Company Participants

- Theodore Helms, Director IR
- Unidentified Speaker, Analyst

Other Participants

- Arjun Murti, Analyst
- Emerson Leite, Analyst
- Frank McGann, Merrill Lynch
- Gustavo Gattass, Analyst
- Jeffrey Grossman, Analyst
- John Margolis, Analyst
- Lilyanna Yang, Analyst
- Luis Pino, Analyst
- Paul Cheng, Analyst
- Ricardo Cavanagh, Analyst
- Sergio Torres, Analyst

Presentation

Operator

Ladies and gentlemen thank you for standing by. Welcome to the Petrobras conference call to discuss the Second Quarter 2010 results. (Operator Instructions)

As a reminder, this conference call 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 call over to Mr. Theodore Helms, Investor Relations, Executive Manager of Petrobras, who has some additional comments.

Theodore Helms {BIO 15433381 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our conference call to discuss Second Quarter 2010 results. We have a simultaneous webcast on the Internet that can be accessed at the site, www.petrobras.com.br/ri/english.

Before proceeding I would like to draw your attention to the slide two. We may make forward-looking statements which are identified by use of the words will, expect and similar that are based on the beliefs and assumptions of Petrobras' management and our 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 relating to US GAAP results.

I also have to inform you that unfortunately our CFO, Almir Barbassa, is stuck in transit between Brasilia and Rio. And will not be able to join us on the call. So what we have done, of course, is I will go through our results. And of course for the Q&A we have a very well-qualified staff of people from accounting and from each of the segments.

I should also add that this call may not be as interesting as some would like, because we cannot make any update whatsoever on the capitalization, except to reiterate that we continue to work towards a transaction in September. We are fully confident that we will be able to do so. And I refer you to all our previous communications on the topic which may be found on our website.

This quarter's financial results were characterized by stable domestic realization prices, stable oil export prices and a stable exchange rate. Operating expenses were relatively flat. And there were fewer extraordinary items. Production of oil and gas was up 2%. And as a result of these factors, our Second Quarter earnings and cash flow showed a modest. But solid improvement. As compared to the prior quarter, net income and EBITDA increased 7% and 6%, respectively.

Highlights for the last three month include additional discoveries in the pre-salt of the Campos Basin, totaling some 500 million barrels of oil. And the startup of FPSO Capixaba, which is producing oil from both the pre and post-salt layers in the Espirito Santo. In June we released our 2010/2014 business plan, in which we project total investment spending of $224 billion.

Finally, since our last conference call we have held two extraordinary general assemblies. The first assembly approved an increase in capital and authorized our Board to take the necessary steps to execute the capital increase. The second approval was for the method for evaluating the utilization of Brazilian treasury notes in the capitalization. Both these measures were widely supported by the minority shareholders of the ON [ph] shares.

On the next slide you'll see that in the first semester of this year total oil and gas production was 2,568,000 BOE per day, up 3% year-over-year. Brazilian oil production was up 2% despite the shut-in of 85,000 BOE of daily gas capacity due to limited domestic demand.

Production from Nigeria and new systems in Brazil accounted for the growth. In April we sent a monthly record for Brazilian oil of 2,033,000 barrels per day and a single day record of 2,084,000 barrels per day.

The next slide is a review of units that have or will be installed in 2010 and 2011. As you can see, the units installed in 2010 have been ramping up. Production from FPSO Capixaba, which is fully owned by Petrobras, will make the greatest contribution to production growth for the remainder of the year. Still to come in 2010 and 2011 are another 380,000 barrels per day of capacity now under development.

The next unit to begin production will be the FPSO Cidade de Angra dos Reis, better known as the Tupi Pilot. The FPSO has left the Chinese shipyard where it was converted and is currently on its way to Brazil.

I would also like to highlight that this year we will be installing two major non-associated gas platforms this year in Mexilhao and Urugua-Tambau. Their combined capacity of 25 million cubic meters per day will increase existing Brazilian gas production capacity by more than 50%.

In the next slide you'll see that in the pre-salt we continue with activities we previously announced and results continue to meet or exceed our expectations. As mentioned earlier, we began pre-salt production in the Wales Park and Espirito Santo, with the startup of FPSO Capixaba. And first oil from the Tupi Pilot is expected later this year.

Right now six new wells are being drilled -- six new wells are still to be drilled in 2010, which would bring to 16 the total wells this year. Three new rigs that have been previously contracted years ago are expected to arrive this year in addition to the 10 that are already in operation.

We have contracted for the third pilot FPSO. And have signed letters of intent for the eight replicant hulls, that will be the first definitive systems in the Santos Basin.

Finally, we expect to declare commerciality for Tupi before the year-end, which will allow us to start booking reserves in the area.

On the next slide let me turn now to volumes and prices, which really are the key determinants of our results. As one can see from the graph on the left, the average price of Brent and for our own [ph] oil was virtually flat quarter to quarter. From the graph on the right, one can see that the average realization price for products continues to be essentially unchanged during the past year.

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 refining margins in Brazil, as has been the case since November of 2008.

The next slide you'll see that lifting costs remain stable despite the increase in our oil price of $20 per barrel in the past year, lifting costs increased by only $1. Even this small increase is largely attributed -- explained by the strengthening of the real against the dollar. As you can see, when expressed in reais, lifting costs have been flat year-over-year.

The next slide you'll see about our sales volumes. Accelerating Brazilian GDP growth is reflected in higher product sales. Diesel has increased in line with GDP growth and an exceptional harvest. Jet fuel is up 15% as a result of increased air-traffic within Brazil. Gasoline consumption increased 19% year-over-year as the higher price of sugar reduced ethanol supply, shifting the flex fuel fleet to consume more gasoline. This effect was most noticeable in the First Quarter. But also impacted gasoline sales in the Second Quarter.

Natural gas consumption by the industrial sector has recovered in line with the GDP. And with the start of the dry season there has been an increase in demand for gas-fired thermo electric generation.

On the next slide you'll see that net exports decreased year-over-year as the recovery in domestic demand in Brazil has exceeded production growth. During the first half of 2010 planned refinery shutdowns lead to higher export volumes and lower import volumes of crude oil. The decline in refinery output and the growing demand for diesel, gasoline, jet fuel and LPG was met by increasing imports.

Year-over-year our trade balance has swung despite the lower net volumes as the differential between light and heavy crude oil and the crack spreads between the products we export and the products we import have diminished.

You'll see on the next slide, turning to financial results, as we mentioned earlier, the quarter was characterized by the absence of volatility. Average realization price, the market value of Brazilian crude and the real/dollar exchange rate each increased by only 1% from the prior quarter.

Net revenues were higher principally because of growing demand in Brazil. The revenue increase from the sales was largely offset by the cost of imported products. But still added to our gross income.

Operating expenses declined by 8% due to lower provisioning than in the prior quarter. The combined result of these factors lead to an increase in operating income of 6% from the prior quarter, EBITDA of BRL16 billion, or 6% higher than the previous quarter.

Next slide you'll see that the stability of exchange rate substantially reduced fluctuations in financial expense, minority interest and equity participation. Thus the increase in net income of 7% was driven almost exclusively by the higher operating income.

On the next slide a quick review of Brazilian E&P. Production increased 2%, while the value of its oil increased 1%. Lifting costs were stable. And there were no extraordinary items that reduced income in the First Quarter.

Because some of the production of E&P was held in inventory, it shows a negative effect on the volume effect on revenues. But that was because of inventory accumulation within E&P. But actually the production did increase. The result of all this was a 5% gain in operating income.

The next slide, operating income for our Brazilian downstream segment was reduced as realization prices in Brazil moved closer to the international levels, which reduced our refining margins.

Also. And this is important to really emphasize, is that our margin was reduced by the narrowing of the light/heavy differential. Really historically the differential now of $3 to $4 is quite low. And we have a complex refinery system growing in complexity that is much less profitable when we have such a small differential between the two. Now this hurts our refining segment earnings, even as it improves the margins for our domestic E&P.

Finally, the quarter -- the First Quarter benefited from a lower cost of inventory due to stocks acquired at year-end 2009. And this was not repeated in the Second Quarter, which also brought down the quarter-over-quarter results.

Revenues increased largely because of growing demand. But this was offset largely by higher imports, leading to a small but positive operating margin. And operating expenses decreased -- increased primarily due to higher freight and sales costs related to the increased volumes.

On the next slide you see that our remaining business segments continue contributing positively to earnings. Gas and power continues to grow, primarily due to higher sales volumes in natural gas and electricity generally -- generation, partially offset by higher acquisition costs.

The international segment's earnings increased primarily because of higher prices during the period. The period was also characterized by the absence of impairments. Interestingly, first oil from Cascade and Chinook is still scheduled for later this year, with the first two development wells already drilled. And therefore are not affected by the current moratorium.

Our current -- our distribution segment continues to generate reliable earnings and margins, although this quarter was characterized by an extraordinary tax provision of BRL110 million.

The next slide you'll see that capital spending increased to BRL38 billion during the first half of 2010, a 17% increase from the same period a year earlier. Most of the increase was concentrated in refining, spending for upgrades and spending for regular -- regulatory requirements to accelerate. And the construction of the Abreu e Lima refinery in Pernambuco has begun.

During the Second Quarter we also completed the BRL2.5 billion acquisition of a minority stake in Braskem, essentially completing our consolidation of the petrochemical sector. Investments in blend gas, infrastructure, health, safety, environment, maintenance and others explain the remaining 25%.

This growing demand in Brazil underlines the importance of increasing our refining capacity, as well as configuring our existing refineries to process Brazilian crudes for market demand. By doing so over time we can substantially improve our margin when compared to importing products to meet demand.

Turning to the next slide, as a result of our increased capital spending net debt to net book capital increased to 34%, while net debt to EBITDA annualized was 1.52 times. Both these ratios are within the financial target set by our Board at 25% to 35% net debt to net book cap and 2.5 times EBITDA.

I think it is important because there is a lot of talk in the press and among analysts about our rating and our net debt to net book cap. I think it is important to mention that we have continuous dialogue with each of the three rating agencies who rate our debt. All of them are comfortable with our financial strategy and recognize our long-term commitment to maintaining an investment grade rating. Each of them has a stable outlook on our rating.

The 35% net debt to net book cap is a ceiling we have imposed upon ourselves to keep our balance sheet strong as a measure of prudent financial management. Exceeding that ratio on a short-term basis will not trigger a lower rating. Since we first received our base investment-grade -- baseline investment-grade rating some 10 years ago, our net debt to net book cap has been as high as 54% and as low as 15% [ph].

So both Petrobras and the rating agencies maintain a long-term outlook regarding our capital structure. And fully recognize our commitment to investment-grade ratio. And also have a whole number of factors when they look at when they determine our rating. And it is not simply this net debt to net book cap, which is sometimes I think receives too much attention.

Finally, turning -- if we look at our cash flow, our operating cash flow during the quarter was BRL13.2 billion versus BRL9.7 billion in the prior quarter. The prior quarter was adversely affected by increases in net working capital as a result of increasing accounts receivable, inventory, credit to suppliers, reductions in short-term tax liabilities. Quarterly earnings as reflected in EBITDA has been much more constant even as Brent price and the exchange rate fluctuated during the year.

As you'll see actually in the Second Quarter of '09 EBITDA was higher. But much of that is explainable by the higher exchange rate when you see we have not disclosed EBITDA and US GAAP for the Second Quarter of 2009 -- 2010. But if you will look at the comparison between 2Q '09 and 1Q '10, you'll see that the numbers are actually quite constant when expressed in dollars.

Despite the increase in CapEx and the payment of dividends in this quarter we have maintained our comfortable liquidity position with BRL24 billion in cash and equivalents at quarter end, due to the increase in net long-term borrowing.

With that overview, our team here assembled in Brazil will be happy to answer any questions.

Questions And Answers

Operator

(Operator Instructions) Arjun Murti, Goldman Sachs.

Q - Arjun Murti

Just a follow-up question on the refining spending. I think you mentioned you had started spending on the Abreu e Lima refinery. What is the timing of developing a cost estimate and starting spending on -- I think you call it premium one and premium two, the additional 900,000 barrels a day of refining capacity you had mentioned in your business plan? Thank you.

A - Theodore Helms {BIO 15433381 <GO>}

Sure. I guess because we are moderating on behalf of Almir what I'm going to do is just pass these questions immediately to our relevant segment. So (inaudible) Gilberto [ph] would you like to respond?

A - Unidentified Speaker

We are spending a little bit high with that money in Abreu e Lima refinery just because we are on the construction pace we are at the beginning. And this is the real reason why we spend more money this year in comparison with last year.

A - Theodore Helms {BIO 15433381 <GO>}

Maybe just try to clarify a little more, I think most -- as you'll see, most of the new refinery spend is related to Abreu e Lima, relatively little to compares and virtually nothing in the premium one or two, I don't know. And again we don't typically go beyond this year. Anything else -- I don't know if that answers your question.

Q - Arjun Murti

I guess, you have a five year plan, which includes the building of premium one and premium two. And so I was wondering the cost estimates for the Abreu e Lima refinery are quite high, presumably the next refineries in part benefit from that infrastructure. So really just curious when the time frame would be when you can give a cost estimate for the next round of refining spending. And when you plan on actually starting with that construction?

A - Theodore Helms {BIO 15433381 <GO>}

Really the premium one or two are really happening -- especially premium one, really, premium two is not really within the next five years. So what you would say is that premium one spending really only happens in -- starts beginning, assuming the project is approved, in 2013, 2014. And I think we are still, correct me if I am wrong, Gilberto, at a stage where saying any -- it is still in very development phase and saying anything about cost and prices would just be a pure guess. We are just not even -- haven't even -- we are not close to being there yet. Is that correct, Gilberto?

A - Unidentified Speaker

That's right.

Operator

Ricardo Cavanagh, Raymond James.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Thanks. This is Ricardo Cavanagh. I have two questions. The first one being, how do you perceive or how advanced are the 35 firms, if you can comment on that on the works on the area that would be subject to a transfer of rights? I understand that they would be having some -- the works concluded sometime in August, if that would still be the case.

The second question is regarding the supply unit. Looking onto the Third Quarter the dynamics that have explained the low margins in the Second Quarter will still be there or there is room to perceive that they could improve? Thank you.

A - Theodore Helms {BIO 15433381 <GO>}

Just to clarify, the first question is about the transfer of rights, the (inaudible). And when that valuation will be completed?

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes, not the valuation itself. But the works on the certifying firms -- when -- just before they say, okay, here are the works and then the government of Petrobras will be negotiating on a value. But when those -- will those works --?

A - Theodore Helms {BIO 15433381 <GO>}

I think the best way to answer this question is to say that we are still fully committed to doing a transaction in September. And we must disclose the valuation and how that evaluation was reached before we start the capitalization. But saying more than that is just -- I wouldn't -- I just don't want to.

Then the second question really is, Gilberto, given where operating earnings were in the Second Quarter in the downstream segment, what -- well, how could -- I know you don't make projections. But any comments about that?

A - Unidentified Speaker

Of course, we always expect better margin. But you know, the Brent crude oil prices keep fluctuating a lot. And it is difficult for us to see to guarantee or to have even -- how can I say -- a helpful idea about our margins.

Of course, it gives the performance of downstream area, it depends on light/heavy spread and Brent price. We expect that we have larger light/heavy spread and better Brent price from the second -- on the Third Quarter.

A - Theodore Helms {BIO 15433381 <GO>}

And maybe a point just simply to emphasize that this unusually low light/heavy differential is difficult for our downstream segment. And you can see that in the Second Quarter results.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay, perfect. Thank you very much.

Operator

Paul Cheng, Barclays Capital.

Q - Paul Cheng {BIO 1494607 <GO>}

The two refineries that are currently under construction, can you tell us again what is the cost estimate on each [ph] one and the startup time. And see if there is any changes from previously what you disclosed?

A - Theodore Helms {BIO 15433381 <GO>}

So cost estimate, I think we have in the past put out a number, is that correct, -- publicly, I think?

Q - Paul Cheng {BIO 1494607 <GO>}

Yes, one, I think they was talking about BRL12 billion, one is BRL9 billion. I just wanted to see if that had been changed?

A - Theodore Helms {BIO 15433381 <GO>}

To the best of my recollection. And I might have read in the press -- I don't know if we ever had an official number. But anyway. But I don't think we have any -- we haven't made ourselves any disclosure or certainly any change or -- to the start up. Do we have dates, Gilberto, these dates on startups of either Comperj or refineries in the Northeast?

A - Unidentified Speaker

We are expanding our investments. We are expanding our investment money mainly in conversion units inside of the existing refineries quality to improve our quality, 83 units. And to expand our capacity.

Also, we have a Northeast refinery. We have Comperj also. And this is -- and we can say that this is our most important expense.

A - Theodore Helms {BIO 15433381 <GO>}

But again, for this year I think it is largely -- the expansion is largely a refinery -- the Abreu e Lima refinery in the Northeast. And really it's next year one [ph] Comperj and we have not made updates -- to start updates in either of them, nor have we in the Comperj never -- and again, I think for the refinery in the Northeast I think you mentioned the number of BRL12 billion, I think from what I remember reading that sounds about right. But we haven't said anything definitive or changed any number.

Then with respect to Comperj, we really have not given -- and again, part of the reason is we don't, as I understand it, have not actually signed contracts yet for Comperj. Is that right as well? I don't think we have finalized contracts. Is that right?

A - Unidentified Speaker

Yes. That's right.

Q - Paul Cheng {BIO 1494607 <GO>}

(inaudible) in Comperj I thought you were already spending money. It is under construction. So you are saying that you haven't signed any contracts yet?

A - Theodore Helms {BIO 15433381 <GO>}

I think it is -- correct me if I'm wrong, Gilberto, there is the land -- clearing of the land, some of the infrastructure. But the real heavy units to my understanding have not yet been approved. Is that correct, Gilberto?

A - Unidentified Speaker

Yes. That is right.

Q - Paul Cheng {BIO 1494607 <GO>}

And Northeast, I think, previously the target is 2011, 2012. Is that still that kind of timeframe in terms of the startup?

A - Theodore Helms {BIO 15433381 <GO>}

Yes. It is fully under way now, the refinery in the Northeast.

Q - Paul Cheng {BIO 1494607 <GO>}

Have you guys received any money from PDVSA for their share of the construction?

A - Theodore Helms {BIO 15433381 <GO>}

Not to my knowledge. Have we -- has PDVSA, have we finalized our joint venture and have they made a contribution?

A - Unidentified Speaker

We are finishing this.

A - Theodore Helms {BIO 15433381 <GO>}

We are still -- we are finishing.

Q - Paul Cheng {BIO 1494607 <GO>}

But you haven't (multiple speakers).

A - Theodore Helms {BIO 15433381 <GO>}

As of yet, my understanding is no.

Q - Paul Cheng {BIO 1494607 <GO>}

A final quick one. P-33, the temporary shutdown ordered by the ANP, what are the production impact we may be talking about in the Second Quarter?

A - Unidentified Speaker

It is (inaudible) speaking. P-33, it is completed the shutdown. And we are doing all the services required by the national agency, which was planned to stop in October. So we anticipate that the stoppage of the platform. So it will depend if we manage to do all the (inaudible) in the same time that we planned before. If so, the impact is zero in the target for this year. (multiple speakers).

Q - Paul Cheng {BIO 1494607 <GO>}

Can you remind me what is the production number For P-33?

A - Unidentified Speaker

The production was 19,000 barrels per day.

A - Theodore Helms {BIO 15433381 <GO>}

I think what he is saying in a worst-case it is 19,000 barrels a day for, say, roughly two months, which is the time in which we accelerated the maintenance.

Operator

Sergio Torres, JPMorgan.

Q - Sergio Torres {BIO 7078415 <GO>}

I have a couple of questions regarding the intended acquisition of rights to develop the Franco field. One is if you could clarify for us, just -- let's assume we have the two valuations today, can you just clarify for us whether they are binding, whether the seller and the buyer should bind by those two appraisals, or whether the seller can set the price unilaterally? That is my first question.

The second one is how -- there were some comments quoting Gabrielli yesterday on Bloomberg as him saying that Petrobras would try to develop the Franco field as soon as possible. I just wanted to get more specific on what that as soon as possible means. If you could have -- what is the earliest first oil scenario? And what is the distance -- what would be the time between first oil and peak, if you could share that with us? Thank you.

A - Theodore Helms {BIO 15433381 <GO>}

I saw in your preliminary report that those are the questions you would ask. And the first thing I was thinking is, gosh, doesn't this guy know that we really can't talk about this?

And again, there is a discussion -- you know, I think that maybe I will answer both questions simultaneously to say that there is a negotiation going on between two parties, in which combined with that are two official certifiers of reservoir engineers, plus our Board that will get a fairness opinion on the transaction.

So I think all of that. And within Petrobras we understand very well the business of oil and development and what things are worth. So that process is ongoing. And the only thing and what we know for certain is that when we go to the market you should be able to see in a sense the conclusions that have been reached in that whole process.

Q - Sergio Torres {BIO 7078415 <GO>}

I guess, I thought that because this is an acquisition and you guys had said in the past that this acquisition is not related to the actual offering, you would be in liberty of discussing this. But thanks for the answer.

A - Theodore Helms {BIO 15433381 <GO>}

It is all related in one form or another, right?

Operator

Frank McGann, Banc of America; Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

Two questions. One, just in terms of your production targets and looking out in the future, you give pretty specific indications of the large production units. But my understanding is that there are a lot of smaller projects that are part of that, as well as a fairly important, I think, secondary recovery program.

I was just wondering on the secondary recovery program if you could just say what -- give us an update or provide more color on that program. And the effects that you expect or the contributions you expect that to have over the next couple of years, particularly offshore?

Then just following up on the P-33 there has been some news reports that there may be other platforms that might be involved in this effort. I was just wondering what the risk is there that we get any additional shutdowns? And if you had any quantification on the platforms that are being specifically targeted?

A - Unidentified Speaker

Yes, regarding the first question, it is we are working to increase the recovery factor (inaudible) of the fields in several our fields -- mature fields in the Campos Basin that will give us increased production in this period until 2011 and 2013.

I don't have numbers here to present regarding the production from those efforts for secondary recovery. But it is an important program, because we have the facilities there already installed. So we are injecting more water, injecting gas and all the secondary equivalent methods to increase production and reduce -- and increase the recovery factor of those areas.

Then regarding your second question, we have this shut-in, the P-33 platform. We do maintenance on every two years in the platforms. We stop all the platform. It was planned for October, as I mentioned. So we are doing earlier to these ANP [ph] requirement. So all the platforms will have the same stoppage for maintenance when this is due. We do all this maintenance. We don't expect any other platforms to stop production, not planned.

A - Theodore Helms {BIO 15433381 <GO>}

In other words, just to confirm that to the best of our knowledge there is no other platforms where stoppage in the form that P-33 was, we are not expecting that. (multiple speakers).

Q - Frank McGann {BIO 1499014 <GO>}

If I could just follow up, maybe on the first one, do you have any kind of average estimate on what -- how much you can increase the recovery factor from your secondary recovery work?

A - Unidentified Speaker

The recovery factor can be increased from say 30% to 33%, 35%. So it can be significant increase. It depends on the field. We have to study field by field. But it can be a significant increase.

Operator

John Margolis [ph], Spectari [ph].

Q - John Margolis {BIO 17117638 <GO>}

Thanks for taking my question. I understand that the capitalization is not going to be a rights offering. But I just wanted to understand the shareholders will still receive -- will still be entitled to get their allocation based on their holdings. And if so, will ADR holders be able to get the same entitlement? Thanks.

A - Theodore Helms {BIO 15433381 <GO>}

I think you're right saying this is not a rights offering, it is a public book building offering. And really other than that, at this moment in time, given the quiet period, we just cannot say more. Sorry.

Operator

Gustavo Gattass, BTG Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

I have two questions. One on E&P, the other one on refining. First one, I just wanted to understand how you guys want us to think about crack spreads, that being domestic fuel prices, versus Brent?

If we look at the five-year plan that you guys put out, there is an implicit assumption there that you're going to be able to capture something like $11.5 of crack spreads, which is more or less the number that you guys had in the First Quarter.

And in the Second Quarter we saw that drop to $9 more or less, with what could be argued to be a BRL400 million -- $400 million shortfall on your cash generation because of that.

Should we think about the Company, let's say, enacting more or less a pricing policy to get $11.5 or should we just think about that target as a loose target for now? That would be my first question, just trying to understand how to think about the longer-term cash generation potential.

The second question that I have is a much more simplistic one with regards to the Golfinho fields. And looking at the presentation I saw that Golfinho was producing in the Second Quarter something like 61,000 barrels a day. Ultimately I was looking back at the data from before Capixaba was removed. And the production wasn't really more than 50,000 back then. What I just wanted to understand is do you guys think that Golfinho can sustainably produce 60,000 for a while or was that just a one-off spurt?

A - Theodore Helms {BIO 15433381 <GO>}

You want to answer the first question and I will do the second one, or you take the second question first.

A - Unidentified Speaker

Golfinho, you are right, in the Second Quarter it was 60,009 [ph] barrels per day. It has a capacity of 100,000. And we believe it will be a sustainable production in this level or higher if we can increase more -- put more wells on it.

A - Theodore Helms {BIO 15433381 <GO>}

Actually then regarding your first question, you are making this assumption that we control prices in Brazil. But no, in all seriousness, no. And I (multiple speakers).

I will let Gilberto see if he confirms or responds further. But I think the way we, when we do our planning, make assumptions about long-term light/heavy differentials and a whole range of crack spreads based upon the value of our crude and what we think we can extract from that. And given volumes within the Brazilian market. And again, I would say that we think right now that the light/heavy differential is unusually low and it is obviously affecting this quarter's earnings. But that doesn't change our long-term thinking, because all of these projects take a long term.

So Gilberto, do you want to add upon it -- but I guess, the important thing is, no, I don't think we make an assumption that we can charge whatever it takes to generate a return in Brazil to compensate capital. But rather that we think that over time the way spreads will work -- and crack spreads work in the international markets, which ultimately translate to Brazil, will be adequate to compensate our investment.

A - Unidentified Speaker

That is exactly what I answer. (multiple speakers).

A - Theodore Helms {BIO 15433381 <GO>}

We are going to switch jobs.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, just to make a follow-up on that then, should I think that if you guys operate below that for a while you would be more willing to raise domestic fuel prices, or is it really going to be international oil prices and fuel prices are going to drive us?

A - Theodore Helms {BIO 15433381 <GO>}

It is always hard to make a prediction about future prices. But I will say it is not easy to raise prices if we are already at or above the international price.

Operator

Jeffrey Grossman, Hudson Bay Capital.

Q - Jeffrey Grossman {BIO 15852738 <GO>}

Thanks for taking the question. Can you just clarify, is there a minimum 20 business day CVM review requirement for the offer document. And when would that start? In other words, can you have an offer document without the oil price used known lodged with the CVM?

A - Theodore Helms {BIO 15433381 <GO>}

You mean the oil price for the value of the barrels?

Q - Jeffrey Grossman {BIO 15852738 <GO>}

Right, the transaction price, the purchase price.

A - Theodore Helms {BIO 15433381 <GO>}

My understanding is that when we receive final approval from the CVM that that would include the valuation. And that really -- and Alexander [ph] help me -- I think right after it is filed we could begin initiate the marketing effort, is that correct?

So what you should assume is that when we have the final offering memorandum approved by the CVM that will include the value. And that we can then immediately begin marketing. And there will be some marketing period which will give people sufficient time to analyze that value and make a determination whether they want to participate or not.

Q - Jeffrey Grossman {BIO 15852738 <GO>}

Because I think on the May earnings call there was a minimum 20 business days CVM review period mentioned. Could you just clarify what that (multiple speakers)?

A - Theodore Helms {BIO 15433381 <GO>}

I think that would be -- I think actually we might be running that now is the thing.

Q - Jeffrey Grossman {BIO 15852738 <GO>}

Oh, you're running that now.

A - Theodore Helms {BIO 15433381 <GO>}

In other words, you can file a preliminary and they can start reviewing certain data. And then you fill in as the process goes on. But correct me --.

A - Unidentified Speaker

Nowadays you have that you call with CVM the fast track that allows all the companies to stop the procedures of recapitalization [ph] in the same day that you release the first prospectus in the CVM.

Q - Jeffrey Grossman {BIO 15852738 <GO>}

Is that a public document or (multiple speakers)?

A - Unidentified Speaker

Not necessarily to have a previous approval.

Q - Jeffrey Grossman {BIO 15852738 <GO>}

Is that a public document, the preliminary version, or --?

A - Unidentified Speaker

Yes, yes it is public document. And maybe Petrobras will release all the information about that. Normally you have market press release about that too.

Q - Jeffrey Grossman {BIO 15852738 <GO>}

So we have -- is that document available on the website now?

A - Unidentified Speaker

No, no, no. When we release the document, only (technical difficulty) all the documents are public. Because in the previous (inaudible) CVM you need to file a permanent prospectus and CVM needs to approve it. (multiple speakers). Sorry?

Q - Jeffrey Grossman {BIO 15852738 <GO>}

I am just not clear. Are we in 20 days now or we are not in the 20 day period?

A - Unidentified Speaker

No. We don't have the date yet.

A - Theodore Helms {BIO 15433381 <GO>}

Just to clarify when that initial preliminary prospectus is filed will that include the valuation?

A - Unidentified Speaker

Exactly.

A - Theodore Helms {BIO 15433381 <GO>}

Then really immediately after that we would begin marketing?

A - Unidentified Speaker

Yes, exactly.

A - Theodore Helms {BIO 15433381 <GO>}

So what you should expect, again, is that -- I guess, that we have not filed a public document yet -- a document that is made available to you with the CVM yet. And when we do so, it will be the document that we then market, which would include the valuation. Is that correct?

A - Unidentified Speaker

Yes, yes.

Q - Jeffrey Grossman {BIO 15852738 <GO>}

So 20 days has not started yet?

A - Theodore Helms {BIO 15433381 <GO>}

I'm not sure the 20 days; I'm not sure we know --? I think the way to look at it is just when there will be a public filing with the CVM that it will be available to you. It will include the valuation. But also that would be around the time we begin marketing.

Q - Jeffrey Grossman {BIO 15852738 <GO>}

Thank you.

Operator

Luis Pino [ph], UBS.

Q - Luis Pino {BIO 4286196 <GO>}

A quick question. Do you guys expect any impact from this stoppage in the downstream business going forward or the impact is over?

A - Theodore Helms {BIO 15433381 <GO>}

I am sorry, the stoppage in what? The downstream business?

Q - Luis Pino {BIO 4286196 <GO>}

In downstream business, right? You had some refineries --.

A - Theodore Helms {BIO 15433381 <GO>}

Programmed. Do you want to make comments, Gilberto, about -- we don't generally -- I guess from what I understand is that in the first half of the year when demand is generally weaker is when we do most of our programmed refinery maintenance. But -- so do you have any other comments? I mean we don't, again, disclose when we close down our refineries. But I don't know if you want to say anything more, Gilberto?

A - Unidentified Speaker

We have four turnarounds. We got Hickok [ph] refinery, Replan [ph] refinery and Reduc and Refap [ph] refinery. It is better to do these on the first semester, because the market is a little bit lower than the second.

Our market increased a lot at the same time. And to give you an idea considering (inaudible) imports, we can say that we import around 75% [ph] of our (inaudible) imports comes from market increase. And 55% of (inaudible) imports comes from turnarounds. That way you can balance the impact of turnarounds in our downstream business on the first semester.

Q - Luis Pino {BIO 4286196 <GO>}

So just to understand, you cannot provide any view going forward, right, for the next quarter, if there would be any impact similar to the First Quarter or not?

A - Unidentified Speaker

The market increase -- in Brazil the market increased on the second semester. We will have other turnarounds. But the most important refinery has already done its (inaudible) on this semester.

Q - Luis Pino {BIO 4286196 <GO>}

Okay. Thanks a lot.

Operator

Paul Cheng, Barclays Capital.

Q - Paul Cheng {BIO 1494607 <GO>}

Just two quick ones. One, it seems like in your presentation, the page 13 suggests that the under lift [ph] in your sales warning in Second Quarter, what is the warning? How many barrels has been under lift? Also at the end of the Second Quarter, inventory-wise are you balanced or that you're still under lift or over lift?

A - Theodore Helms {BIO 15433381 <GO>}

I don't know if anybody -- we had asked this question. And I am not sure if anybody within accounting or, Mannoti [ph], if you know the answer to the question, again. We know that production increased by 2%. But we see that the effect on the volume is actually a negative number. So the assumption is that there was some production that wasn't sold. I don't know if you know the number of barrels or you have that or not? No. We will see if we can come up with that number. But we don't have that number here.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. Then when you e-mail me or call me, can you also let me know at the end of the Second Quarter whether we -- inventory-wise are we balanced or under lift or over lift. And by what amount?

A - Theodore Helms {BIO 15433381 <GO>}

Okay, we will do our best.

Q - Paul Cheng {BIO 1494607 <GO>}

The second question is that based on so far for the last seven months of the production volume is there any change in your production outlook for 2010 and 2011 for the (inaudible) oil production?

A - Theodore Helms {BIO 15433381 <GO>}

We really haven't made any change to our targets.

Operator

Frank McGann, Bank of America; Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

Maybe just to switch over to electricity, the results have improved sharply over the last couple of years. I was just wondering if you could speak to the potential for increasing amounts of contracted energy over the next 2 to three years or beyond. And how you see profitability as a result of that going forward compared to what we are seeing currently. And what we have seen in the past?

A - Theodore Helms {BIO 15433381 <GO>}

I will leave that question to (inaudible).

A - Unidentified Speaker

Basically, we have a huge [ph] improvement in energy sales because we recomposed our ability to sell energy with what you call (inaudible) the agreement with the operational system. That -- how can I say that -- with new gas logistics and new gas supply and GNL we could prove to the system that we are able to fire the power plants. So we have a schedule with the governments that basically six and six months we have more energy capability to sell with the same assets. So that was the huge improvement in the ability to sell, basically in the forms of contracts or sales agreements.

In the long term we see that the (inaudible) market is going to have increased in energy price and to have tried to position ourselves in order to take advantage of that. So we expect that in the long run our profitability and also revenues in the energy segment is going to improve.

Q - Frank McGann {BIO 1499014 <GO>}

So from here we could expect that gradually we would see both a greater percentage of the energy contracted at a higher price. So the profitability -- the risk of a major decline in profitability in the segment has diminished. And if anything, we could see even greater profitability going forward?

A - Unidentified Speaker

What we tried to do now is a (inaudible) to move our results [ph] in order to being protected from the volatility of the spot price. And how we did that? We have basically three kinds of options to market our energy assets. We have the option of capacity that you say is for the pool of the local submission companies. We have the direct sales that the partnership agreements with the big [ph] consuming industry. And we also, we can wait and have some kind of opportunities like a merchant [ph] kind of operating and when we capture a huge difference in the spot price.

So we try to balance our assets in these three kinds of selling in order to protect ourselves with huge moving of the spot price in the logical [ph] situation of the country.

So what we would expect to see now in results is a kind of smooth and slow-growing of our profitability. And we have tried to -- we expect not see any kind of volatility in the long run [ph].

Operator

Lilyanna Yang, UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Thanks for the call. I just want (inaudible), maybe you can give us some light on this. When we estimate your EBITDA earnings division by division, we notice that for each single then the numbers came out to be slightly lower than what we projected. But still when we do the consolidation final, your consolidated numbers beat our consolidated estimate numbers.

And this is pretty much because I notice that the inter-subsidiary, intercompany transactions or the cost of goods was actually higher this quarter versus the prior maybe four quarters. Any light on how we could see where we are erring?

A - Theodore Helms {BIO 15433381 <GO>}

Let me see if I understand the question is that somehow in the intersegment earnings and maybe than in the overall there is a differential. And certainly the consolidated (inaudible) it does come out. But somehow -- I'm sorry -- the intercompany calculations that are somehow -- you are not able to predict them. Is that correct?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Yes, yes. Exactly.

A - Theodore Helms {BIO 15433381 <GO>}

I am wondering if that is -- I don't know if we can answer that right now. It sounds to me that is like a question you have got to spend some time sitting over. Maybe we would be happy to do is try to sit and help you understand and reconcile. And if anybody here in accounting at this stage wants to try to make an attempt -- have a simple solution or not? Anybody?

I think there is probably -- we will try to put something together and either put it on the site or give you a call.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Fair enough. Thank you. So much.

Operator

Emerson Leite, Credit Suisse.

Q - Emerson Leite {BIO 4003528 <GO>}

Just a quick question on the E&P. I understand that the regulator ANP has not approved the development plan presented by Petrobras for the Wales Park, the recent ruling from ANP. Can you give clarity on what is going on there. And what sort of changes they have required in terms of the overall development plan or evolution plan to get it approved? Thank you.

A - Theodore Helms {BIO 15433381 <GO>}

Now just talking with, Morinotti [ph]. And he is not familiar with this. So we will just have to get back to you, Emerson.

Q - Emerson Leite {BIO 4003528 <GO>}

All right. Thank you very much.

Operator

Thank you, ladies and gentlemen. There are no further questions at this time. I would now like to pass the conference back over to management for any closing remarks.

A - Theodore Helms {BIO 15433381 <GO>}

Well thank you all for joining us. And I do express the apologies of Almir for being unable to be here and address you all directly. This is, as we know, an important time for Petrobras and so -- but I am sure in the near future we will be in very regular contact. So thank you very much.

Operator

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