

Q1 2010 Earnings Call

Company Participants

- Almir Guilherme Barbassa, Petrobras
- Hugo Costa, ANP
- Theodore Helms, Petrobras
- Unidentified Speaker, Company Representative

Other Participants

- Arthur Burns, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Marc McCarthy, Analyst
- Neil McMahon, Analyst
- Paul Cheng, Analyst
- Paul Tay, Analyst
- Paula Kovarsky, Analyst
- Ricardo Cavanagh, Analyst
- Sergio Torres, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Petrobras Conference Call to discuss the First Quarter 2010 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 and his staff. At this time, I would like to turn the conference over to Mr. Theodore Helms, Investor Relations Executive Manager of Petrobras, who has some additional comments. Please go ahead, Mr. Theodore, the floor is yours, sir. (Technical difficulty). One moment please. (Technical difficulty). And we do thank you for your patience. At this time, I will hand the conference back over to Mr. Theodore Helms. Mr. Theodore?

Almir Guilherme Barbassa {BIO 1921476 <GO>}

I would like to start, okay?

Operator

Yes, sir. You may begin your conference.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Okay. Thank you.

Theodore Helms {BIO 15433381 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our conference -- what's going on? (inaudible). Good afternoon, ladies and gentlemen. Welcome to our conference call to discuss First Quarter 2010 results. We have a simultaneously webcast on the Internet that could be accessed at the site www.petrobras.com.br/ri/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 on information currently available to the Company.

Finally let me mention that this conference call will discuss Petrobras' results prepared in accordance with the International Financial Reporting Standards, IFRS. And Brazilian legislation. At this moment we are unable to discuss any issues related to US GAAP results.

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

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Good afternoon. Thank you for joining our conference call to discuss First Quarter results. As compared to prior quarter, net income and EBITDA increased 4% and 5%, respectively. These results reflect the combination of greater sales volume, higher realization of prices for our exports and for products sold in Brazil and stable operating costs.

Investment spending grew as we continue to expand on our integrated basis. We began to expand -- we began to extend the well tests in Tiro and Sidon, discoveries made only in 2008 and we continue to find more oil, both in frontier areas and new horizons in developed fields.

Our Board has approved a range of capital[ph] spending during the next five years of between US\$200 billion and US\$220 billion and has authorized us to continue with plans to increase our Capitalization. I will discuss the Capitalization later during the call. Next?

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In the First Quarter, total oil and gas production was 2.547 million BOE per day, up 3% over year-over-year and down 1% sequentially. Our total production in the First Quarter was reduced by shutting of 78,000 BOE daily of gas capacity due to limp domestic demand. In April we set a monthly production record for Brazilian oil of 2.033 million barrels per day. And a single day record of 2.084 million barrels per day. Next, please.

The next slide is a review of units to be installed into 2010. You may add them to 375,000 barrels per day of new oil production capacity and 33.2 million cubic meters per day of new capacity as well.

Tiro and Sidon is a promising light oil discovery in a post south sandstone reservoir located in the shallow waters of Santos Basin. We are beginning a test of these reservoirs less than two years following the discovery. Our ability to produce so quickly from our new reservoirs is an example of the flexibility of our operations and the breadth of our resource base.

I would also like to highlight we will install Brazil's two major non-associated gas systems this year in Mexilhao and Urugua Tambau. Together they have a combined capacity of 55,000 barrels of oil equivalent per day.

This year we are also completing our natural gas infrastructure which will be capable to -- of delivering offshore gas production anywhere the Brazilian market demands. All that will be missing now is gas demand, currently restricted by both average rainfall which has limited the need for thermoelectric power. Over time, as the Brazilian economy grows, we fully expect non-associated gas to play an important role in Brazil's energy matrix. Next, please.

In the pre-salt, we continue with activities we have previously announced. Results continue to meet or exceed our expectations. We are now drilling five appraisal wells in Santos pre-salt. We begin -- we will begin an extended well test in Tupi northeast, using FPSO Cidade de Sao Vicente which is being relocated from Tupi.

The pilot production system for Tupi will begin production in the Fourth Quarter of this year. We recently signed a letter of intent to charter a unit for Guara, the first chartered unit to be built principally in Brazil. The -- ANP has made promising announcements about the Franco well drilled by us outside our own concession. And we recently spud in on a second stratigraphic well to increase knowledge of this area.

Let me turn now to volumes and prices which are the key determinants of our results. As one can see from the graph on the left, the average price of Brent was virtually flat quarter-to-quarter, while the continued narrowing of light had a differential, increased the value of our oil by US\$3 per barrel. Year-over year, the price of our oil has increased from US\$32 to US\$73 per barrel. The increase in value placed on our heavy oil is reflected in higher exports revenues.

From the graph on the right, one can see that average realization price for products sold in Brazil increased slightly due to the -- to those products that adjust biweekly to

international prices. You can also see that the difference between our average realization price and the international price continues to converge, although we still benefit from higher margins.

The fact that our realization price in reais was higher during the First Quarter of 2009 than is today, while the price in dollars of our own crude oil has more than doubled, has led to important shifts in the earnings of our upstream and downstream segments. For the Company as a whole, our pricing policy has stabilized our cash flow and highlights the importance of our degraded[ph] model. Next.

Lifting costs remained stable. Despite the price of our oil increasing by US\$41 per barrel in the past year, lifting costs increased by less than US\$2. Even this small increase is largely explained by the strengthening of the reais against the dollar. Next, please.

Brazilian GDP growth bottomed during the First Quarter of 2009 and has rebounded sharply since then. Diesel has increased due to GDP growth and an exceptional harvest this year. Gasoline consumption is up 25% because of higher price of sugar reduced ethanol supply, thereby increasing ethanol price and reducing demand from flex-fuel cars.

The reduction of anhydrous ethanol from 25% to 20% in regular gasoline also contributed to higher gasoline sales. Natural gas consumption by the industrial sector has recovered in line with GDP. But demand from thermoelectric sector continues to be limited.

Net exports have increased year-over-year due largely to growth in oil production exceeding internal demand. This trend should continue over time. During the First Quarter of 2010, plant refinery shutdown led to higher export volumes and lower import volumes of crude oil. The decline in the refinery output and the growing demand for diesel gasoline, jet fuel and LPG was met by increasing imports.

Year-over-year, the Company has swung from a financial debt to a surplus in trade balance due to higher net volumes, as well as the reduced differential between light and heavy crude oil, as well as lower crack spread between the products we export and the products we import. Next, please.

Turning to financial results, net revenue increased due to higher sales volume in Brazil and slightly higher realization price. The 3% average, the valuation of the real against the dollar and the reduced light/heavy differential contributed to higher export revenues. The increase in cost of goods sold was largely the result of higher volume.

Operating expense declined by 9%, despite provisioning of a series of judicial claims of nearly BRL1 billion. In the Fourth Quarter of 2009, operating expenses were higher due to expensing of dry holes and impairments, primarily the Pasadena refinery. The combined results of these factors led to an increase in operating income of 20% from the previous quarter.

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Higher operating income was partially offset by higher financial expenses. In the First Quarter, real weakened 2% against the US dollar, there's also a strengthening of 2% during the Fourth Quarter of 2009.

During the past year the net liability position of assets and liabilities subject to exchange valuation has increased from BRL12.7 billion positive to BRL32.3 billion negative due to an increase in debt that is denominated or linked to the US dollar. Because of this increase, net liability subject to financial variation, our financial expenses in reais has become more volatile, although our income in our US dollar financial statement will not reflect this volatility.

Taxes increased as a result of higher operating income and less provision for interest on our own capital in the First Quarter of 2010. The increase in minority interest expense is a result of improving gains from consolidated subsidiaries, mainly in financial results. Net profit for the quarter was BRL7.7 billion and an increase of 4% from the prior quarter. Next, please.

Higher international prices, primarily from the reduction in the light/heavy differential contributed positively to our Brazilian exploration and production segment's earnings. Stable lifting costs. And the absence of dry hole expenses and other impairments typically taken in the First Quarter also contributed to the gain in operating income. Next, please.

Operating income for our Brazilian downstream segment was reduced as realization price in Brazil moved closer to international levels. Higher sales volume and a small increase in average price did not fully off-set increased costs due to high international prices for crude oil end product.

Domestic cracking spreads, however, still exceed those of the Gulf Coast as they have done since November 2008. More programmed maintenance during the period led to reduced throughput, also contributed to higher per unit cost. Program maintenance reduced the utilization rate from 94% in the prior period to 9% in the First Quarter of this year.

Our remaining business segments contributed positively to earnings. Gas and power continues to increase earnings, despite limited thermoelectric generation. Greater supply of natural gas and more developed gas infrastructure permitted higher sales of contract energy. Increasing natural gas consumption from industry also contributed to the improvement.

The international segment, earnings increased primarily because of higher pricing during the period. The international segment also benefited from absence of write-offs that are typically recognized in the First Quarter. Our distribution segment continued to generate reliable earnings and margins, generating BRL566 million in operating income as they grew market share from 38.6% to 39.5%.

Capital spending increased to BRL17.8 billion during the First Quarter of 2010. And a 23% increase from the same period a year earlier. Most of the increase was concentrated in

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refining as capital expenditure for upgrades and for regulatory requirements accelerated while construction of the Abreu e Lima and Compersia[ph] refineries has begun. Spending was supported by our strong EBITDA of BRL15.1 billion versus BRL13.5 billion during the period a year earlier.

Our operating cash flow during the quarter was BRL9.7 billion versus BRL13.7 billion the prior quarter and BRL12.4 billion from the period a year ago. The sequentially lower operating cash flow occurred despite higher EBITDA as higher cash generation was offset by an increase in net working capital, as a result of increasing accounts receivable, inventory, credits to suppliers and reduction in short-term tax liabilities. Despite the reduced operating cash flow and increased CapEx, we have maintained our comfortable liquidity position with BRL27 billion in cash and equivalents at the quarter end. Next.

As a result of our increased capital spending, net debt to net book capital increased to 32% while the net debt to EBITDA annualized was 1.35 times. Both these ratios are comfortably with the financial target set by our Board of 25% to 35% net debt to net book cap and 2.5 times EBITDA. Next.

Now, let me discuss the Capitalization, which I assume is what everybody has been waiting for. I would like to first note that we have made every effort to keep all our shareholders informed of our plans and our thinking. But since the form of Capitalization does not depend entirely upon us and certain elements depend upon information that is still not available, we have been limited in the guidance we can provide.

The next step would be for our Board to convoke an Extraordinary General Assembly of our voting shareholders. The convocation must occur at least 30 days prior to the assembly. As customarily done in similar Public Offering related transactions in Brazil, the convocation will request authorization from our shareholders to grant the authority to our Board to increase our voting and no voting stock up to a certain limit. And determine the final size and terms of the Capitalization and to take all other necessary steps as required.

We do yet not know whether the Capitalization will be with or without the Transfer of Rights. The valuation of corresponding barrels has not been agreed, nor had we yet finalized our business plan for 2010-2014. Therefore, the amount of capital increase that the general shareholders meeting would authorize our Board of Directors to approve would be for a maximum that should accommodate all reasonable outcomes.

If we are to meet our deadline for completing the Capitalization during July, we would need to file in the first part of June the required recommendations, as well as the first draft of the proceeding prospect with CVM and a prospect supplement with SEC. As per CVM regulation, CVM would have a 20-business day period to review and make initial comments on the final documentation and related Brazilian prospect.

The information submitted to CVM and SEC will be public, although it is not expected to include final details of the transaction such as the valuation of the barrels or other terms of the current sale of rights. Once the CVM has reviewed and agreed to the disclosure within the Brazilian prospectus, we would be able to begin marketing the transaction. Aiming at

completing the transaction by the end of July, marketing would need to begin in the first half of July.

Just to review some key elements in the timetable and when we hope to have additional information we may share, first, as customarily done in similar Public Offering related transactions in Brazil, our Board would convoke the Extraordinary General Assembly of our voting shareholders. The Extraordinary General Assembly towards the end of June would grant powers to the Board of Directors to approve the capital increase as it is the standard prerequisite for the preparation of a Brazilian Public Offering.

The market will know at the same time as Petrobras whether or not the Transfer of Rights is approved by the Congress. A vote is scheduled for the next week. But we will have to wait and see what happens.

The 2010-2014 business plan is expected to be approved and released by the Board of Directors in the first half of June. Finally, if the Capitalization is within[ph] the Transfer of Rights, the vote of corresponding -- the value of the corresponding barrels in net to dollar is applied to reach that valuation. And the terms by which the Transfer of Rights may be revalued will also be disclosed before or simultaneously with the marketing of the Public Offering.

There are a number of other details not mentioned here. But I detailed in our prior release. What I had tried to focus on here is the general timetable and our best understanding of when information will become available. Thank you. I would be happy to answer any questions that you may have.

Questions And Answers

Operator

(Operator Instructions) Paul Cheng with Barclays Capital.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you. Gentlemen, is -- have you decided whether it is going to be a Rights Offering, or a normal secondary offering? And also, the timeline you are talking about may the announcement of the extraordinary shareholder meeting, when the Board is going to -- I presume you already have a date when you are going to actually announce it. Can you give -- and I know you went through that. But can you give a little bit more definitive timeline in terms of which week that we expecting that is going to happen?

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

The convocation of the General Assembly may be addressed to the Board soon. We don't have yet a date. But as soon as they approve, we'll be releasing information about -- we hope before the end of the month we will have some news on that.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. So before the end of the month.

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

And we have, for the first question you have done, we have announced already that we have decided to go for a Public Offering, no longer a Rights Offering as we have announced back in the beginning of this process. So the decision and the indication that our Board has given to us is to go ahead with a Public Offering.

Q - Paul Cheng {BIO 1494607 <GO>}

And may I -- can I just sneak a quick one in here? With the uncertainty on the transfer (inaudible) and that how do you end have to pay or that with the Presidential election coming up in October. And depends on who is going to be the winner, that even if there are laws being passed this year that they may get resubmitted as Congress I presume, potentially next year. With all that uncertainties, is there any particular reason why it is so important that you get this equity offering done, say, within such a short period of time?

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

I believe, first of all, we have time enough to do this offering and to conclude it by July. We don't think we are short in time at this moment. By all the measures, all the timetables we are put in place here and looking out, we have time enough.

What, of course, we are depending is the approval of the Congress and this is a more difficult item to control. We have no control at all. We hope the Bill that has been sent to the Congress is going to be voted before the end of the month, as I said. We -- there is an announcement that they are going to vote next week. We hope we will be concluding, they will be concluding this process by then.

If so, we have plenty of time. We can do it in this 90 days or 75 days that we have up to the end of the July. And this is the best we can do because we have a large budget we are executing this year, BRL88.5 billion and, as you have seen, our leverage has increased 1% in the course of the First Quarter.

And as we can project keeping this high level of investment and compared with our EBITDA operational cash flow, our ratios would be going towards some stress. And we prefer having such a big plan ahead of us with such large Company and so successful in doing all the operations we are carrying on to keep, or the best way the financials of the Company.

And this requires us to do this transaction by the end of July. This is the best because after that there is the vacation of capital markets and in September we will be with a very important election in Brazil, September that may last during October if there is a second round. So we will have had at least three months that may not be there for this transaction. So the best is to do it right now.

Q - Paul Cheng {BIO 1494607 <GO>}

Yes, okay. Thank you.

Operator

Neil McMahon with Sanford Bernstein.

Q - Neil McMahon {BIO 5988658 <GO>}

Hi, actually not a question at all on the Capitalization. But a question really on the strategy of the Company. It seems from your press releases, including the one today, that Petrobras obviously has got a massive CapEx commitment within Brazil itself, not just drilling wells in the full salt and pre-salt and also in the downstream. But also making investments and quite a number in Portugal. And also this morning from -- in Saudi Arabia, as well.

So maybe if you could just tell us how this fits into the overall strategy of the Company, as it seems to be becoming a bit of a diverse strategy and not as focused as was originally the case?

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

We -- I understand we are keeping our previous strategy. The announcement of today regarding Saudi Arabia is very deeply connected with our domestic operations, where we are producing today green coke. And we are looking for opportunities to add value to it. And this is why we are developing there and studying. It is not the final decision. But it is a decision to go ahead with a study. And this is not going to require too much capital. It is a very, very small amount.

Regarding Portugal biofuels is in line which we have announced that we are looking for increasing the production of biofuels in Brazil, either the sugarcane or the biodiesel. And it requires not much money as well. So we are keeping our strategy. We are not -- I understand we are not diversifying from what we had said.

Q - Neil McMahon {BIO 5988658 <GO>}

I -- maybe just a follow-up question on Portugal, it also looks like you are getting interested in evaluating Portugal from an exploration point of view and so maybe you could go into that, plus also, is there any relationship developing with Galp? There was some market rumors a number of months ago about the potential of swapping your -- ENI's interest in Galp with yourselves. I don't know if you have any comment on that. Thank you.

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

So far, regarding Galp, we have nothing established yet. Yes. There have been many rumors. We are always looking for opportunity. Galp is a company that is very close to us. Their main assets are here in Brazil. So and we have the opportunity here to develop these biofuels. But this is the only deal we have in place so far. And we are doing

exploration offshore Portugal. We are in deep waters offshore Portugal, associated with Galp as well.

Q - Neil McMahon {BIO 5988658 <GO>}

Thank you.

Operator

Frank McGann with Bank of America.

Q - Frank McGann {BIO 1499014 <GO>}

Hello, good day, just two very mundane questions, actually. One is the gasoline sales were very strong in the First Quarter. I am just wondering what your trends are so far in the Second Quarter and how you see that developing. And lifting costs, do you see the -- any reason that the level that we saw in the First Quarter for pure lifting costs would not be continued as you go through the year?

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

The gasoline demand, it is going to reduce in the Second Quarter because end of April the mix between gasoline and anhydrous ethanol has changed to 25% again of ethanol. And the new crop of sugar cane is starting now. So more ethanol shall be offered to the market. And the demand for gasoline is expected to go back to the normal volumes we use to sell.

And lifting costs we are working in different ways to keep it as well controlled as we can. And as it has been shown, we are for about two years, or more than one year, it is about the same level of lifting costs. But we have here our colleagues from ANP Hugo Costa[ph]. Would you like to add something regarding the lifting costs, please?

A - Hugo Costa {BIO 16095791 <GO>}

Well from I think that this last -- during the last year the lifting costs, we have been able to keep the same level based on both the reduction on material and services improvements. And the scale of the operations and also helped with the exchange rate and the performance of the entire operation of Campos Basin. That's it.

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

Okay.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

Ricardo Cavanagh of Raymond James.

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Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes. Well. Good morning and thanks for the call. I have two questions that relate to association between investments and, well, the equity Capitalization. The first question, if the Capitalization is done in the next few months, I assume certain cash disbursements are likely to accelerate. Could this mean that in upstream there could be an acceleration of the investments in development to augment production. And in downstream could it affect the pace of planned investments for the year?

And the second question, also on investments, under a scenario Capitalization might have to be postponed until 2011, would there be any flexibility to reconsider planning investments for the year, or rather Petrobras will allow to temporarily operate close to maximum leverage levels? Thank you.

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

Starting from the final question, I would say that we have already decided to go for the Capitalization in this next quarter, July. And this is a decision not to postpone it to next year. We are aiming to keep the level of Capitalization, the ratios of the Company, in a sound basis. So there is no -- at this moment, we don't consider the other alternative to do it in 2011.

The first question was regarding the adjustment of our CapEx, if we do not -- so there is no possibility of adjustment of CapEx this year because of no Capitalization. We had a certain level of flexibility to adjust the CapEx. But we are not considering it. Of course, as farther in time is our project, the more flexibility we have. If we consider the current year, we have less to adjust even though we are not taking this into our account because we are considering to do it in June, July.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Thank you for that. Then, on the first one it is, well, assuming the Capitalization goes through, are we -- can we see an acceleration of investments in, let's say, in upstream or downstream, or we are going to keep -- the Company is already investing at the pace it would like to be investing for the rest of the year, meaning, in other words, wouldn't the Capitalization provoke an acceleration?

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

Yes. And on the same way, we are not considering to reduce our budget for the year. We are not -- there is no possibility to accelerate as well. We have done our budget. It considers the best we can do for the Company, at this point in time. And it is a challenge to do all this investment in a year. The First Quarter was BRL17.7 billion, BRL17.8 billion. It means that 4 times that is not BRL88.5 billion, as we are aiming at.

So we, with time -- we normally grow the volume per quarter of CapEx. But acceleration is almost impossible. We are doing it in a very high speed and a very high level and doing the Capitalization would not change this program. It is part of our program to do the Capitalization and to realize what we have announced.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Well thank you very much again.

Operator

Paula Kovarsky with Itau Securities.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Hi. Good morning everyone. I have two questions, the first one on the Capitalization process again. I would like to understand, Barbassa, what exactly is the approval that you guys will be seeking from the shareholders meeting, meaning is it going to be a range, kind of -- a minimum range which will probably will match the follow-on with no barrels and the maximum range that will match the inclusion or the acquisition of those barrels?

And also if the approval touches on the structure of the capital increase, or if it states that it has to be a follow-on or if there is any route that can be used to go ahead with the capital increase in any other way? So that is question number one.

And the second question has to do a little bit with the valuation of the barrels and the adjustment mechanism, be it once ANP gets its report from its consultancy firm, or the two years, one to two years scheduled review? Do you -- could you take us through a little bit on at least on the thinking on how this revaluation is going to happen in the case of ANP? If the idea is to do with barrels, how does that affect the potential size of the capital increase? So I would like to get a little bit more color on that, as well.

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

Okay. What we are looking from our Board and from our General Assembly is to increase the authorized capital, capital authorized --

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay.

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

-- of the Company. By doing so we have to say how much we want and the total we are looking as a ceiling and the capital increase can be done inside that ceiling for any amount. For example, if there is no rights transferring, we can do only the Capitalization that would be much less than both transactions together.

This is what we are aiming now. And this is what we need, just opening space to do whatever we are going to do. And doing one or two transactions depends, first, from the Congress. And then the -- as the Capitalization is a decision. We are going to do it. And this is what we are going to look for at the shareholders assembly.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Yes. But the original idea, I guess is that the government subscription would somehow match the valuation of the barrels, meaning so that the government would contribute with the bonds and then pay the barrels with those bonds.

So is there a situation where you go for what we call the drive follow-on, the follow-on with no barrels now. And in the future even -- once the Bill is approved you can use cash to buy the barrels? Or then you would call for a second capital increase. And then the government subscribes with the bonds? Is that the idea?

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

I am supposing that if the Transfer of Rights is not approved now, it is going to be rejected. And so what is left in the table is the Capitalization only. I don't count on a situation where the Bill that is in the Congress will remain there forever with no voting. They -- I believe the Congress is going to vote it, --

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay.

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

-- either to approve or to reject.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay.

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

Okay?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay.

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

And the second question you did regarding the value of the Bill --

Q - Paula Kovarsky {BIO 15363001 <GO>}

Yes, on the revaluation.

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

In the revaluation? Revaluation that shall be happening one to two years after the transaction is going to be based on a formula that shall be in the contract because this -- the Transfer of Rights from the Brazil, the union in Brazil, the national to Petrobras, shall be regulated by a contract. And the contracts we are already discussing with the government. We had already a first draft of this contract and we start discussing it.

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And one item of this contract is the item that will bear the formula for reappraisal of the price of the Bill. And we hope -- we don't have yet this formula final, in the final formula. But we are aiming to have it in a way that there is no difficulty to apply whether one year or two years later, just looking to some indexes, or prices or whatever it is going to comprise for and apply it and adjust the numbers.

How it is going to be set if we are going to pay back to government, or receive more from other net, I don't know yet how it is going to be established in the contract also.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. But in the case of the ANP short-term revision, is there a structure or an agreed way to do it, or --?

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

No. There is no way to agree. This is going to be the main discussion on where we are going to establish the price of the acquisition that shall be in the -- shall be used in the rights transfer.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. And presumably this information will be made available during the road show, or whatever, right?

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

Yes. If we have it done by then. If not it is going to be, at the least, at the least by the road show we hope to have the report from the engineering company that is under contract with Petrobras. And that we hope they are going to produce their report in due time.

So we hope to make this release to the shareholders and informing them what is the price we are seeing and considering the situation of this transaction where there is no risk of reservoir. So we expect any other appraisal on that value would not differ much from the figure we are going to have. That is what we believe would give more information and give to the shareholders the comfort of the transaction.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you very much.

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

You're welcome.

Operator

Arthur Burns with Deltec.

Bloomberg Transcript

Q - Arthur Burns {BIO 1916737 <GO>}

Sir, does the BP problem in the Gulf of Mexico affect in any way the risk of your harvesting the deep reserves that you have offshore Brazil?

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

I am going to ask Hugo to help me in this question, please Hugo.

A - Hugo Costa {BIO 16095791 <GO>}

Well it is still early to evaluate the consequences of the -- and really to understand what happened, really happened in the Gulf of Mexico. But Petrobras applies the best knowledge, the best technology and the best practices in all of our operations.

And we work with the best companies in the work like Transocean, Nobel (inaudible) drilling companies and the servicing companies. And based on these, we are not considering any change in these procedures and we will keep following the AP, the American Petroleum Institute standards and the best practices recognized by this institute. Then today we think that we have to wait until we best understand of what happened there and to reconsider any of these procedures, okay?

Q - Arthur Burns {BIO 1916737 <GO>}

Thank you very much.

Operator

Marc McCarthy with Wexford Capital.

Q - Marc McCarthy {BIO 1542384 <GO>}

Hi, guys. I had a more general question. It's an easier one, Almir. In listening to you are sort of sending the message that it is full steam ahead. But clearly the market in the world has changed and continues to change. It's amazing.

The dynamics for a deal like this have weakened and continue to do so. You have oil prices, euro crisis, this new offshore thing with BP and of course you are sort of tabled with the elections in the fall. Petrobras has clearly shown that it has access to capital, all different forms and those loans from the Chinese a few years back were a good proof of that. And I continue to believe that they are still around.

The pricing of this deal, of course, has to be always enough to motivate investors to participate. And as you pointed out, you don't want to get into the summer months of August. You need as many folks to be participating and, given the size of this, to be motivated to participate. So it brings me to the question of price.

You are going to have tons of advisors helping you make this decision. But how much is price a consideration here in terms of moving forward with a Public Offering? Then I sort

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of move back. If you are not satisfied with price, it seems to me that you still have an option on the table and that is to form down some of your positions with those same other folks that are always happy to give you money. Has that been brought up as a consideration in this period in order to raise those equity dollars?

I bring that up because all the investors that want to participate in this capital increase, I imagine, want to buy the E&P side of the story. They don't want to buy the downstream. That has always been the case. But they have to buy it as a package deal. So the question is, might you consider if the pricing erodes, if oil prices are US\$60 tomorrow. And the euro is about to explode. And Greece is about to fail and you still want to get this deal done, what is your backup plan? I know you have said you don't have a backup plan. But -

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

I guess you have answered. Yes, of course we --

Q - Marc McCarthy {BIO 1542384 <GO>}

You don't need government approval to farm down your acreage, right?

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

Yes. You, as you have said at the beginning, going ahead in full steam. But with very good radar as well, you have to deviate whenever you feel that your route is not the best one. And that is why we are trying to look ahead with time doing our best in our business plan and looking where we are aiming. At this moment, as part of the fuel we need for our boat is to add some capital. This --

Q - Marc McCarthy {BIO 1542384 <GO>}

Right. But I am -- what I am also trying to address here Almir is I don't think anybody wants to see is you -- and you can easily do this, get another US\$10 billion, US\$15 billion loan or a short-term loan from another export deal or even an asset-backed deal because of the impact that it would have to the ratios. But you could do that same deal with those same parties for equity, I guess is my question.

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

Really --

Q - Marc McCarthy {BIO 1542384 <GO>}

I don't see much impact to the timing of the spending. It seems like that is pretty much set in stone.

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

I did not explore this alternative. We are -- we have been successful in accessing many different sources of financing in terms of debt and this is one of the characteristics of

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Petrobras. We have been successfully, raised last year US\$42 billion, what is an amazing amount.

This year we had some extra debt as well. But we did not explore this alternative of, let's say, strategic partner. We would like much better to go the broad market and to have a well spread base of shareholders.

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Q - Marc McCarthy {BIO 1542384 <GO>}

Okay. And just as a technical thing, because this is now viewed as a Public Offering, as opposed to a Capitalization, there is no preferential right given to existing shareholders. Is that right? So there is no record date or issues as it would relate to a traditional Rights Offering.

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

Yes. But there is no Rights Offering as we were doing if we were to conduct the Rights Offering. But we are going to give a privilege, a priority to the current shareholders. They would be the first ones to get the opportunity to make their proposals.

Q - Marc McCarthy {BIO 1542384 <GO>}

And would the record date for those shareholders be determined on the date of the Extraordinary Shareholders Meeting?

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

We don't know.

A - Theodore Helms {BIO 15433381 <GO>}

Almir, this is Ted. No. I don't think -- that just hasn't -- that process and when and how you could do it hasn't been decided yet.

Q - Marc McCarthy {BIO 1542384 <GO>}

Okay. Thanks Ted. Thanks, guys.

Operator

Paul Tay with Barclays Capital.

Q - Paul Tay {BIO 18304112 <GO>}

Hey guys, a number of quick questions. Almir, I think in the past that the assumption is that the government will serve as a back draw, a backstop for any of the amount that you want to raise in the event that the minority shareholders don't subscribe, they going to come in and fully subscribe for that. Did we get any specific guarantee from the government that -- understanding from the government this is what they are going to do here?

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

The government would -- if we do only the Capitalization with no transferring of rights, the government is not going to be diluted. Their decision is to follow with the proportionate share. So --

Q - Paul Tay {BIO 18304112 <GO>}

Right. But that -- I am saying that in addition to not only diluted, if the demand because of all the uncertainties surrounding with both the Company as well as in the macro environment, in the event if the market condition is tough and that we don't have sufficient minority shareholder subscribed to it, there are corresponding shares of the capital structure. Did the government have any kind of expression that they would come in and fully backstop the transaction for you?

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

Yes, I don't have this information from the government. If there is a rights transferring, yes, they are going to -- they have said already they would like to increase and they are there to buy the offering even in a larger proportion than they have shares. But regarding only the Capitalization if there is only one transaction in the Capitalization, I don't have information. The only thing I can tell you is that they would not be diluted. They will follow at least on the ground of the proportion on the total of shares.

Q - Paul Tay {BIO 18304112 <GO>}

And Almir, should we assume that in this Public Offering that the trend is to issue to the same ratio of the common and the P first share as the existing public structure, capital structure?

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

Yes. We are going to maintain the current ratio between ON and PN --

Q - Paul Tay {BIO 18304112 <GO>}

Okay.

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

-- in the offering.

Q - Paul Tay {BIO 18304112 <GO>}

Okay, three final short questions, one on under the International Financial Reporting Standards, I presume now that you are going -- everything is reported under the FIFO and you are not using the average core structure in your downstream?

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

Let me see with Alwis[ph] if he can help me in this question. Please, Alwis.

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A - Unidentified Speaker

No. The change in accounts principals don't include change in terms of an evaluation of the inventories. There is YR. We will continue using average costs.

Q - Paul Tay {BIO 18304112 <GO>}

Okay. So you are still using --

A - Unidentified Speaker

There is no change in this issue.

Q - Paul Tay {BIO 18304112 <GO>}

Okay. And Almir, when I am looking at your production target right now for 2010, say 2.1 million barrels per day in Brazil, based on the First Quarter production and also that the project coming on stream, even assuming the project will be essentially ramped up to the full production within the same quarter that they start, it seems like it is still a pretty aggressive number. What are the underlying field, the kind of curve that you are assuming in here and also if there is any major maintenance in the First Quarter that have made the First Quarter production to be lower than otherwise it will be.

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

Oh, Hugo is going to answer you.

A - Hugo Costa {BIO 16095791 <GO>}

Hi, Paul. There is always a lot of -- challenge is something that is always on the operations. And the target is always some level of challenge related to the operations. But considering the numbers of production and the projects and what is scheduled to come on stream on the second half of this year. And to be pilot and some new projects that will come where we are, keeping the targets and working to achieve 2.1 million barrels a day as an average for the, okay?

Q - Paul Tay {BIO 18304112 <GO>}

And (inaudible)

A - Theodore Helms {BIO 15433381 <GO>}

And we will, Paul, Paul, we have got a -- let's move on. We have got a lot of other people to ask questions today.

Q - Paul Tay {BIO 18304112 <GO>}

Okay. Thank you then.

A - Theodore Helms {BIO 15433381 <GO>}

Thanks.

Operator

Sergio Torres with JPMorgan.

Q - Sergio Torres {BIO 7078415 <GO>}

Hello, everybody. I have two questions. One, if you could give us the -- your current estimate, even if it is raw, about how much money do you think you will need just to cover any budget deficit to finance the existing business plan as we know it. And whether -- just for us to know how much you would need to raise from either the equity markets or from the debt markets combined.

And the second question would be if you could talk to us and give us more information about the Franco discovery, whether -- I think ANP has said that it is comparable to the Tupi find or to the original estimate of the Tupi find. But if you could elaborate on that, like what is the -- whether this 4.5 billion barrels that has been estimated if it is a P-50 number, whether -- what is the range and whether there is an implicit recovery ratio associated to this number that is comparable in fact to the Tupi discovery? Thank you.

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

Regarding the additional monies we need to fund our budget of this year, I don't have it now. But we are looking not to the year. But we are looking for the five-year plan of how much we may need to have in this five-year plan properly executed and maintaining our financial standards, financial sustainable ratios. So -- but I don't have the answer for the current year. Hugo, please, regarding the Franco well.

A - Hugo Costa {BIO 16095791 <GO>}

Okay. This well Petrobras drilled for ANP and ANP is disclosing the kind of information they consider adequate or they are considering it necessary to move forward in their strategy and of disclosure, we cannot say anything else than what is known. It is a very good well and the results were disclosed by the agents, okay. It is not -- it is quite difficult to make any comparison even between Tupi because we better -- good knowledge in Tupi and we don't have the necessary knowledge related to this field, okay?

Q - Sergio Torres {BIO 7078415 <GO>}

Okay. Related to the Franco discovery, should we expect that at the time of the road show if the -- if this deal is approved, should we expect at the time of the road show this information will be made available to shareholders? And second, yes, Almir, I was referring to your estimate on the five-year business plan, whether you had an estimate of the size of the budget gap that you would need to fill? Thanks.

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

No. I don't have it yet. But I hope by the mid of June we will have it with the business plan approved after the Board review and approval. Before that, any number I would give you it would be speculation, I prefer not to provide this figure to you.

Q - Sergio Torres {BIO 7078415 <GO>}

Thank you.

Operator

Jeffrey Grossman[ph] with Hudson Bay[ph].

Q - Unidentified Participant

Hello. Good afternoon and thank you for taking the question. Just coming back to the public offer mechanism, could you just confirm that your ADR holders will get priority rights as well in any offering?

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

Yes. The holder -- if of course the priority has to be exercised. They have to place the order at a market price. If they can do this, yes, they will be granted the right, the priority as well.

Q - Unidentified Participant

Through JPMorgan, the depository?

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

I don't know the -- yes, at that.

A - Theodore Helms {BIO 15433381 <GO>}

Correct, yes. Well they are the depository although the question on the priority is how -- there are still a lot of details to work out, leave it at that. But just to answer your question, JPMorgan is the depository.

Q - Unidentified Participant

Is there any difference between a Brazilian right and a US ADR holder right?

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

No. There is no -- we can give the same right to everyone. It is a matter of local legislation. If they -- are they allowed to place an order, for example, subjected to a price that shall be established by the book building later on. I know that in Brazil we can do that. I am not sure if there is a way to do this same kind of proposal or place an order in the United States and in order that to be subject to a future price. If they can do this in one or another way they will have the same priority.

Q - Unidentified Participant

In the event that there are leftover shares, will existing holders get priority to take those up?

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

There will be different rounds. In the plus first round the current shareholders would place the order and can tell if they will be prepared to take some shares that are not sold, the excess, not sold. So they can increase their participation. So they can -- this is part of the first proposal they are going to offer to the book building.

Q - Unidentified Participant

And just to clarify was it that if there is no transfer of barrels, was it that the government did not express its intentions yet? Is that what was said, in terms of dilution?

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

No. The government is going to participate at the same time as every other shareholder. So I don't know what they are -- how they are going to manage their shares as if they are going to increase or not, if they are going to candidate themselves to buy more shares if there is no rights transfer. And this is a subject that we will be dealt by the government. So I don't know.

A - Theodore Helms {BIO 15433381 <GO>}

And move on to the next question if we could?

Q - Unidentified Participant

Thank you.

Operator

Gustavo Gattass of BTG.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Guys, Jeffrey just asked my most important question. Let me just ask you one very quick question. In the basket of ratios that the agencies look at for investment grades, I just want to understand how important is a net debt to reserve ratio? Is that something that you guys think is relevant for the decision making process? Or is that one that is not that relevant?

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

Maybe the rating agencies, they don't follow only one ratio. They have many different ones. And they believe that net debt to EBITDA is maybe more important than net debt to net cap. But --

Q - Gustavo Gattass {BIO 1702868 <GO>}

I wasn't even thinking about net cap. I was thinking about reserves, net debt to proven reserves.

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

Yes. They look at that too. But that is very good. We are not concerned on that. Petrobras is a very cheap Company at this moment regarding this index and attempts to keep this ratio because, as you well know, we have a very large potential of new reserves to be incorporated as proved reserves. And as I said, we are going to receive another seven weeks for ultra-deep waters during the course of this year. And we have seven operating now. So imagine how many new wells we are going to do and how it will be a speed of new reserves incorporated in the group, the reserves. Then, this is not a ratio that concerns us.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

Thank you. That does conclude today's Q&A session. At this time, I will hand the conference over to Mr. Barbassa. Please proceed with your closing remarks, sir.

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

Thank you very much for being with us and this opportunity to read -- to see the results of the First Quarter of this year. They were very good. You are -- were much more interested in the Capitalization and I understand that. It is very important for us and for all the shareholders. We hope we will be adding this information as soon as we get them regarding this Capitalization process and hope to have you soon here for the next quarter results. Thank you very much.

Operator

And thank you, sir, for your time. 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. This concludes Petrobras' Conference Call for today. We thank you all very much for your participation. You may now disconnect.

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