leverage growth that might possibly happen due to several variables that we mentioned before in the second half of the year will not affect the Petrobras rating outlook.

As to dividends, we haven't changed our policy. And any possible anticipation of dividend payout for the second half of the year would depend on our Board of Directors approval. Up to now, we have no expectations in terms of proposing a payout in the second half of the year. We have to see the global performance first to see what happens later, particularly when it comes to cash and cash equivalents when we have higher leverage. Thank you.

Q - Unidentified Participant

(interpreted) Just a follow-up question with Formigli. Formigli, you mentioned a couple of weeks ago the possibility of having in the Libra auction, you effectively being a potential partnership with a company that could anticipate the signature and you might pay an IO [ph]. Do you really have this kind of conversation? Thank you, Barbassa.

A - Almir Barbassa

(interpreted) As you may assume, we won't make any comments on that topic. You said somebody made comments. So Petrobras has delivered no statement about this topic, yet. This issue is an in-house issue. It is related to our strategy vis-a-vis the bidding process. So we have nothing to comment on right now. I hope you understand.

Q - Unidentified Participant

(interpreted) No problem. Thank you.

Operator

(interpreted) Gustavo Gattass, BTG Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(interpreted) Hello. Good afternoon, everyone. I had two questions. I'll be as brief as possible. First question is very simple, talking about the impact of the asset sales on the results. You mentioned a few numbers. We saw other numbers on the presentations. Now, looking at all the sales of assets, how much did that contribute to the EBITDA you reported? This is the number I'm looking for.

FINAL

Bloomberg Transcript

My second question goes to Formigli. I just wanted to confirm, Formigli, we were doing some calculations, looking at what you've included in slide 6. If we had a stable production in the Third Quarter, then the Fourth Quarter would need an average production of 2,150,000; that is, to keep your original guidance. And this is a big increase -- 220,000, 250,000 barrels a day on average. So is this what you are planning for?

A - Almir Barbassa

(interpreted) Gattass, we will begin with Formigli. And then I will answer the other question.

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

Although you are looking at a flat production in the Third Quarter, we will already see an increase in the Third Quarter. Also, because we have a number of wells that will be connected, regardless of the additional units having their startup. So the production increase will happen before the end of the Third Quarter.

Then, in the Fourth Quarter, we will have a very significant production increase. This is true. Actually, we said that of the 36 wells, they will add a potential of 440,000 additional potential if we can interconnect them all. And also, in the Fourth Quarter, we expect fewer stoppages.

So when you add the impact of all of these elements, that's why I said our production plan is aligned to that of last year, approximately 2%. And this is what you have in our business plan -- 2 million, approximately 2%. This is our guidance.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(interpreted) Before we give the floor to Barbassa, I'd like a follow-up question. In the past, we heard from you that you expected production of 2011 plus or minus 2%. But you have just spoken about the production of last year, 2012, plus or minus 2%.

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

(interpreted) Yes. The production you have in the business plan, because the production of last year the target was 2011 plus or minus 2%. So if you look at our business plan, you have 2.4 million [ph] and plus or minus 2%.

It is because in this business every barrel is important. That is why our tolerance is such in the medium and long terms. If you consider the number of variables that we have to include in our calculations, the fact is that we've attained last year's target and we're working to attain this year's target, too.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(interpreted) Right. On our side, we just wonder whether we understand correctly your information? But yes, it's clear.

FINAL

Bloomberg Transcript

FINAL

A - Almir Barbassa

(interpreted) Gattass, talking about the contribution of divestment operations to EBITDA, in the Second Quarter it was approximately BRL1.6 billion, because --. It is not the full BRL1.9 billion, because BRLO.3 billion came from equity income which does not affect EBITDA.

Now, this is the information you were looking for. Right?

Q - Gustavo Gattass {BIO 1702868 <GO>}

(interpreted) Barbassa, let me see if I understand this. In your press release, on the final page, you show BRL1.554 billion plus BRL300 million as equity income. But you've also mentioned gains related to the sale of assets. So the remainder, all the other four sales of assets, did not produce an impact? Do I understand correctly?

A - Almir Barbassa

(interpreted) Well yes. We had two other sales of assets in the Gulf of Mexico. And they also had an impact.

Now, if you are considering PCH, this is only going to show at year-end.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(interpreted) Right. So the sales of assets in the United States were not relevant?

A - Almir Barbassa

(interpreted) Well they helped add to the BRL1.6 billion.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(interpreted) Okay. Thank you.

Operator

(interpreted) Thank you. Our Petrobras conference call Q&A session is thereby concluded. CFO Almir Barbassa will now make his final remarks. Please, Almir, you can continue.

A - Almir Barbassa

(interpreted) Once again, I would like to thank you all for participating in this event. I wish everyone a great day. Thank you very much.

Operator

(interpreted) Thank you. Ladies and gentlemen, the audio and the slides of this conference call remain available for replay at Petrobras RI website, at www.petrobras.com.br/ri.

This concludes today's conference call. Thank you very much for your participation. Please hang up your telephones and have a great day.

FINAL

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.

Bloomberg Transcript