

Q3 2011 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO & IRO
- Eduardo Molinari, Exploration & Production Coordinator
- Theodore Helms, Director IR
- Unidentified Speaker, Unknown

Other Participants

- Christian Audi, Analyst
- Denis Parisien, Analyst
- Emerson Leite, Analyst
- Gustavo Gattass, Analyst
- Paula Kovarsky, Analyst
- Terry Hoye, Analyst

Presentation

Operator

Ladies and gentlemen. Thank you for standing by. Welcome to the Petrobras conference call to discuss the Third Quarter 2011 results. At this time, all lines are in 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. Almir Guilherme Barbassa, Petrobras' CFO and Investor Relations Officer. And his staff. At this time, I would like to turn the conference over to Mr. Theodore Helms, Investor Relations Executive Manager of Petrobras, who has some additional comments. Please go ahead, Mr. Helms.

Theodore Helms {BIO 15433381 <GO>}

Good morning, ladies and gentlemen. Welcome to our conference call to discuss Third Quarter 2011 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'd like to draw your attention to the slide 2. We may make forward-looking statements, which are identified by the use of the words will, expect. And similar, that are based on the beliefs and assumptions of Petrobras management and information currently available to the Company.

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

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

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Thank you for joining our conference call to discuss Third Quarter results. We have in this slide number 3 the highlights of this quarter. And I will call your attention to the part, operating income and the EBITDA were stable when compared with the Second Quarter. And this is very important for the Company that has the large investment programs.

We cannot have [ph] also that net income of BRL6.3 billion in the quarter were affected heavily by the 19% devaluation of the real. But cash, in terms of cash generation, there were no impact. And this is really what matters, as the real valuates, appreciates again, then we recover all these results.

The startup of P-56 in the quarter was the second important event for us, helping increasing the production for the remaining of the year. And beginning of next year.

The presalt, we have a very important event. That was Lula-Mexilhao Gas Pipeline startup. The conclusion of this pipeline will allow to produce more oil. And ship the gas onshore for supply and deliveries in the market. The conclusion of extended well test of Guara and the startup of Carioca NE extended well test is another event in the presalt.

We have here the conclusion of the second well in the Franco area, that gave us a good information on the potential of the area that confirms we will have the oil to be produced from that area, that is about 6% [ph] of the transfer rights we acquired last year, of 3 billion barrels of oil.

It's important to state also that Petrobras was included in the Dow Jones Sustainability Index for the sixth consecutive year, this year. This shows how Petrobras is performing.

Next slide, we have the main indicators. And are confirming what I said. EBITDA and operating income were stable. Net income fall 42% when compared with the Second Quarter. It is due to the depreciation of the real. But the average price we are selling the products that generate the net income. And the cash flow for the Company, was only BRL1.0 below, due to the adjustment of the Brent, that was about 3% in the quarter. And the production of the Company was stable. And the domestic market grew. We are going to analyze this in more detail in the next slides.

Production was up in -- total production, up 1.2% when compared with 2010. And this was due to the installation of many systems that is indicated in the slide. And these systems are not in the full -- in the peak production yet. It's slow to increase production for some time, for the rest of the year. And some of them will grow over the year, to be completed. And reaching the peak production the beginning of next year.

Following slide, please.

Internationally, we have a decline in the production, mainly due Nigeria. That's where we have the (inaudible) contribution to the production of Petrobras, as we were collecting our costs oil, investment we have done. We have already collected all we were allowed for. So now we are going to take part of the profit [ph] of that production. So we start paying tax on oil in Nigeria. That reduced the production, as well as in Ecuador, where we left. So we had a small production from one year to the other. But the most of it were caused by the unprogrammed stoppage that we had in Brazil. We are going to discuss this in more details in the slides to come.

In the next slide, we can show we are -- we present this slide to show how production behaves. And we have here two lines, one blue and one red. The blue line is there to show how one field is expected to perform when the equipment used in the field for production perform 100% in terms of efficiency. And there is a natural decline due to the reservoir performance.

But in the case of what we are seeing in Brazil lately, we have the red line, where reservoir performance, there were no larger decline than what was expected. But the difference between the two lines is exactly due to the performance of the equipment. It's not due to the reservoir. And this has caused the production to reduce over time. But as we repair the equipment that were stopped on an unprogrammed way, we will recover that production. We can see these more details, or more precisely, in the next slide, that shows the production of Marlim.

Historically, you can see on the left hand upper side that historically, the decline of Marlim is about 10% a year. But looking at the last six months to one year -- one year, from one year to now, you can see on the right hand side that there were two valleys in the production, one in September/October last year, due to the condition -- the stoppage of one platform there. And again, in this quarter, where three platforms has been stopped for repairs. That was P-20, P-35 and P-37.

You can see in the lower part of the slide that we lost, due to this maintenance and operational problems we had in this field, we lost 79,000 barrels per day in average in the quarter. But due to the improvement in the other wells in the same area, we added another 27,000 barrels, what brought us to a balance of 52,000 barrels per day of loss in the quarter.

As these platforms that I mentioned return to production, we are going to see that the average production of the field will not change in time. If you follow the tendency, you can see from 2002 up to now.

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In the next slide, you can see more details, not only to Marlim field. But in general for all the fields that are producing in Petrobras. How much unprogrammed stoppage and programmed stoppage cost us, in term of oil production. First, this quarter, there were more losses of production due to unprogrammed than programmed. The Second Quarter, we had a larger number of programmed stoppage. And the Third Quarter, then the unprogrammed grew again. That all together, in average, during the year, we lost 44,000 barrels per day.

And as we added new (inaudible) to repair the production facilities, because to do the repairs that are needed, when they are stopped, if it's not programmed, we are not prepared to start immediately. So there is an extra quarter, an extra time. So as we have, averaging other program under control, the cost can reduce and the production lost can be reduced as well. And this is the goal, the main goal we are aiming at, as we discuss with ANP the new standards we need to follow to do the repair required by the agency.

And so, the next slide, you can see how we expect production will perform. Here, mainly due to new wells that shall be added to the production, you see that for the nine months of this year, we added -- we added 35 wells, being 15 of them only in the Third Quarter. And in the Fourth Quarter, we have another 20 wells. Four of them has been already connected during October. And there are 16 going on during November and December. So, 55 wells will be connected at the end of the year. And most of them, or a good portion of them, will contribute with more production from P-57 and P-56, the most recently equipment's that has been installed by the Company.

And adding to all that, we have three new flotels, that are floating hotels, where we can accommodate people to do the repairs on the platforms. So these units are very important, because of the limitation of rooms in the platforms when we need to operate them. And at the same time, to do some repairs. There is a limited space to work and to live. So as we have these accommodations in another unit, you can anticipate an accelerate of the repairs on the platform. And the number of FPSOs in production in Petrobras requires us to develop these alternatives. And it seems that is going to add some new capacity for the Company.

In the next slide, we can see the -- what we are planning for next year, in terms of new and potential production. We have work with more than 400,000 barrels per day of new capacity. And this will come mainly in the second half of the year. And -- but we hope all these new units is also the ones that are still with room to increase production, will have a ramping up more rapidly than we have seen in the past. This is due to the fact that we have a larger number of rigs we start this year, with 15. Today, we are operating 23 rigs able to drill in the waters as deep as 3,000 meters. And we are expecting to receive another 15 after the end of next year.

And this is a very critical equipment for the development of production, for the acceleration of production, for repairing of the units that are in production to workovers. So rigs are really important equipment. And we are going to have more of them available in the Company.

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In the next slide, you can see a little bit of the reflects of the availability of this new number of rigs. 34 wells has been drilled in the presalt ramp [ph]. And the production is really growing in the Second Quarter. We have said we were producing by then about 130,000 barrels per day. Now we are near 180,000. And we hope in the future we can present you more and more of this production as we are seeing a very large productivity.

The second well in the Lula Pilot adds 25,000 barrels per day. And we are going to have a third one after the end of this month, connect to the Lula Pilot. And the first one is still producing what was done previously in the Second Quarter, 20,000 barrels of oil, plus gas, what leads to 35,000 barrels of BOE.

So this is what we have for the presalt. Let's see how prices are performing, in the next slide.

You can see that prices we are selling, the oil produced in Brazil has reduced a little more than the Brent price. And this is a reflects of the market. We produce heavier oil in the market that is slowing down, the heavy crude, with what it can lose price, in terms of price, can have a higher reduction of price than the more light oil. And looking at the domestic prices, in dollars, we have a big reduction in price in the last months, because of the exchange rate. But when you see in reais, there were only BRL1.0 per barrel of production, in terms of average utilization price. So that's great.

We have adjusted, beginning of November, gasoline impact by 10%. And diesel by 2%. And this is not in this graph, yet. It is -- the graph goes to the end of September.

In the next slide, we can see the cost performance. We have seen, along of this year, an increase in the cost, lifting costs of the Company. And this is largely due to unprogrammed stoppage, that cost us more in terms of material, equipment, services. But it reflects on the total cost of the production is reduced as well.

The number of new platforms that were installed last year is in the ramp up process. And some extra costs, too, up to the moment, that they will reach the full production. So we hope with the return of the platforms that were stopped, plus the reaching of the ramping up production, the total production, we hope we are going to reduce costs to a level more close to BRL18, BRL19 per barrel. The government take is a function of the international price; as international price is reduced, we have the effect in Brazil in the amount we have paid.

In the next slide, we have the production of oil products in Brazil, as well as the market's performance. Although we had a very good performance in terms of production by our refineries in Brazil, mainly diesel and gasoline where we have increased substantially when compared with last year, the market has grown even more, up 4% total production increase against 9% in the market. And these two oil products, diesel and gasoline, were the most -- the one that contributed most to the total demand of Brazil.

This is good for Petrobras, that is the supplier. But at this moment, we are importing most of the -- what we are supplying to the market. And this does not add much to our margin.

What we have produced here, yes, this is one of -- one way to add more margin to our total sales. But the import fraction is very small, or no margin to the Company.

The next slide shows the natural gas market and production. There were 2% growth in production. And supply was mainly from domestic production. We have an increase on the non-thermoelectrical sector, mainly the industrial sector. And here is not included the gas that are -- is consumed by our activities. Our refineries have increased the volume of gas used in the production. And the production of fertilizer were higher in this period than previously. And this has demanded more gas. And this gas was supplied, as you can see on the right hand side, to -- for the national production, that grew from 30 million cubic meters to 38 million cubic meters a day, when compared with last year.

Next slide, we can see the operating income. And we sold more of -- we have shown you. And this has produced more income to the Company. But the cost of goods sold has increased, because -- and almost take all the extra revenue we collect in the period, mainly because of the need to import almost all the -- or, a good amount of what we have sold.

There are other items that did not contribute much. But except for other expenses, that has helped it to increase a little bit our operating income.

Next slide shows the net income. And there we have a figure where you can see the financial results, how big it was in the period. And most of that was due to the depreciation devaluation of the real of \$6.6 billion (sic -- see presentation slide #17). It's not dollar, it's BRL6.6 billion. Okay? There is a mistake on the first bullet. And this is what the depreciation caused to the Company, due to the recognition in the balance sheet that the debt we have, that is indexed to dollars, has increased when we have a new exchange rate.

But that is the gross amount. If we take out of that BRL6.6 billion, about BRL1.5 billion, BRL1.6 billion that is due to minority interest variation, then we come to a gross amount to Petrobras of BRL5 billion. And after netting it, with taxes, that BRL5 billion extra costs increased or reduced tax.

We have a net final effect of exchange rate of about BRL3.5 billion. That is the difference we can see in the financial results and taxes. And the minority is there, BRL1.53 billion, that is added back to the results, led us to the BRL6.3 billion, that is 42% below last quarter. But as the exchange rate recovers. And if real appreciates again, we are going to see these results coming back to the Company. But the cash flow were not affected by this movement.

Next, please.

Looking to the E&P results, operating income of E&P. And comparing it with the last quarter, you see a very small difference. While prices have reduced because international price has fallen in the period, there were BRL1 billion of production in the operating

income. And the cost of goods sold were increased as we showed in the total costs of the period. And has reduced the operating income as well.

We paid the area. The E&P has sold or transferred more oil in the quarter. You can ask why this has happened because production was 1% down. But we have extra volume that were produced and not transferred in the previous quarter that has happened to be transferred during this quarter.

The volume by selling more oil and transferring more oil has increased the cost of goods sold as well. And the operational expenses. There are cases, like exploration expense, that was reduced by 400 million dollars (sic -- see Presentation) and indemnification from an arbitration dispute that added almost \$340 million to the results of E&P. And this led to BRL15.68 billion of result in the period.

The Downstream is not so bright, not because of the performance of the area. As we've shown, we've reduced more oil products. But the -- we are affected by the price. So that has falling, BRL1.0 per barrel. And this is due to the adjustment of the items that is adjusted currently with the international price.

The area of Downstream has reduced, in the quarter, the refining costs. And some years, has improved the results. And -- but they sold more. And they collect more revenue from the sales. The cost has -- due to the fact that they have sold more, they have to pay more for these goods sold. And this has reduced the income by BRL2 billion, almost, a little more than the revenue they collect for the extra sales.

Operating expense was a small reduction, due mainly to the adjustment of worker agreement in the -- in September. So led finally to more than BRL4 billion of loss, in the Third Quarter for the Downstream.

Next slide, we look at Gas & Power, International and Distribution. Gas & Power, the main effect was gas sold for the industry. That has increased the demand, as well as the recognition of some fiscal credits in the period. Operating income of International were affected heavily by the price that has been reduced by the adjustment of inventories to market, due to the price adjustment as well. As well as the case of Nigeria, that is the main producers, producer of International area. It will reduce due to the fact that the cost of oil has ended there.

In Distribution, there were some higher incomes due to the 7% increase in the market. And that has led them to have a better result in the quarter.

Next slide, we have the investments. And the total of CapEx in the quarter was almost BRL51 billion, about 10% less than last year. But let's look in details.

You can see that E&P did exactly the same amount of investments in this quarter, in this year, then in the last year. The Downstream is about BRL2.1 billion less this year, mainly because of the acquisition of Braskem that has happened at the beginning of last year.

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And Gas & Energy reduced substantially. But this was expected, because the main CapEx investment for Gas & Energy has been the main project, has been completed. And there were no programmed CapEx for the year. It's according to the programmed total. And the other ones are small, with very small variation as well.

Let's go to the next, that shows our leverage and liquidity. What's important here is that liquidity is about the same. We reduced from June to September about BRL4.5 billion in terms of liquidity. It's according to the planned volume as well. But when you see the net debt, it has increased a lot. The net debt in June 30th is wrong there, it's not 6.8. It might be 60 or something like that, 61, that has grown to 91. This is an increase mainly due to the depreciation of the real, 69 -- from 69 to 91. So there is still a very large, more than BRL20 billion, in terms of that has increased in the field net debt. But this is depreciation of the real against normal.

The leverage net debt to EBITDA has increased, as a consequence. And the other -- the net debt, in dollars, is about \$5 billion more than previously.

So with that, we have ended our presentation. And we expect, if you have any questions to answer you, together with our colleagues that are present here. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. We remind you that each participant will be allowed to ask two questions only. (Operator Instructions). The first question comes from Emerson Leite of Credit Suisse.

Q - Emerson Leite {BIO 4003528 <GO>}

Thank you. Good afternoon, everybody. I have three quick questions. The first is related to the block BMS-9. You know, you recently requested through ANP an extension of the evaluation period before declaration of commerciality. I would like to understand, what were the reasons for such extension. And how this will affect your plans. I know from the release that the Company suggested this won't have an impact on the presalt development. But I would like to get a sense how come a change in this part of the production, of the commercial production of almost two years, has no impact in the overall plans for the presalt. That's question number one.

Question number two is related to your comment that the decline in production from Campos has to do with equipment availability. And nothing to do with geological reasons. Could you provide to us, what are the percentage of water cuts in the Marlim field at the moment. And what's the average presentations of water cuts in the Campos Basin overall? That would be the second question.

And the third one is related to the spill in the Frade fields experienced by Chevron as operator. But Petrobras is a partner there. Do you believe this event, or this incident, could

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have an impact in terms of future drilling plans in the area or in the basin with ANP changing the procedures, or something along those lines? Thank you very much.

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

Lots of questions, Emerson. But let's try to answer. I'll attempt it.

Extension of BMS, the commercialization --

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes, I can help that, Emerson. Due to the results met so far we have in this block, we asked an extension, as you said, in the declaration of commercial feasibility of the area, to the end of 2010. And I said, that we would be growing fast in the production development. And that is true. If you see our projects. And still 2013, there is no platform in the Carioca area. So it was planned already after 2013. So there is -- there will be no impact in the production development of Carioca.

The other areas are more advanced. And that's why we are developing first at Guara, Lula Northeast, that is the reason why there will be no impact in our development plan.

Regarding the BSW, I don't have the number right now. You asked in the Marlim field. I think it's more than 50%. But I don't have an exact number right now.

Q - Emerson Leite {BIO 4003528 <GO>}

Molinari, sorry, just a follow up on what you said about Carioca. So the declaration of commerciality would expire at the end of this year. So the fact that you didn't have any system anticipated for the area until 2013 in the first place means that you were already counting on this extension? Or, it means that in case you didn't get the extension, it wouldn't make much of a difference, because you were not so confident in Carioca anyway?

A - Eduardo Molinari {BIO 21023582 <GO>}

No. It's not that we are not so confident in Carioca. It is only that we are doing, we proposed additional drilling in the area, drill up to three wells. And doing an extended well test in the area. So it's not that we are not confident in Carioca.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. Okay. Thank you.

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

Regarding to the BFW, I believe you can (multiple speakers) --

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes, I can check that information. BSW of the Marlim field, yes.

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

Okay. And regarding Frade, Emerson, if I recall, the question was, regarding what would be the impact on the operation in general?

Q - Emerson Leite {BIO 4003528 <GO>}

Yes. If you anticipate this could spark a broader, say, reaction from ANP becoming more strict, or delaying drilling somehow. Obviously, there a lot of people are looking at it. It's a much smaller scale of an event. But the recent Macondo situation in the US brings about memories. And then people start to wonder if this would have an impact in the Brazilian activities somehow. Since you are closer to the development, I'm just asking if you anticipate, or if you are seeing any such reaction up until now.

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

Emerson, from the point of view, my point of view. And I might have it's too early to draw any conclusion on that. This is a very different case, as far as I know. I don't know if Molinari has more to say about it. But here is a situation due to operational conditions that apply to that specific region. I don't see a reason to take that and apply it to all the other areas. But Molinari?

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes. Well after Macondo accident, I think all the national agencies around the world have increased concerns about deep-water drilling. And they have raised the requirements. And we also, we have had specialists by the national agencies, especially this year, not in the Third Quarter. We have no stopped platforms, no planned platform stoppages. And I believe the requirements will stay. What we are working on right now, is to have more pre-visibility in the inspections that they are making so we can reduce the unplanned stoppages.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Diego Mendes of Itau.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Hi, guys. Good morning, this is Paula here. My question is, I just wanted to follow up a little bit on this issue about the salaries increase. You mentioned on the previous call that you have provisioned BRL600 million for the -- was it for the third or for the Fourth Quarter?

Then, based on the -- you mentioned BRL15 billion as the year to date costs with salaries, total cost with salaries. What would be the estimate number for the year? Then, if we assumed the 10% salaries increase that has been talked about in the local press, would it

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make sense to just apply that to the total salary number. And assume this will be the recurring expense for next year?

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

Oh, I don't have this figure. So we don't work on them. We don't have. But maybe, we have spent BRL15 billion, including the BRL600 million up to September. The remaining of the year will not have the extra. Only the increase in normal salaries. There is, in this BRL600 million, a bonus that is paid in this period, that is one-off. So -- ?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Yes. But if you're assuming BRL15 billion as average, BRL20 billion would be the year average, right?

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

Right, (multiple speakers).

Q - Paula Kovarsky {BIO 15363001 <GO>}

Then BRL600 million as the bonus.

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

Yes. If you take BRL5 billion per quarter, it's not -- you are not going to miss too much.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. But then, if it's a 10% increase, do we apply the 10% to the year number? Or does this -- this goes away, including outsources?

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

No, no. No, because part of this 10% is in the BRL600 million that is paid as bonus. It does not happen every month.

Q - Paula Kovarsky {BIO 15363001 <GO>}

But aren't they talking about a 10% salary increase in average?

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

Yes, I -- the average, I think, everything is about 10%, close to 11%.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you. Then, just quickly, back to the (technical difficulty) next year -- yes, can you hear me?

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

I don't -- there were problems on the line. But could you repeat, please?

Q - Paula Kovarsky {BIO 15363001 <GO>}

Yes. About the production increase for next year, or about the platforms that are expected to come onstream, the four platforms, can we expect them to ramp up like the P-56? So doing well in six months, or do you expect the ramp up of those platforms to be slower?

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

Let us have Molinari here.

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes, Paula, that's a very good question. The ramp up of those platforms will certainly be faster, like P-56, because we have now the drilling rigs arriving. And we've learned to drill the wells before the platform arrives. So when we install the platform, we will have more wells already, ready to be connected.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you. Thank you very much.

Operator

The next question comes from Terry Hoye of UNUM.

Q - Terry Hoye

Yes, my question has already been answered. Thanks.

Operator

And the next question comes from Christian Audi of Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Thanks. Barbassa, a couple of questions. The first one, can you share with us your outlook specifically in terms of costs, lifting costs and refining costs, going into this Fourth Quarter, as well as the beginning of the year, you see an environment where you can -- you have the capability to reduce them, or they will be more flattish, any color on those, please?

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

Let me have Molinari and Marcal helping in this answer. Please, Molinari.

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes. The lifting costs question, it will -- there are some movements like production. And we will benefit for more -- for a production growth in the Fourth Quarter. It will depend also in the exchange rate. And the Brent price, which is our reference. But we have an

increase in the Brent price, we have also increased in the costs, specialized sales in the oil industry. So it's a combination of all those aspects that will lead the lifting costs up the Fourth Quarter.

But I should think that it will be in line with what we have in this Third Quarter. Okay?

Q - Christian Audi {BIO 1825501 <GO>}

Okay.

A - Unidentified Speaker

Talking about the refining costs, we are expecting to have, on the Fourth Quarter, about the same that we had on the Third Quarter. That is, \$5.20 per barrel. We are expecting to have a flat level. Okay?

Q - Christian Audi {BIO 1825501 <GO>}

And as you look into 2012, from a refining cost point of view, given all that's happening in terms of upgrades and potential -- you know, with the new refineries. Do you see a trend in 2012, not 2013, 2012, where these costs could come down, or are they going to be more flattish and really only begin to come down more into 2013 or 2014?

A - Unidentified Speaker

Yes, probably, it's going to come down 2013, 2014, when we have the new refineries. Because right now, we are just investing in quality. So we are increasing costs. But we are not increasing the amount of production. So basically, it's going to be flat, or a little bit high than we are today. I'm saying a little bit high because of -- very small. But basically, it's going to be flat.

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

Audi, we are going to have many new equipment's being (multiple speakers), ramping up, to begin up next year. You have, Marcal, the number of new cokers and (multiple speakers) --

A - Unidentified Speaker

Actually, it's turned out the beginning of next year, basically, we are investing just in quality. We don't have a coker until the beginning of next year.

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

Ah.

A - Unidentified Speaker

So I don't have all the units right here with me. I can return to you, or I can give you the information on the Web. But basically, we're going to have, especially on the last quarter,

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a large amount of units. I guess. But I don't know if that was the name, the number right now, I can give to them (multiple speakers) --

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

But to that number, they have been concluded (multiple speakers) --

A - Unidentified Speaker

Yes, (multiple speakers) --

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

(multiple speakers) here in the beginning (multiple speakers) --

A - Unidentified Speaker

We had some of them concluded right now in this quarter. And probably the last month. So that has a large amount of sales being concluded. So let me see if I can find the information right now, if I can get information right now, I can return to you. If not possible, I can give it to you on the Web.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thanks. And a follow up on that, on the topic of refining margins, given the price increase that we -- that you announced recently, do you estimate that refining margins in the Fourth Quarter, or even in the First Quarter, if we assume oil prices remaining flattish, do you see your refining margins turning positive at all in the fourth, or First Quarter of next year? Or are we still in a breakeven, kind of a negative territory?

A - Unidentified Speaker

Well I can tell you that the margins are going to be a little bit better. But -- on the Third Quarter, on the Fourth Quarter. But probably, we're going to have to import a little bit more, especially gasoline. So I can tell you, that's going to be --

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

(multiple speakers) national price.

A - Unidentified Speaker

Yes. So it's going to be about the same.

Q - Christian Audi {BIO 1825501 <GO>}

About the same. But -- do you see it being positive, or still in negative territory, negative refining margins, until we can really get maybe a bigger increase in diesel prices, for example, into next year?

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

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We are not giving you guidance on that, Christian. We expect to produce the better results. But whichever they will be depends on a lot of variables. And it is difficult to say at this moment.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. And the last question, on production. Has your -- if we rewind to the Second Quarter conference call, between your outlook then and now with respect to this ramp up in the October, November, December production, has it changed at all? Have things improved, or gotten worse in terms of our expectations of this last quarter really showing a ramp up in production now, versus what you expected three months ago?

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

Molinari.

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes. The impact is -- we had, I think I said we had 10 or 11 wells to start production. And we did so. The problem in the production growth in the Third Quarter was more on the non-planned platform stoppages. And P-56 and P-57, I said that in the year-end, we will be producing 80% of the capacity of those platforms. And we are still maintaining this indication.

So on the project, everything is going well. The only aspect was more non-planned maintenance in the period.

Q - Christian Audi {BIO 1825501 <GO>}

And do you still expect to finish the year, last day of the year, with 2.250 million for production, Molinari?

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes. Well 2,200,000 is a peak daily, peak production, in the year-end, if everything goes well, if we don't have any further non-planned stoppages. And if we connect all the wells we have to connect until the end of the year. For the average of December, I said that we will be producing more than 2,100,000 barrels per day as average for December.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thanks.

Operator

The next question comes from Gustavo Gattass of BTG.

Q - Gustavo Gattass {BIO 1702868 <GO>}

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Hi, guys. I had a couple of questions here. I just wanted to start on just the accounting of the quarter. There were a couple of one-offs that hit you. And I just wanted to check one of them. There is a post-tax adjustment of more than BRL600 million that you guys booked on Gas & Power. And I wanted to know if you guys could actually give us some kind of clarity on where that comes from, as a starter.

The second thing I wanted to check, on your chart, on page eight of your presentation, I just wanted to double check. Is the scale correct in that graph? Is that graph really going up to only something like 25,000 barrels, or is it different than that? Because the text on the slide doesn't really seem to jive with the graph.

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

Yes. It's 25,000 as the total in the quarter. Ah, if we analyze the effect on the -- of the quarter.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Oh, okay. Sorry. Sorry. Now I saw that -- oh, okay. So it's -- for the quarter itself, it's about four times that much?

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

Yes, yes.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Okay. So this is contribution to full annual production figure.

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

Yes, of --

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay.

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

-- that, the total. The other questions are regarding to the one-offs, the Gas & Power. We had a procedure revision here. And we found that we were not crediting some tax credits we had in the operation. And then we correct previous years. And adjust in this current quarter. There is some to come yet, not on the same amount. But our next adjustment will happen in the Fourth Quarter. That's the reason for adjustment now. What we -- doing our revision on the procedures, we found that we were not crediting for some taxes that were calculated previously. But now, recognizing that, written as credit.

And this is --

Q - Gustavo Gattass {BIO 1702868 <GO>}

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(multiple speakers) --

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

-- is going to happen for the future. We'll (multiple speakers) --

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes. It sounds --

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

Yes?

Q - Gustavo Gattass {BIO 1702868 <GO>}

If I could ask, what is the recurring impact of that?

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

It's about BRL13 million per month.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Per month? Okay. So about -- okay, perfect.

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

Okay?

Q - Gustavo Gattass {BIO 1702868 <GO>}

And if I could ask just one last question, with regards to production, it was absolutely great that your guys put in a little bit more clarity on what's going to happen in 2012. I was just wondering, I don't know if this is predictable or not. But is there anything that you already have with visibility, with regards to the Varredura project, that would be starting up in 2012?

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

Molinari, please.

A - Eduardo Molinari {BIO 21023582 <GO>}

Dura, we don't have that (inaudible) in the -- in our production, because it depends on the exploratory effort to connect more of the Varredura discovery in the existing platforms.

But we are doing a very big step on that, which is the installation of subsea separation, water/oil in the Marlim field. As I mentioned, the Marlim, the BSW for Marlim is high. And if we are able to separate the water subsea, we can release this space on the platform to put more oil, like in the Varredura project. That's a technological development. We think

in six months, we should have up and running, start running the subsea separator. We would have a -- the idea to apply that in several mature fields off the Campos Basin.

And to put more oil from the Varredura and the other exploratory efforts. But I don't have a number for you.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, perfect. Thank you, guys.

Operator

The next question comes from Denis Parisien of Deutsche Bank.

Q - Denis Parisien {BIO 20333702 <GO>}

Hi, thanks for taking my questions. I'm wondering about your financing plans. You. So far, have stuck to your guidance of not coming back to the dollar market after the \$6 billion multi-tranche jumbo earlier this year. You've met with investors in Europe, it looks like you were thinking about doing something there. What can we expect between now and the end of the year? And in 2012, in terms of tapping credit markets? Thanks very much.

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

We have raised. So far, up to the end of Third Quarter, about BRL28 billion of new debt. We did amortization of almost BRL18 billion. So we added about BRL10 billion of new cash to the Company through debt. And this was done through many different ways. The largest transaction was the bonds we issued at the beginning of the year of \$6 billion. And the other ones are bilateral with banks, or ECAs. And development bank.

We are always working. And we are going to raise some extra amounts during this quarter. We do not have a target for the quarter. It depends on many conditions, on the market condition. If the market is there, we can do more. If not, we can delay and do another -- there is some market. And this, the liquidity that we have, provides us comfort to do and to work as such.

And having a high liquidity, as we had in the quarter, with BRL55 billion of liquidity, this is enough to provide us the cushion to keep our CapEx going on. And leveraging the opportunities we have, or the market present to us.

We have a target of five years. And when it's between \$60 billion and \$90 billion, in five years, the first, obvious [ph], five years, we have raised, as to the end of the quarter, about 16 billion [ph]. So we are being in line with what we have programmed.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks very much. Do you have any -- in terms of your Fourth Quarter appetite for debt, as you said, you would be opportunistic, of course. Do you have any inclination as to

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whether you would do one market or the other, banks, capital markets -- if capital markets, in yen, in euros, in pounds, is there any particular market that you prefer?

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

I don't have any preference. It depends on the market. If market is there for us for the kind of debt we will be issuing, then we will be approaching that market. But it might be in good shape. We are not for any markets. And the only thing I can tell you is that we don't grow again to the dollar market. (inaudible).

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you very much for that clarification. Very much appreciated.

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

Welcome.

Operator

Thank you. Ladies and gentlemen. there are no further questions at this time. Mr. Barbassa, please proceed with your closing remarks.

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

Thank you, all for being with us, in one more quarter. And hope to have you again with us in the next quarter, with even better results. Thank you.

Operator

Ladies and gentlemen. Your host is making today's conference available for replay starting one hour from now. You may access this replay at the Company's IR website at www.petrobras.com.br/ri/English.

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