

Q4 2009 Earnings Call

Company Participants

- Alexandre Quintao Fernandes, IR Manager
- Jose Sergio Gabrielli, CEO

Other Participants

- Eduardo Vieira, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Lilyanna Yang, Analyst
- Marcus Sequeira, Analyst
- Ricardo Cavanagh, Analyst
- Subhojit Daripa, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by. Welcome to the Petrobras Conference Call to discuss the Fourth Quarter and 2009 results. At this time, all lines are in a listen-only mode. Later, there will be a question-and-answer session. And instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

Today with us, we have Mr. Jose Sergio Gabrielli, Petrobras CEO. And the staff. At this time, I would like to turn the conference over to Mr. Alexandre Quintao Fernandes, Investor Relations Manager of Petrobras, who has some additional comments.

Mr. Alexandre, the floor is yours, sir.

Alexandre Quintao Fernandes {BIO 17244019 <GO>}

Okay. Good morning, ladies and gentlemen. Welcome to our conference call to discuss Fourth Quarter and 2009 results. We have a symptom webcast on the internet that could be accessed at the website, www.petrobras.com.br/ir/english.

Before proceeding, I would like to draw your attention to the slide two. We'll make forward-looking statements, which are defined by the use of the words will, expect and similar that are based on the beliefs and assumptions of Petrobras management and all the information currently available to the Company. Finally, let me mention that the

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conference call will discuss Petrobras results prepared in accordance with Brazilian GAAP. At the moment, we are unable to discuss any issues related to US GAAP results.

The conference call will be conducted by our CEO, Mr. Jose Sergio Gabrielli, who will comment on the Company's operational and financial highlights and the main events during this quarter. And who will be available to answer any questions you may have.

Mr. Gabrielli, you may begin.

Jose Sergio Gabrielli {BIO 5474235 <GO>}

Good morning, ladies and gentlemen. I would begin talking a little bit about our results and our reserve replacement rate. We had 110% of the reserve replacement increasing our reserves from 14.09 billion barrels of oil equivalent to 14.17 billion barrels of oil equivalent. We incorporated in our reserves 861 million barrels and we produced during the year 785 million barrels a day.

We have a reserve production rate of 18 years and we are incorporating in those barrels only 182 million barrels from the pre-salt resources that we have discovered. We are incorporating in our reserves only the Espirito Santo Basin discoveries. All the discoveries in the Santo basin are not yet incorporated in our proven reserves.

Now in international reserves, we reduced our international reserves from 992 million barrels to 696 million barrels as a result of the publication of the Bolivian Constitution that required that we could not recognize reserves in Bolivia.

In terms of production, the next slide, please, we increased our production of oil and gas in Brazil and outside of Brazil from 2.4 million barrels a day to 2.526 million barrels a day, a 5% growth rate from 2008 to 2009. In domestic terms, our production of oil and gas increased by 5%. And our production in Brazil of oil increased by 6%.

The oil production increase was a result of the ramp up of the P-52, P-54, P-53 and the start up of five new units that we had in Brazil. Most of our new production in the international production came from the Akpo and Agbami fields in Nigeria that are operated by other companies that we are partners with them. Our natural gas production declined as a result of the reduction in demand in Brazil.

For 2010, we plan -- we have a target of 2.1 million barrels a day plus and minus 2.5% of uncertainties and variation of our targets. This production will come from the current extend well test in Chile's Sidon that's already -- we've begun this week. We plan to increase our production from the Urugua Tambau in the Second Quarter for this year, producing 10 million cubic meters per day of gas and 35,000 barrels per day of oil.

In Cachalote e Baleia Franca, we are going to be producing 100,000 barrels per day. And we are going to begin extend well tests in Guara, with a 30,000 barrels per day of

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production. In the Third Quarter, Mexilhao will begin producing 15 million cubic meters per day.

And in the Fourth Quarter -- and we are trying to anticipate the pilot production in Tupi of 100,000 barrels per day by October. And 5 million cubic meters of gas in the Fourth Quarter of 2010. And we are going to begin the extend well tests in Tupi Northeast producing 30,000 barrels per day. These would allow us to see -- to reach the target of 2.1 million barrels a day by the end of 2010.

In downstream -- in downstream, we invested in 2009 BRL17.3 billion. Most of the investment was -- 34% was in fuel quality, which is that we are increasing our capacity for reducing sulfur emission in our gasoline and diesel, trying to meet the environmental requirements of Brazil. We are starting the production of Diesel S-50 in three of our refineries, REDUC, REPLAN. And REGAP. And we are complying with this more strict environmental standards.

It's important to mention that on downstream, we had two very good results in 2009. First, we increased our production of diesel. We could process our crude oil and get a better production of diesel, reducing the production of fuel oil. This increased the value-added of our outputs. And increased the results of our products. And reduced our imports of diesel that we are short in diesel in the Brazilian market.

This has a very good result, not only in our trade balance. But also in our final result in the bottom line of our company because we have a better margin when we produce the diesel rather compared to when we import diesel.

The other thing that was very important was that we could process more (AST) oil and (Otra AST) oil that we are producing more, without requiring the (palogy transfer) investment in our hardware. We could improve and optimize our processing systems and we could process AST oil, getting good results with the type of feed stock that we are producing. We have three new hydro treatment unphased units and we are going to have -- we have a production that will increase by 2% from 1,787,000 barrels to 1,823,000 barrels per day.

In terms of sales, we have an increase of 2% of our sales in the last quarter compared to the Third Quarter, showing that we have a recovery of the Brazilian market in the last quarter. But also, we have -- comparing yearly data from 2008 to 2009, we have an increase in our market sales of 1%.

Brazil market behaves a little bit different from the other international markets -- from other international markets because during the crisis, we really didn't have a very big reduction in the demand of oil products in Brazil in such a way that we could increase our sales in Brazil by 1% year to year. And by 2% in the last quarter compared to the Third Quarter of 2009.

In terms of natural gas, we could keep on average below what we had in 2008. But above what we would expect if you took into -- if you have taken into consideration only the

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dispatch of natural gas power plants, based only on the saving of what reserve was for the last two generation. We also dispatch our thermoelectric plants this year as a result of electrical needs for the electrical system -- power generation system in Brazil in such a way that we could keep dispatching greater than we would have expected otherwise.

We have also a very important thing that was as the price of ethanol increased in Brazil -- and ethanol is 51% of the auto cycle demand in Brazil -- as the price of ethanol increased, we have a shift in the demand moving toward the gasoline again. And as gasoline became cheaper, then the ethanol and the consumers that have the choice in Brazil, they decide to move to the gasoline. And we have an increased demand in gasoline the last quarter of 2009.

In terms of trade balance, we have very good results. We -- volume wise, we increased our net exports from 102,000 barrels a day by 2008 to 156,000 barrels a day by 2009. But the most important thing is not only that volume wise we had more oil products and oil being sold from Brazil than we buy to Brazil. But also on financial volumes, we have changed completely the situation from a deficit of \$927 million in 2008 to a surplus of \$2.8 billion by 2009. We -- our trade surplus was big enough to pay all the liquid oil products that we use. But also the natural gas that we import from Bolivia. Next?

In terms of biofuels, we increased by 34% our sales of biofuels. We are standing around 125,000 barrels a day of biofuels, 98,000 barrels a day of ethanol. And 27,000 barrels a day of biodiesel. In Brazil, we have 5% mandatory biodiesel mix blend with diesel. And 25% mandatory ethanol blended with gasoline, plus the dehydrated gasoline that is sold in the Brazilian gas station to any driver that wants to use ethanol in Brazil.

We have an increase in 23% of the megawatt average sold by our power generating companies. We sold 1.4 gigawatts on average in 2008 and this was 1.7 gigawatts by 2009. The change in the energy sales and the natural gas was also a result of the completion of several projects that we have on infrastructure for the distribution and transportation of gas in Brazil. We finished the Urucu-Coari-Manaus pipeline. We have finished several gaps that we had in the Brazilian National Grid of pipelines.

We just finishing -- we are inaugurating next Friday the (Garzane) pipeline that connects completely the Northeastern pipeline grid with the Southeastern pipeline. It's actually the molecules of gas now are transported from Bolivia to anyplace in Brazil from LNG through anyplace in Brazil from our domestic production to anyplace in Brazil that we have right now a national grid of pipelines connecting the Northeast into the South of Brazil in the south -- Eastern part of -- Western part of Brazil.

We also have developed a new systems for contract for sale of gas. We are selling gas in the spot market. We are creating a short run market that we can sell the surplus of gas for the near future in such a way that we can get hopefully a new system of flexibility -- flexible contracts for the demand of gas in Brazil, adjusted to the supply that we need flexibilization, need flexible conditions to meet the specific conditions of the thermoelectric plants.

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Also, we had a very important cost reduction efforts. We operate in several areas. We changed our bidding process. We divide the packages and different suppliers in such a way that we could get more competitive bids. We standardized more of our purchase. We are trying to get more shelf type of equipments for our projects and we changed the culture internally to deal with more consciousness of the need to control costs.

On the bids, we have very good results comparing the first proposal with the final contractor outcome. And we have, for example, BRL7 billion CapEx reduction on the negotiation of some of the contracts for the Northeast. Finally, we have very good results in the negotiation with the eight FPSO hulls in the P-61 e P-63. We have also good results in the compassion negotiations. And also, we are expecting good results in the domestic rig building industry that we are right now underway.

In terms of rationalizing the project, we've got online under contract right now the assembly line of eight identical pre-salt FPSOs. They're going to be producing the Southeastern shipyard in Brazil. We have a P-56, it's a clone of the P-51. And we have a relocation of some of our FPSO to improve and optimize the production of some fields in Brazil. In terms of administrative overhead, corporate overhang, we could get a very good savings taking a very strong commitment for cost reduction that saved for the Company BRL750 million on corporate overhead during the 2009. Next?

In terms of prices, we see two important things that we would like to share with you. First, a reduction of the spread between heavy and light oil. This was very clear in 2009. and this was very good for Petrobras that produce heavier oil than the average brand and the average WTI swing in such a way that we could get good results for our own oil, minimizing the spread that in the past we had to comply with.

The other thing that was very important is that long term pricing policy that we have in Brazil. We don't pass through the Brazilian market. All the fluctuations -- the short run fluctuations of the international price of oil products, mainly specifically on diesel, gasoline and LPG. We prefer to keep a long term relationship between the Brazilian market and the international market. And this sometimes is good, sometimes is bad for the results of the Company.

In 2008, for example, the average realization price of the oil products, weighted by the volumes that we saw in Brazil, was BRL194.7 per barrel, while in Brazil, we were selling those barrels by BRL176.4, with a difference between BRL194 and BRL176. In 2009, we have the opposite. We have a Brazilian price that was BRL157.7 below the BRL176 of 2008. But above the BRL130.06 that was the average in the US. That captured much more of the reduction in the international price for crude oil that we minimized the impact in Brazil.

Looking at the long run, we see that we have a balanced type of policy that can minimize and smooth the price behavior across the different cycles -- the price of oil and the price of crude delivered to -- the price of oil products across the cycle.

Looking at the numbers, the operating income was pretty much the same. We have around BRL46 billion in 2008, around BRL46 billion in 2009. There's a reduction that we

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had in our net operating revenue. We compensated in the reduction of cost of goods sold in such a way that we could keep around BRL46 billion operating income in such a way that we could get the same -- almost the same type of result even in an environment of a lower oil price and a lower average realization price. Next?

In terms of net income, we have a reduction of our net income. Our reduction is very strongly affected by the exchange rate we had. The Brazilian exchange rate was depreciated in 2008 by 32% in relation to the US dollar. By 2009, we have an appreciation of the Brazilian real by 26% above the US dollar.

Especially that we had in 2009 financial results strongly affected by the behavior of the exchange rate, not only directly towards the results in Petrobras Brazil. But also affecting our subsidiaries in our companies that are outside of Brazil when we convert the US numbers into reais in such a way that we have a reduction in our results that were smaller than the other companies because on the operating income, we could keep the results balanced on level with the 2008 results. Next?

In terms of capital structure, we have an increase in our leverage ratio and our gearing rate increased from 28% in the Third Quarter to 31% in the Fourth Quarter of 2009. This is something that gives an important sign for us. However, it's important to mention that we have a 15% short term debt on total debt.

Our total debt today is BRL100 billion -- around BRL100 billion. And we have net debt on EBITDA of 1.2 times. Our net debt is 1.2 times the EBITDA. We have under our guidelines from our Board, we have a feeling of our net debt/EBITDA ratio of 2.5. We are reaching now 1.2 times EBITDA as net debt. Next, please?

The other thing that's important is the maturity of our debt. Even though we increased our debt by BRL100 billion, \$57 billion, we could get a very good term structure for our debt. In 2007, 60% of our debt has maturity up to five years. Now, we move this maturity to eight years. We have an average life of 7.5 years -- 7.46 years in 2009 in comparison to 4.21 years in 2008. We have a bigger debt but longer structure of the debt, which gives us some more healthier conditions to deal and to manage this debt.

Only to highlight and focus what happened -- is happening in 2009, you can see that in 2008, we have net cash flow, negative net cash flow of BRL3.5 billion. And in 2009, this increased by BRL18.4 billion. We have almost 3 times more net cash flow -- negative net cash flow and this is mainly as a result of the increase in our investment.

We increased our investment from BRL53 billion to BRL70.2 billion average year to year. If we take the Fourth Quarter, we are going to see that we are moving up in this direction with an investment in the Third Quarter of BRL19.6 billion. The cash -- we finished the Fourth Quarter of 2009 with BRL28.9 billion in cash. Our cash balance was BRL28.8 billion. Next?

For 2010, we plan to increase our investment from the BRL70.7 billion that we invested in 2009 to BRL88.6 billion by 2010. Most of the new investment increased -- not the new

investment -- the increase in investment is on the refining transportation commercialization from BRL17.4 billion to BRL34 billion.

Most of the investment is the completion of several projects that are ongoing right now for improving the quality of our product. And also the beginning of the new refineries that we are planned to build in this period, mainly the refinery in the Northeastern of Brazil. And the beginning of the works in the compassion refinery. Next, please?

In terms of the long term, we are finishing our investment plan. We had planned to finish it and release the information to the market. But we gave you -- our Board of Administration is giving us some guidelines. First, the leverage ratio should be between 25% and 35%. We have to keep our net debt around -- below 2.5 times EBITDA. And we must keep the returns from our investment project by project.

We are taking some assumptions on the brent curve -- the price of oil. We don't see any real fundamental reason why we would expect a reduction on the current price of -- a dramatic reduction in the current price of oil. We have an average -- we are working on a financial base, not for the purposes of improvement projects. But to analyze the financial ability of the portfolio as a whole.

We are taking an average price between \$64 and \$74 per barrel. This is not our expectation that the price is going to be like that. But we are taking those numbers only for simulation purposes of our portfolio how to see -- how it's going to behave our financial numbers in the hypothesis.

We are taking under assumption that we are going to have a big capitalization of the Company this year. We are going to have issues of new shares this year and this is going to be very important to be happening in the first half of 2010. And the second is that we are going to have a very clear and very short run sight of the funding needs of the strategic plan detailed when we use the new numbers of our business plan.

We have -- it's important to mention to you these numbers that are -- see the numbers. IHS and Cera numbers by March of 2010 is not our own numbers. And those numbers shows very clear that the reduction in the cost of capital and the reduction of the cost of projects, of investments in E&P and downstream are reversing to upward movements right now.

The small reduction that we had in 2008, beginning of 2009 is already reversed and we have seen increasing costs in capital costs for investment projects in upstream and downstream in the oil industry. This reflects the continuity of the investment plans of the companies that are not moving on cycle but moving across the cycles in order to look at longer run view of the development of the resources that they have.

Taking into consideration those hypothesis, the next please, we consider that the brent price -- we are taking two hypotheses. Under the assumption that the average brent price is going to be \$64 or the assumption that the average brent price is going to be \$77 per barrel. And under the assumption that we are going to get from the shareholders

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participation, not the controlling shareholders of the Company, a contribution of between \$15 billion and \$25 billion, this year we are going to have an investment between \$200 billion and \$220 billion for the next five years.

This is going to leave us or move us or lead us to a leverage ratio of between 27% and 32%, which is under the assumptions that we have under the range that we have established by our Board of Administration. Our net debt to EBITDA ratio is going to be between 1.6 times and 2.2 times EBITDA, in such a way that we are under the range detailed by our plan.

For 2009 -- next slide -- for 2010, we have approved BRL265 billion which represents probably something between 60 and -- around two thirds of the investment. There are some projects for upstream gas and energy, refining, transportation, commercialization. And biodiesel -- biofuels. This is going to increase our investment in the pre-salt. This is going to be very strong investment in modernization and the expansion of refining in Brazil.

We are moving towards new projects in petrol chemicals and fertilizers. But basically nitrogenous fertilizers. And in ethanol pipelines and infrastructure and production also -- ethanol production. We are finishing the investment cycle in natural gas infrastructure. And the investment in LNG plants that are going to be preparing and accounted for re-gas plant and LNG -- and liquefying plants and new power generation projects.

In terms of acceleration in the pre-salt area, we have very good -- everything are going in full speed right now. Yesterday, we released the results of our production task in the Northeastern part of Tupi. We have a very high productivity in this well. That is up to 30,000 barrels per day of production capacity in the Northeastern part -- in the well drilled in the Northeast -- Tupi Northeast.

Also, we have very good results in the production test in Guara and we have right now two wells being drilled in Tupi West and north part of Guara. We are drilling for the National Regulatory Agency well in the Northern part of lara that's not under concession. It belongs to the Brazilian government. We plan to drill 11 new wells in 2010 in the pre-salt cluster in the Santos Basin. And we have bids for the FPSO for Guara, the second pilot for the BM-S-11. And the eight hulls for this undisclosed that are going to be allocated to the different areas in the Santos Basin.

In terms of the capitalization, the next, please, we have the valuation -- the process of the valuation of the barrels depends very much on the completion of the drilling that we have in the Northern part of lara. There's another well that is scheduled to be drilled as soon as possible. We are going to have an appraisal and a certification of two certifications -- independent certification companies. And we have to define the contracts and the conditions for the reassessment of the value of the barrels.

The size of the capitalization depends very strongly on those numbers in such a way that it's impossible right now to have a clear idea of the size of the capitalization. In order to guarantee and assure transparency and fairness, we have created a Board Committee to

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represent the minority stockholders and we are going to give full and transparent disclosure of all relevant information about this transaction. In time, in terms, we are thinking that we may have this transaction in the first half of 2010.

One thing that's under our control is the certification process for us. And this certification we are trying to give -- to get as much as fast as possible a fair evaluation assessment of the value of the barrels. But that is something that we have no complete control and we have no control actually whatsoever, that is the timing of the Brazilian Congress.

Given the regulations -- next, please -- given the regulation and the assumption -- not the assumption but the fact that the government requires a fast track processing in the Congress right now, in the Senate. And all the bills are already approved in the lower house -- the House of Representatives -- and it's now in the upper house in the same Brazilian Senate, they have 45 days for beginning the voting of the projects.

If everything is according to the regulation, by the first week of June, we are going to have the projects approved by the first week of June. And this would mean that we are going to have June and July to prepare the corporate procedures to guarantee the capitalization in the first half of 2010. Next, please?

The market right now, we have at the end of 2009, we had recovered the market cap that we had before. We had, by the end of 2008, we had a very big reduction in our market cap. Today, we have -- we had an increase of 99.6%, double the market cap of the Company during 2009, in such a way that we are the second biggest market capitalization of the oil companies worldwide.

In terms of investments, by far we have the largest CapEx compared to other companies. That's one side gives us some challenges. But on the other hand, shows that we have a very good portfolio of opportunities and good projects that can increase the value of the Company in the future.

I'm open to questions and I will hope that I will have the answers. Thank you.

Questions And Answers

Operator

And thank you, sir. The floor is now open for questions from investors and analysts.
(Operator Instructions)

And the first question we have comes from Lilyanna Yang of UBS. Please go ahead.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. Good afternoon. Thank you for the opportunity. Mr. Gabrielli, you have indicated that you are counting on BRL15 billion to BRL25 billion cash injection from the minority

shareholders so as to be able to carry out the business plan or the spending plan and still keep the leverage below the 0.35 of total capital.

So given the high uncertainty of the cash injection coming this year, I'd like to understand, number one, what would be the contractual flexibility you have to cut as opposed to delay part of this BRL89 billion CapEx for 2010? Or which specific projects or which area we could see this spending cut or postponements?

And secondly, more on the refining CapEx, I'd like to understand why, for instance, the Abreu e Lima refinery is estimated to have a cost that is twice as much the cost of a refinery of similar complexity in the US or Europe. I might be missing something. So I just wanted to understand. It may be related to infrastructure or something else. And maybe even the (Modern Young) and Cera refineries seem to be a bit higher in terms of costs versus the international benchmark. So these are my two questions. Thank you.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Well first, I -- we have very narrow flexibility for 2010 because most of the investments for 2010 is already ongoing investment that we have the contracts. We have to deal with this reality, which means that we need the capitalization in 2010. That's a very important thing to highlight. We need the capitalization in 2010.

If we are going to have a capitalization with the transfer of production rights or not, that's another thing. But we need the capitalization for 2010. That's a very important thing. We are working right now with the hypothesis that we are going to have the capitalization with the transfer of rights for production from the government. But we have to consider also the possibility not to have the transfer. That's the first thing.

The second thing is on the refinery costs. We haven't finished the numbers. If you have the numbers, well, please tell me, because we don't finish it. We don't have them.

Q - Lilyanna Yang {BIO 14003234 <GO>}

We got the numbers from (one of local Pested) and from (inaudible) reports from the PCU indicator.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Okay, if you have them, that's another thing. But we are finishing the numbers and for sure, that's something that we have to take into consideration, our qualitative base. For example, for example, most of the assessment of the cost of refinance is a kind of plug and play refinery in which you go produce the refinery. And plug to the infrastructure and that's it. It is not our case.

We have to develop part of the infrastructure within the project of the refinery -- power generation, power distribution, the utilization of residuals, transportation, some of the things that are necessary to build -- the off sites of our refineries are bigger than the off site of the international traditional companies.

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This is an important thing to consider because the choice of new refinery outside of the infrastructure existing today have several important reasons. One is environmental reasons. The other is the marketing type of decision because our refineries that are being planned to be built are in the Northeastern of Brazil, in North of Brazil. They have a market that we don't have enough capacity today for refining in those markets. And also, they have a competitive advantage to be near -- closer to the US, Central America. And the European markets. And this means that we have to pay to consider this difference.

But I'm talking about the qualitative type of numbers. I don't have the quantitative right now to give you, because we are in the finishing our process. And all people that are around me here, they told me that they don't have -- haven't finished the numbers. If you have them, I would like to know that.

Q - Lilyanna Yang {BIO 14003234 <GO>}

That was very helpful. Thank you. And if I may follow up, just for me to understand the answer to number one. So Petrobras or you would consider a regular capital increase without the BRL5 billion acquisition or the private, i.e. credit transaction still this year, right? Thanks.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Right now, we are taking only one possibility, that's the capitalization with the transfer of rights together with the capitalization. If it's not possible, then we have to decide and have to take into consideration what our challenge is.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. Thank you.

Operator

The next question we have comes from Ricardo Cavanagh with Raymond James. Please go ahead.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Yes. Good morning and Mr. Gabrielli, many thanks for the presentation. I have basically two questions. The first one, being a non-Brazilian, my interest would be how factual is the premise that Congress should approve the capitalization in the first half of the year in order to pass it in 2010 and not avoid going into 2011?

And the second is assuming the capitalization does not go through this year, do you estimate that debt to capitalization will stay within the 35% maximum level that you target? And if it's surpassed, what would be the Company's approach, knowing your objective, to stay within an investment grade category? Thank you very much.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

I assume that you are not American, too, because the Americans also have a long term discussion of the health plan in the US Congress, not the Brazilian case only.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

I understand. I'm not American. So.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

But what we think is that the government is requiring a fast track process in the Brazilian Senate. This is what the government can do -- the executive. The Brazilian Congress has its own rituals and its own timing. But they cannot commit themselves with the time horizon of 45 days for begin the evaluation. It is the beginning of the voting process.

This doesn't mean that the vote was going to finish in 45 days. And really, it's very -- it's almost impossible to forecast exactly what's going to happen. But the government is strongly committed to get the voting beginning in 45 days. The results is going to be a political process. Then, there's the cost of democracy.

In terms of debt capitalization, right now in the First Quarter of this year, we are working with the capitalization process. If we cannot get, then we have to decide what to do. Right now, we have only the plan to take into consideration capitalization in the first half of 2010.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay, fair enough. And thank you very much.

Operator

The next question we have comes from Frank McGann with Bank of America. Please go ahead. Again, the next question we have comes from Frank McGann with the Bank of America. Hello, Mr. McGann?

(Operator Instructions)

The next question we have comes from Marcus Sequeira with Deutsche Bank.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Hello. Good morning, everyone. Good morning, Mr. Gabrielli. Two questions. First one, is it possible that capitalization happening -- if it happens with doubt the 5 billion barrels, could it mean that the government will subscribe with bonds. And then receive the barrels only, maybe in the second half or when the capitalization is finally approved? Or you would be considering doing a secondary offering?

And second, on Tupi, you said that you expect the unit -- the pilot platform to be up and running in October. And if you could give me a bit more clarification on when do you

expect the production. And how many wells you expect to connect -- producing wells you expect to connect this year? Thank you.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

I cannot talk on behalf of the government. The government has to decide what to do if we do something like that. Capitalization without the transfer from rights; I am not commenting on that. I'm talking -- we are working with the hypothesis that we are going to have the capitalization with the transfer of rights -- production rights. That's our main scenario and that's the scenario that we are working until the first semester of this year -- the first half of this year.

In relation to the Tupi pilot, the production system has 100,000 barrels a day. For sure it's not going to begin with 100,000 barrels a day. But we are going to begin production -- well, that's December. The challenging target is October, according to our upstream director.

Q - Marcus Sequeira {BIO 4622700 <GO>}

All right. So if I could just follow up on the first question, is -- in your opinion, isn't that too risky to have a CapEx program of that size with little flexibility. And counting on assumptions that are out of control of the Company? And do you see any risk for your balance sheet if the situation -- if things don't happen according to your plan?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Well risk is part of the business, right. And we think that we have a risk assessment that allows us to take the decision. We have announced BRL88.6 billion for investment, 2010. We don't finish -- we didn't finish yet our plan for 2010, 2014. We have flexibility in that. And we are saying that these BRL88.5 billion for 2010 requires a capitalization between -- a cash contribution of capitalization of \$15 billion to \$25 billion. That's the numbers that we are working in the first half of 2010.

Q - Marcus Sequeira {BIO 4622700 <GO>}

All right, thank you.

Operator

The next question we have comes from Mr. McGann with Bank of America.

Q - Frank McGann {BIO 1499014 <GO>}

Hello. Good afternoon. Thank you very much. Just a quick question. The CapEx estimate, I just wanted to confirm that -- I mean, you mentioned that it's adjusted for the possible capitalization. Does that mean that it does include any expected spending for 2010 to 2014 related to the 5 billion barrels?

Then, my second question would be in terms of the refined product pricing, granted that you want to keep prices, over time, in line with international prices. Does that mean even

though you have a premium today and even if that persists, it's unlikely that you would lower prices during the rest of the year?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

The second -- could you repeat, Frank, the second question because I could not get your question -- the second one.

Q - Frank McGann {BIO 1499014 <GO>}

Yes, yes, I apologize. No, related to the refined product pricing, given that prices have stayed above international prices for quite a long time up until now, is it possible that you could lower prices or make some adjustment in prices for gasoline and diesel between now and the end of the year? Or do you think that's unlikely even if the gap remains?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

What's on the Fourth Quarter for the gasoline and diesel today?

Q - Frank McGann {BIO 1499014 <GO>}

I don't have that right in front of me. I'm in an airport right now.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Let me give you the first question, then I'm going to answer the second one. No. We are not taking into consideration any investment for the 5 billion barrels in our CapEx right now. The range between \$200 billion and \$220 billion is a result of taking into consideration the 5 billion barrels. If we get -- where the capitalization is important for -- in terms of cash generation because we need to increase the capitalization as a source of cash for our investment. But not in terms of investment for total investment.

For sure, if we are going for the capitalization with the transfer of rights, we have incorporated in our business plan the development and investment necessary for the 5 billion barrels. But right now, in the range of \$200 billion and \$220 billion, we don't have any investment for the 5 billion barrels of transfer of rights that are under consideration.

In terms of the pricing of refining products price, we follow the international price backward and forward, which means that we cannot consider only the short run behavior of the price. We have to have some expectation of what's going to happen in the future.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

The next question we have comes from Alejandro Luciano of Credit Suisse.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Hi, it's actually Eduardo Vieira. Can you provide guidance on your expected -- on the financing plan for your five-year CapEx coming from bonds -- external bonds? How much do you have -- do you expect to -- do you plan to issue in external bonds in the next five years? Thank you.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

We are going to announce this as soon as we finish our investment plan for the next five years. We have right now only big general guidelines that we are going to invest between \$200 billion and \$220 billion. But we are going to have net debt to equity to EBITDA ratio of maximum 2.5 times and that we are going to keep our leverage ratio between 25% and 35%. That's the numbers that we have right now.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Right.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

I don't have the financial plan completely outlined and detailed as you want.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay. Do you have a guidance for 2010 in terms of planned bond issuance?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

For sure. Most of our financing -- in the historical has -- is through the bond issuance. But we don't know exactly how it's going to be -- like what our needs for the future because we didn't finish our investment plan.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay. So you don't have a range -- broad range or anything --?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

No, not for financing. We have a range for investment.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay. Great. Thank you very much.

Operator

The next question we have comes from Gustavo Gattass of BTG Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, Gabrielli. I have two quick questions. The first one, just so that I understand and again, I know that this may be mixing and matching new and old plans. But when you put in slide 21 the simulation for where your net debt to capital would go, could you just tell us if the assumptions, as far as oil production goes, are still the ones that you used in the old business plan, or have they also been changed?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

It's been changing, it's not been changed. We are changing this. We are just in the project right now and that's the reason why we don't have a completed picture to tell you right now. We are right now under several people working exactly on those numbers right now.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. But the slide was created with a number that is different than what we used -- what we have, at least? If we try to back calculate it, should we use the old model, or is it a different number? That's really where I was trying to get.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

It probably is going to be a little bit different from the old numbers that you have.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, okay. The second question that I had, Gabrielli, when thinking about, I would say, the plans for the future, Frank asked a little bit earlier. And the impression I got is we're going to have no change in fuel prices right now. But when you're going to the capital increase and when you're thinking about the five-year plan, are you still going to be thinking about parity between the average realization price and the US realization price in your models, or is the approach going to be different now that you have, let's say, more upgraded refineries?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

We have a seven-year track record in that already that -- you can look at that. And you can see that in the last seven years, we are keeping a kind of parity not in the short run. But in the long run, we keep some relation between the Brazilian price and the international price. But not in the short run. And you have seven years of track record.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Does that -- if we look at that track record -- and apologies for extending this -- but if we look at that track record, there's a historical spread that your refineries are supposed to be getting. Do you know how much that changes with the upgrades you're doing this year and next? Are we -- should we think about \$1.00 more than what you had in the past? Should we think about \$2.00 more or is that not something that's quantifiable?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Gustavo, your model is very, very good fine tuning. But remember that we have some, I would say, structural breaks in the market that are important. The behavior of the spread

of heavy and light has been changing very much. Second, we are changing our structure of our output. For example, we are producing more diesel than we produced before.

Third, the demand for crude -- for example, of jet fuel, has been increasing more than the others. Fourth, we don't have a very clear idea of what's going to happen with ethanol in the market. How can you use only the track record in the past and then put \$1.00 or \$2.00 above that? You have to consider more complex models. I'm sorry.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Will do. Thank you, then.

Operator

The next question we have comes from Subhojit Daripa with Morgan Stanley.

Q - Subhojit Daripa {BIO 3639048 <GO>}

Hi, Mr. Gabrielli. I wanted to go back to slide number 21. I just wanted to understand this clearly. If I look into these two scenarios, I see that the CapEx goes up as a function, I think, also related to oil prices, \$64 to \$77. There's going to be cost inflation. And that's going to require a higher spending from \$200 billion to \$220 billion.

Now, if I take the forward curve, okay, just take that as an example, if we assume, let's say \$85 to \$90, would my -- I mean I wanted to know if my analysis is correct. Would you have to disburse more, maybe \$250 billion to \$270 billion, whatever it is? That would be fair, right? And therefore, the Company would have to require more cash coming from minority shareholders just to keep the leverage ratio under 35%. Is that -- is this analysis accurate?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

I think that if I could read the table, I would recommend you to read line by line and not column by column, because really when we are talking about 15% to 25%, this doesn't mean that 15% is associated with \$200 billion. And 25% is associated with \$220 billion. Nor when we are talking about \$64 and \$74 per barrel, we are not associating the \$200 billion and \$220 billion. Each line is independent.

We have a range of minority shareholder participation between 15% and 25%. We have a range of investment between \$200 billion and \$220 billion. That's not strongly related to the average brent price. It has some connection. But it's not strongly related. There's other reason why we have this \$200 billion, \$220 billion. And this gives us the leverage ratio between 27% and 32%. And between 1.6 and 2.2. It's line by line, not column by column.

Q - Subhojit Daripa {BIO 3639048 <GO>}

Okay, fine, fine. And just one last thing, just to be clear here, this is not assuming that any of the cash being injected by minority shareholders is going to the federal government?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

No, no. This is to Petrobras.

Q - Subhojit Daripa {BIO 3639048 <GO>}

This is net for Petrobras?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

It's net for Petrobras.

Q - Subhojit Daripa {BIO 3639048 <GO>}

Net for -- it's the net, right. So --?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes.

Q - Subhojit Daripa {BIO 3639048 <GO>}

-- it may assume -- it may assume the possibility of part of this cash coming from minority shareholders being used to, let's say, pay the federal government for the transfer of rights?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

No, no, no, no. This is cash to Petrobras and Petrobras is going to use that. The \$200 billion or \$220 billion, not considering extending resource for the 5 billion. If we are going to have the 5 billion, then we have to add the investment necessary for the 5 billion barrels.

Q - Subhojit Daripa {BIO 3639048 <GO>}

And a related question to the 5 billion barrels, Mr. Gabrielli, are you expecting to incorporate the development of the 5 billion barrels in the new strategic plan that's going to be far off?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes, yes.

Q - Subhojit Daripa {BIO 3639048 <GO>}

You're going to incorporate that? So that's likely to be incorporated in the production targets to be unveiled by the company in the (inaudible) plan?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Well I don't know if you can have physically possible to have production in 2010 to 2014. That's another thing.

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Q - Subhojit Daripa {BIO 3639048 <GO>}

Okay.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

But in our plan, we have to incorporate the investment. But I don't know if we can get production because I don't know where we are going to get the 5 billion barrels.

Q - Subhojit Daripa {BIO 3639048 <GO>}

Perfect, perfect. Okay. Thank you very much.

Operator

Thank you, ladies and gentlemen. There are no further questions at this time. Mr. Gabrielli, please proceed with your closing remarks, sir.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Well thank you very much from everybody. I would like to thank our team that's here in Rio and you all that had very good questions that I hope that the team could give some answer to your questions.

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/ir/english. This concludes Petrobras' conference call for today. We thank you very much for your participation. You may now disconnect.

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