Q4 2012 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO
- Jose Carlos Cosenza, Downstream Officer
- Jose Miranda Formigli, Exploration and Production Officer
- Maria das Gracas Silva Foster, CEO
- Theodore Helms, IR Manager
- Unidentified Speaker

Other Participants

- Caio Carvalhal, Analyst
- Emerson Leite, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- John Wynn, Analyst
- Marcus Sequeira, Analyst
- Paula Kovarsky, Analyst

Presentation

Operator

(Interpreted) Good morning, ladies and gentlemen. Welcome to Petrobras' conference call with analysts and investors to present the results of the Fourth Quarter and the whole year of 2012. We would like to inform you that all participants will be in listen-only mode during the presentation with simultaneous interpretation into English. After the presentation we will have a question and answer session both in Portuguese and in English, when further instructions will be given. (Operator Instructions) This call is being recorded.

Today with us we have Mrs. Maria das Gracas Silva Foster, CEO of Petrobras, Mr. Almir Guilherme Barbassa, CFO and IRO, Mr. Jose Miranda Formigli, Exploration and Production Officer, Mr. Jose Carlos Cosenza, Downstream Officer, and Mr. Jose Alcides Santoro, Gas and Energy Officer and other executives of the Company. Before we start, we will be listening to Mr. Theodore Helms, Investor Relations Manager. Mr. Helms, you may proceed.

Theodore Helms {BIO 15433381 <GO>}

(Interpreted) Good morning, everyone. We will start another call of Petrobras with analysts and investors to present the results of our Fourth Quarter and whole year of 2012 results. This call is being broadcast simultaneously on the Internet at www.petrobras.com.br/ri and it can be followed on the webcast as well both in Portuguese 11 2101 1409 2193 8000. In order to follow the conference in English you can access www.petrobras.com.br/rian 11516 1006 [ph].

Before we proceed I would like to remind you that this call is being recorded. And I would like to draw your special attention to slide number two, which has a disclaimer to investors and analysts. The words believe and expect and other similar words regarding projections and targets are forecasts based on the expectations of the Company's executives regarding the future of Petrobras.

And lastly, we would like to inform you that we have already disclosed our results both in reais and in dollars, both according to the IFRS. However, the conference today we'll be discussing the figures in reais.

I would like to give the floor to our CEO, Maria das Gracas Foster, who together with Almir Barbassa will be presenting the results of Petrobras and the main highlights and events occurred during the Fourth Quarter and the year of 2012. Afterwards we will be answering any questions that you might have. Please, Mrs. Foster.

Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted) Ladies and gentlemen, some important figures which are the highlights for 2012. Net income of our Company BRL21.18b. This was the lowest result obtained after 2005. In 2005 the results were BRL23.7b. This result can be explained by the increase in imports of oil products and the reduction of our commercialization markets, justified by the devaluation of the currency with impact on our financial results and also an expressive impact on our operational costs for the Company.

We had an increase of extraordinary expenses with the write-off of dry holes, which were not forecast for 2011 to happen in 2012. In 2012 we had expressive losses, significant losses, in legal claims, in judicial claims. And a lower production in 2012.

About the lower production in 2012, we reached our target, which was scheduled for 2.022 million barrels per day, more or less 2%. But we reached the lower range -- part of the range of 1.98 million barrels per day. Although outside the center of the target, we saw a significant improvement in the planning [ph] of the target. We received less, 14,000 barrels per day from Frade. We had problems regarding seepage in the Frade field. And it didn't go back to production. And this is the reason why we had 14,000 less barrels per day from Frade. And we, Petrobras, produced less, 28,000 barrels per day, driven especially by the operational difficulties already forecast by us at the beginning of 2012. And this was the reason for us to have the defined to [ph] 2,022 barrels per day, more or less 2%.

This was the first time that we introduced this lower and upper limit. And it was exactly because of the lack of accuracy regarding 2012 about the behavior of our production units.

Cidade de Anchieta was started up and it already has a production of 78,000 barrels per day, which was the level in December. And we had a postponement of Cidade de Itajai, Bauna and Piracaba, 81% [ph]Petrobras. And our forecast was that production should be started in October 2012. And we are ready to start up at any time now in the next few days.

And we had a significant loss of time because of fire in the machine house in the yard in Singapore with a consortium of Odebrecht, plus TK. And this is not under the control of our Company, Petrobras.

We had a growing production in the pre-salt of our production, 5% in 2011 coming from pre-salt and in 2012 practically 7%. And in December 2012, when we had a production of 2.032 million barrels per day in December, we had a production of 231,000 barrels per days part [ph] Petrobras, corresponded to 10.5% of our production in December.

In 2012 we received 15 rigs for deepwater, totaling 40 drilling rigs. The capacity that we had in 2012 and that we will have in 2013 is much higher than our campaign, our drilling campaign. On pre-salt alone we have 16 drills, 16 drilling. And more than we need to comply with our drilling of oil campaign for 2013.

Our proven reserves, 16.44 billion barrels of oil equivalent. After doing quite a lot of work in this regard, we confirm a slight growth of our proven reserves. The replacement ratio 103.3% but in the first year we had a consecutive increase of our Company in RRR, higher than 100%. So our reserves is 18.6 years for Brazil and abroad.

Regarding downstream, we had three increases in the diesel price and three for gasoline in the last eight months, three increases in the three months totaling in diesel with these three increases, 16.1%. And then gasoline 14.9%. We had a production of oil products that was quite expressive, 5% more than 2011. The volume of sale of oil products in Brazil, 2.285 million barrels per day, plus 7% year on year.

And some daily records as well in refining over the year due to the higher utilization of the operational capacity of our refineries and also the higher degree of flexibility that we have in our refineries, once they were modernized over the last three years. We broke records quite a few times and today we have a refining capacity of 2.1 million barrels per day.

In Gas and Energy, a marked growth in the demand for gas in Q4, greater than we expected. So we can [ph] cater to the thermal and non-thermal global market and also we believe that we are keeping the record of 5,883 megawatts. On November 26 it was a record. And Petrobras to date is in charge of supplying 10,000 megawatts of (inaudible) generation, over 80% of the volume and from natural gas. And also what refers to our diesel oil, 16% of the load of the system in Brazil. We devoted special attention to the implementation of improvement that translated in improvement in the routine management, the daily routine of our Company PROEF in April was implemented.

We have already had important results from PROCOP. And we had -- you can see results in our operational costs. We have very strict targets and we track these targets so that from 2013 and 2016 we made BRL32 billion in stages in these five years. And the restructuring program of our Company as well, because we need to carry out these developments in the Company in order to reach them. We already see the first results with the first divestments made and resources coming into the Company or at the end of the first half.

104.8% increase in the physical targets. This was the biggest physical realization that we had in our Company ever posted in the last 10 years. And we also realized the total investment forecast, which means a higher degree of certainty in the generation of revenues for our Company.

Production in Brazil 2012 was 1.98 million barrels per day, reaching the lower part of our target. So we worked very strongly on our planning so that we could work as close as possible to the known reality, the reality known by our Executive Committee. Our production of oil and gas and barrels of oil equivalent was 2.8 barrels of oil equivalent. And I would like to stress the growth of production of natural gas in Brazil. And it was extremely important, this growth, because as of the 6%, additional 6% of gas from our E&P area, we were able to import less in the last quarter of the year.

As I said before, 2.02 million barrels per day is the center of the target and as an operator. And the negative figures were due to our loss of production due to unscheduled stoppages. So higher than we forecast. But still according to our target.

In order to overcome the problem, the operational problems, we started in April 2012 the program, the PROEF. And we saw that decision on the part of the Company was right to invest in 2012 we committed in the recovery of the Campos Basin operating center and (inaudible). And our efficiency, operating efficiency grew 11percentage points between April and December 2012. We were able to recover production of 25,000 barrels per day and the net present value in this operation in this year was $512m.

On the next slide, total production reached 16.4 billion barrels of oil equivalent, 15.7 billion in Brazil, 0.71 billion barrels of oil equivalent abroad. In Brazil our RRR was higher than 100% [ph]. And I would like to remind you that in 2012 we start to indicate [ph] to the E&P the 21 discoveries in Brazil, in the pre-salted another four important ones in the (inaudible) area. And we would like to stress northeast of Nordeste de Tupi, Sul de Guara. And Franco Sudoeste.

Once again, our success rate in 2012 were outstanding 64% considering four onshore and offshore, in the pre-salt 82% success rate.

On the next slide, our focus was on the increase of diesel gasoline production in Brazil so that we could avoid as much as possible importing oil and diesel -- diesel and gasoline.

Our throughput in our refining area was 82,000 barrels per day. And with a high use of oil produced in Brazil, the increase in diesel production in Brazil, as I said, reduced import of oil products.

To the right of the slide I would like to draw your attention to the main unit implemented in 2012. So we had the investment made and the units were concluded and they were able to give us a possibility of refining with a very high flexibility. Therefore, we were able to increase our production of refined products. And even more due to the flexibility increasing the production of diesel and gasoline.

We had a growth here of 7%, of 154,000 barrels per day of oil products. And of these 154,000, 138,000 corresponded to diesel and gasoline. So we would like to stress that (inaudible) grew by 5%. So for an oil company that invests in refining it is very important to see domestic growth. And certainly impossible -- important to level our prices to international prices. As I said, in the last eight months we saw three price increases totaling 16%, for diesel gasoline, 14.9%. However, they were not enough to eliminate the gap between the domestic and international prices, as we show on this slide.

In pink we have our losses vis-a-vis the prices charged by the international market. The fact is that this difference, because you can see the chart shows the prices in reais. So this gap was more marked, not because of the spread, because the variation was practically zero over the year. But mainly because of the 17% increase in the price of oil products in reais comparing with international prices and transferring them to reais there was an increase in Brent by 17%, that is to say.

These increases did not bridge the gap of prices between the domestic and the international market. And certainly they will be bringing improvements in the case of the Company. But they brought improvements. But not enough for us to have a parity between the domestic and international prices in 2012.

We see here 12% and here I would like to highlight the 112% in gasoline and 16% in diesel. Together with that, we saw a reduction in imports of oil products, especially fuel oil, due to the higher generation of thermal energy using this kind of fuel oil.

Exports went down due to the lower production of oil. And the increase in throughput shows we had a commercial deficit of oil and oil by product of 231,000 barrels per day, practically twice the deficit that we saw in 2011.

On the next slide we see that demand for natural gas was surprisingly high, 22% higher than in 2011. And the average of the year, we had 74.5%. And the highlight is for the thermoelectric area that more than doubled demand than for natural gas. For the first time ever we had in Brazil a reversal of the consumption curve, with more gas being consumed in this segment, mainly (inaudible). Regardless of the surprise that we had, we were surprised with the higher consumption of natural gas.

And we had acquisitions in 2012. I'd like to mention that. If we had not imported the gas, penalties [ph] would have overwhelming and would have destroyed value to Petrobras.

Investments, in 2012 we had BRL84.1 billion in investment, 16% higher than in 2011. And we tracked very closely all our projects, all our assets under construction, be it in E&P, be it in supply or in downstream or gas and energy, 104.8% physical realization which is very good because it means that our assets will be as planned, ready to generate the important revenues for the health of our cash center, 110% realization in the financial part. And regardless of the lack of accuracy in measurement, we had some cost increase. However, we also had a physical realization that was higher on the other hand. So we placed quite a lot of pressure on exploration and production so that we may comply with the deadline for our project.

Regarding the net results, we had a variation of the result of BRL21.18 billion as I said before. In 2012 in exploration and production we have BRL4.8b. That's a positive result for this year of 2012 when compared to 2011. E&P was favored by the devaluation of the foreign exchange amounting to 17%. And on the other hand there was an increase in the government take of 15%. And higher lifting costs 28%, 10% of the 28% -- 28% was the total lifting cost. And 18% related to the normal E&P activities plus 10% related to the PROEF. Higher dry hole expenses for write-offs, BRL7 billion of dry holes were provided for 2012.

And I would like to mention that the wells that we are drilling now are wells that bring about very high premium in oil production. But when they are dry they provoke higher expenses because they are more expensive wells. In 2013 our forecast for dry holes is around BRL6b. So this is the estimate for dry wells, or dry holes, for 2013. And we have already seen significant changes because we have already approved the exploratory policy of Petrobras so that we may manage the dry hole risk at the Company, because these are much more expensive wells than the ones that we had been drilling three or four years ago.

In Gas and Power we must subtract from BRL3.1 billion approximately BRL1 billion non-recurring, which is fiscal credits amounting to BRL928 million that is almost BRL1 million that happened in 2011, then that didn't happen in 2012. We saw an increase in the supply of natural gas, by 18%, that favored the gas and power area domestic. And what happened was that during eight months of this year or seven months this year, we saw a loss due to generation of results. But not necessarily a very relevant gain in the last quarter of 2012. Due to the price of power in Brazil it went up very steeply because in the dry period energy is more expensive and we -- so we practically had a balance between one and the other. So -- because this last one was very positive.

In 2012 we had two increases, price increases in diesel and gasoline. But due to the exchange rate devaluation, the bridge was even bigger vis-a-vis international prices. And we had a loss of BRL22.9 billion in downstream in the international area, a reduction of BRL600 million in our results, mainly in the impairment-generated losses. BRL487 million of impairment generated losses in 2012, mainly in Pasadena refinery.

Scheduled maintenance in the Akpo field and the startup of production of the Cascade and Chinook fields, which start ramp-up. And you have the cost of the platform being charged with production is only starting. So this is the result for the year of 2012.

And now I would like to give the floor to our CFO.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

(Interpreted) Thank you very much, Mrs. Foster. And now let us analyze our operating income when in 2011 we had BRL45.4b. And in 2012, BRL32.4b. And the development was because of the growth of the sales revenue, which occurred in 2012, 8% of the demand of oil products from one year to the next. And especially gasoline, which grew 17%. And this volume of sales came with a higher price. And we had in November 11 an adjustment and then in June of 2012 -- in July of 2012. So we had three adjustments, which impacted the sales volume in the country. But we also had better price of exports due to the devaluation. And on converting these revenues, this improved our revenue total.

Due to other factors, our COGS also increased, reducing our operating income. And this was because of the greater sales volume in the domestic market, which has applied the imports, the additional amount, although our refining area has been reduced because of its production of oil products. The market grew beyond this proportion. We had to import more products. And these came because of the exchange devaluation at a higher price, which led to the import of gasoline and oil prices to have to increase in cost.

And we also had the special participation, due to the exchange devaluation we had this cost increase. And also in the refining area, because of all those units that have been already mentioned and shown as production units in the startup of these units, we also had a greater depreciation of this equipment. Therefore our COGS grew. We had a slight increase in our SG&A expenses. And the main cause was an increase of salaries because of our collective bargaining processes and also our headcount was increased because of greater activities in the Company and also due to the technical services which were hired.

We had other expenses, particularly the write-off of dry holes, which has already been explained, which occurred during this period. Next slide.

When we compare the net income from 2011 to 2012, there was a drop of the operational of BRL13b. This was the greatest impact on the net income of the year. But this was aided -- well, not really helped. But affected, reduced, by BRL3.8 billion by the interest result, the financial result, which stemmed from 17% of the real depreciation which occurred in the period, which affected or stems from the net debt nominated in dollar, which grew even more in this year of 2012.

And another relevant point is income tax. The income tax was lower and this includes -- increased the net income because of the increased total net income. Next slide.

Comparing the third with the Fourth Quarter of 2012, we had a reduction of the sales income, for sales revenue as we had higher demand, the revenue occurred due to higher prices also of energy. And increased demand. Demand grew in the Fourth Quarter 7%. Gas increased 20% in demand. And fuel oil 38%. But all of this, which led to the increase of demand and sales and therefore revenue, was offset and still reduced by exports, which dropped because of greater throughput in the country. And besides having a certain volume for exports at throughput, this is not yet recognized as revenue for the period. And we also have the reduction of the trading carried out abroad which leaves us a smaller margin than normal. But when you add the sales revenue you will have the total.

And in the COGS we have an increase of the products because of the market supply. The market grew 4% from one quarter to the next. And its growth, as has already been explained, was due to imports, particularly of gasoline and of the liquefied natural gas, which had grown as well. And we also had in Other Expenses in view of the write-off of dry holes and some commercial ones. We had the recovery of assets internationally. We had a reduction of the income in the period of the Fourth Quarter of BRL2.9b [ph]. Next slide.

The net income of the Third Quarter compared to the fourth, we have the effect of the operating income already stated. And which was improved by the financial results, because of the sale of the federal government bills that we have been holding for some years now. And which appreciated in their value. And now with the realization of their sale, these securities were pegged to guarantee our pension program, which had improved. Therefore, these securities were written off and recognized. They were realized and included in our balance sheet.

And also the relevant impact on income tax and social contribution on net income occurred through the declaration in this quarter of a larger volume than the former quarter of interest on our own capital. This had not been declared before. And in this quarter, then, there was a larger amount. And this was declared, giving us BRL2.1 billion as a result. And reduction in tax to be paid.

On our next slide, we have our leverage, debt long term. The Company's long-debt term grew from BRL155 billion to BRL196b. And this growth increased due to the debt to finance our investment plan. But also due to the exchange depreciation. And this adds to our debt when measured in this currency. And such we had an increase of leverage. The net debt over capitalization, net capitalization went from 28% to 30% and net debt over EBITDA went from 2.42 to 2.77.

This then is a period which we knew would be difficult, a difficult period for the Company where production is not growing. But during which we are investing steadily to deliver on our projects. And thus we believe that we will reverse this situation in time. Next slide.

Dividends. The Board approved at our general meeting the proposal of paying BRL0.46 (sic; see presentation "BRL0.47") for the common shares and BRL0.96 for the preferred stock. And this is due to the fact that these two different categories of assets of the Company follow different rules regarding the payment of dividends. 25% of the adjusted net income applies to both. But the preferred shares do have a difference, the 25% or 3% of the shareholders' equity which correspond to that particular asset, or 5% of the capital stock. In this case, this year the 3% on shareholders' equity is what was applied in such a way that we are paying the minimum further the preferred stock. And for the common, we apply the BRL0.47, partly -- which was paid last year and part to be paid this year. It was -- they were both paid at the beginning of the first half of last year as interest on our own capital, the value of BRL0.20 per share. And this will be reduced now to pay off the rest this year, if this should be approved by the general meeting.

And now I would like to ask our CEO to take the floor again. Thank you very much.

Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted) Well I wish to leave you, ladies and gentlemen, some messages and some more information. In the first half of 2013 it will be very much more difficult than 2012 was. 2012 was a very difficult year. And especially because of the maintenance of our production. It was a tremendous challenge in the Company to keep within our target. We certainly did not give up all the necessary maintenance of our production units. And everything that we did was to maintain obviously operating security and 2013 will be even more difficult. And this first half of the year particularly. However, as we go through 2013 and in the first half of the year, we know that these are the most difficult moments of the Company because we are investing so much in this Company. And in the very near future I will be showing you this and then we go on to questions.

We did a lot in our management this year, continuing improvements in the management, which was already started at previous years in 2012 we carried out or we did a lot, reaching out to all the different layers of the Company all the way down, right down to the employees who work on the rigs and this to us is most important. The Company cannot continue to grow as it was before without the PROCOP. The PROEF also is extremely necessary. We have to do as much as possible in our production and these programs. PRODESIN is essential for a company which grows as much as Petrobras. All of this is very important.

And another (inaudible) is the Infralog, which is the maximum use of our logistics capacities in Brazil, working with all our companies of the Petrobras Group so that we can avoid the not using the synergy among the assets that we already have to have, to build the new assets. So I'm talking about Petrobras, (inaudible), Distribuidora, etc.

Regarding investments, our capital budget for 2013 is BRL97.7b. And what does this BRL97.7 billion mean? In 2012 it was BRL84.1b. On top of this investment we adjusted the installments in dollars, of the amounts in dollars, which are about half of our investments, from 1.73 to 2 and the other half in national currency adjusted by the IGPN. So BRL84.1b, which appear in as BRL97.7b, if we did not have the exchange variation, if the GPN was zero, we would have an investment for 2013 of BRL89 billion and not BRL97.7b.

This difference of BRL84 billion to BRL89b, BRL5b, stems from additional investments which we are carrying out within our same projects. But not new projects. The fact is BRL97.7 billion is to develop the projects that are already being implemented, for 2013 we don't have any new projects, we have our projects already at a very high maturity level.

At our refineries we have more than 70% of physical realized activity and under control. So we will be able to have first refinery trade in the first half of 2013. We have a huge amount of activities in execution and it is this that justifies 85% of all the investment. There are no new projects in view.

Regarding refining and the oil products market, a permanent search for the convergence of international prices, this is our routine, this is our daily activity this search to have a convergence of these prices. We expect a growth of 4% of the oil products market of this year and we have a production of the refineries, although we do have scheduled maintenance as well, we expect a greater production of diesel and a greater participation of national oil.

As I have said, looking to the right of the slide our production this year, this will be a difficult year in the production of oil. Our average production will be the same level of 2012, 2.002 million barrels or 2%. What do you ask us, we will be closer positive or negative? I'd say it was a 2 negative. We will not be able to have any additional production because physically it's just not possible, it is not possible to do. We will begin to grow our production after the second half of this year, of 2013.

Then I'd like to call your attention to the six platforms that will be working throughout 2013 and ramping up. The FPSO Cidade Sao Paulo, which started up in January 2013, we have Bauna and Piracaba FPSO Cid. Itajai, which will be starting up at any moment, we will announce that to the market, everything is ready. It's all interconnected, we are just expecting the authorization from the national agency and we will then be starting up our production in the next few hours, maybe.

The Lula Pilot Cidade Paraty will be starting up production in May, Papa Terra P-63 in July 2013 and the P-61 also, Roncador Model III P-51 September 2013 and one more, which is the P-58, which starts up in January '14.

So this is something very tangible, it's not a question of bidding process or talking or discussing whether it's national contents or it isn't national contents, it is something very tangible and we have been following very closely the progresses of each one of these units.

So it is these seven units, not six but these seven new platforms, which will give us a significant increase and the continuation of the production of Petrobras. This is material and a greater degree of physical realization.

So ladies and gentlemen, the production has been shown to you. The investments of the Company which we are making are considerable and prices and convergence with international prices with those practiced in Brazil, according to our policy which is one of medium-long term, is something which we will be striving for and we are starting a new moment in our Company. We will be increasing our production, this is written on the board that as from the second half of 2013 we are convinced that we have the Company under control in our hands. Thank you very much.

Questions And Answers

Operator

(Interpreted). Thank you very much. Now we'll start our question and answer session, first in Portuguese then in English. We would ask you to please keep to two questions and ask them simultaneously and then they will be answered. (Operator Instructions) Mr. Marcus Sequeira from Deutsche Bank has a question.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(Interpreted). Good morning, thank you for your call, I have two questions. First has to do with the refineries. We see that the use has been high, almost 5% [ph], I would like to know what about the demand, will it continue to go up in 2013? I know you said a growth of 4. But what if the demand is higher? And are you concerned with the capacity of the logistic of imports and is there any bottleneck for the delivery of refined products in Brazil?

And second question, I have understood your price policy and how things occur in Brazil. But how can one conciliate the price policy which, up to date, has been worse than expected? And there is still a gap or mismatch regarding international prices. So how to conciliate this policy with an indebted balance sheet and cash flow which is more negative with this increase of CapEx. Is there a possibility of perhaps, during the year, be a review of the CapEx in case international prices are still well above the national or the domestic prices?

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted). Well thank you for your questions. Regarding our logistic capacity, I mentioned that our project in logistic infrastructure. When we integrated the demand with production and the demand of downstream and the distributors, particularly in our own distributor, we have a lot of work to do.

First of all, to avoid the building of new assets but make the best of the synergy to make use of all the companies, which are already us [ph], to start using the assets which we already have and most of all reduce the costs, (inaudible) focuses on the use of assets of the logistic infrastructure and we have another plans, which mean more costly for the long future. There might be some additional investment in infrastructure. But most of all cost reduction.

Regarding the pricing policy, I'm giving just quick answers, we can talk later some more. But regarding the price policy we have had three price increases and intense discussion with the majority shareholders and with the Board. So that we reached an agreement regarding the situation of the Company and the portfolio of different projects and different opportunities and we arrived at these agreements. Well 17% -- well, all of this made it difficult for us to achieve better increases. Well this is an ongoing discussion.

CapEx of a company as large as Petrobras, you cannot reduce it just from one moment to the other. You have new projects, you have investments that you have to continue. You have to generate revenue in refining and natural gas. So this goes on all the time showing the Board members our situation in terms of the good projects that we must get on with the good prospects.

Petrobras has a basic essential role in the growth and the maintenance and the creation of jobs in Brazil, Brazil needs new jobs to grow. We have a very relevant participation in the growth of the economy, therefore it is ongoing work that we must do to show our major shareholders how much we have to review price and raise them gradually during the year. But there is no forecast of cutting the CapEx.

Operator

(Interpreted). Mr. Caio Carvalhal from JPMorgan has a question.

Q - Caio Carvalhal {BIO 16605563 <GO>}

(Interpreted). Good morning, I have two questions. The first is to do with the dividend policy, perhaps I'm wrong but this difference between the mandatory minimum to be paid has already occurred last year when the Company, although it could have been different, decided to pay the same to both. This year it seems to be continuing in the same and you will be paying the mandatory minimum to each, common and preferred. Will there be any change or are you going to change for some reason or, if there should be a difference, is there a prospect which will you adopt? Not the policy, because that's been decided, perhaps the strategy of paying to each, or whether the strategy of just paying the minimum will be maintained.

The second question is for all of you, how is the Company considering the question of leverage vis-a-vis the limit of 2.5 times the tax? Because I take the production, the guidance is that the production will not improve this year but the CapEx is 16 times higher. So the expectation is that the cost reduction program doesn't take this into consideration and the discount continues to exist. So the cost reduction, will it offset the difference? Will there be an increase of leverage now, during 2013 or not? Will things worsen this year and will we be going back to the level of 2.5 as from 2014?

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted). I will answer you the second question and Barbassa will answer the first. Regarding your second question, this question does not solve itself by itself, the PROCOP is something that the Company needs. If you have a cost reduction, I'm talking about operating costs, I'm not talking about cutting CapEx, operating costs is to do the same thing better but at a lower cost. But we need more besides PROCOP. Therefore, we have an ongoing search for price convergence. Predictability is very important to Petrobras because it is this predictability which will lead to the fact that, as from 2014, we will once again depend on the Company's cash and good financial and economic indications and so we can evaluate the possibility of bringing in new projects to the Company's portfolio.

Meanwhile it's not possible and other projects are being evaluated, regarding whether they are economic or not, or there are no losses for the Company because the other projects have not been included. But the PROCOP is not enough. We will be increasing our production because we have to. But it is not possible now. We said at the beginning of March/April 2012 that the production will be the same in 2012 into '13. So PROCOP, the operating efficiency. And the incessant search for convergence of price and all of this with the increase of production will, effectively, lead to the fact that this Company will rise to another level at the end of 2013 with good results in 2014, '15 and '16.

Regarding the shares.

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

(Interpreted). The dividend policy of the Company will continue. We have always announced the difference between the two classes of shares and the payout of minimum dividends. What occurred in 2011 was within this policy, the Board recommended this and it was approved by the General Meeting to have an identical payout of dividends to the two types of asset. But it is widely known and disclosed that the preferred shares do have the possibility of having a greater payout because the parameters are different from the ordinary stock. Therefore, this will continue to be our policy. Thank you very much.

Operator

(Interpreted). Mrs. Paula Kovarsky from Itau BBA will ask a question.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(Interpreted). I have two questions, the first one and this is a recurring factor here because we always go back to that about if I could. But it's still a subject that brings a lot of concern to our minds. With a very quick map here you said that $831 million were invested in this program and that it would have offset 47,000 barrels per day drop in 2012. Then we are talking about $48 per barrel, if we can imagine that this is the offset for more time like five years time we would be speaking something lower than that. But in spite of that you're talking about 10 per barrel. But it is still much higher than the usual S&D of Petrobras.

We are trying to understand how we should think about this cost from now on, is it only the 6 billion that you have shared to offset attrition or you had more surprises and it is tougher to reduce this drop even further? So maybe you could give us an idea from what we should expect from the few points of depletion for 2013 and understand that, even with almost 500,000 barrels per day additional, your production is still flat with a potential downside? So this is the first question.

And the second question has to do with the dry holes, you said BRL6 billion for 2013, which is even higher than 2012, I would like to understand if this is a cost level that will stay forever or whether it has to do with some housekeeping work that you're still doing, vis-a-vis the previous E&P investments made?

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted). I will answer the second question first. In 2012 we have BRL7.058 billion in dry holes or sub-commercial wells. What I said was that this volume of resources was not estimated, what I said for '13 is that we have estimated around BRL6 billion for dry holes for 2013.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(Interpreted). Yes. But it is higher than what we saw before 2011. So my question is whether this is a new level or --?

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted). This is the level for 2013 because not all dry holes for 2013 started in 2013, some of them come from previous years. And what we did was to approve in our Executive Committee Meeting the exploratory policy of Petrobras, in terms of not getting into exploratory activity without quantifying the risk first, the risk for dry holes and posting these risks to the business and management that we have every day and our activity plan for every year.

What I said was it cannot be a surprise, you have a success rate however there is an outstanding success rate but we have higher cost for wells because our situation is much more severe than in previous years, more deep water, the cost of the wells is higher for many different reasons. So the exploratory policy defines our actions and it establishes a parameter for our actions and defines in the business land which is the level of risk you can take in costs with the write-off of dry holes. As of this year, 2012, we are already mitigating the effects of dry holes in '12 and also 2013. In spite of that, we still have around BRL6 billion in dry holes written off for 2013, okay.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(Interpreted). Okay. Thank you very much.

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted). Now I will give the microphone to Formigli if he wishes to make any additional remarks about the dry holes, otherwise he's going to answer your first question only.

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

(Interpreted). About the dry holes, it is okay. Regarding your previous question, I repeat that in terms of reservoirs the decline in the potential of the Campos Basin, especially the Campos Basin, continues between 10% and 11%. This is a process that we can prove very strictly, by means of drilling of supplementary wells and by means of water injection and we have been able to maintain the estimated levels in relation to efficiency. As you can see on the slide it is lower than 70% at the first half and we start a recovery curve reaching, in December, 78%. In our estimate for 2013, in all assets of the Campos Basin, 76% estimate and we will not let it drop to the January levels.

Regarding the $831 million investment, this is not investment this is expenditure. So beside the expense you have all the operational cost for the production of oil and this is the global figure of all the money that we have to put either in investments or consider it as operating costs. In the return we have these $119 million and the account is carried out exactly in the same was of any other project. So we have the internal rate of return here, because the return is much faster in time terms than if you make an investment in a new area.

Maybe the volumes are lower, as you said yourself, however on the other hand the internal rate of return is much faster. And what we need right now is to have a quick return and revenue stream to the Company so that we may have the adequate planning and our EBITDA planning. So that we may have cash generation together with the funding that we have we are able to implement our CapEx program. So this is our total target which has to be supported by the CapEx generated by our revenues.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(Interpreted). So the $831 million is a combination between CapEx and OpEx?

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

(Interpreted). Yes. You see that when we start the graph that we already said that we would have investments and operating costs. You see 4.1 of operating costs and investments I really don't remember it out of -- these two things are combined. So you cannot analyze considering that beside -- you have to consider that you have the operating costs.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(Interpreted). Thank you.

Operator

(Interpreted). Mr. Andre Sobreira from Credit Suisse asks a question.

Q - Emerson Leite {BIO 4003528 <GO>}

(Interpreted). Good morning, everyone, this is Emerson Leite in fact, two questions. Going back to the issue of dividends, I do agree that the dividend payout policy is in your bylaws. But over these 13 years since 1999 the Company has always shown the market that they would deal with shareholders in similar ways in distribution of dividends and if we consider some other editions of your general business plan we will see in some slides that you mentioned equal payment of dividends to the two classes of actions. Of course the Company can do whatever it wishes. But I have the sensation that it gives a very bad message to common stockholders when they see this, because in capitalization you paid a higher price for the stock and now you see dividends being paid out by half of what preferred shares get. It seems to me that it is some steps going backward in terms of government and the treatment to shareholders in a fair manner. So this is what I would like to say and hear what you have to say about that.

And the second question has to do with import of oil products, could you please clarify the accounting method for import from the physical viewpoint and from the financial viewpoint? It is not very clear to us if all the volume that is exported is being posted in the period or if you have volumes that were imported but the expenses will be recognized in the subsequent quarter. So could you give us details about how you have an accounting for expenses with imports? I think that would be very useful. Thank you very much.

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

(Interpreted). Emerson, this is Almir. The issue of dividend, as you said yourself, has always been placed as a possibility and it's possible that it was exercised this year and for a very good reason, due to cash reasons, because we wish to preserve our cash and this was the reason why. And to say that we would always pay like that, well it is not in our policy and it is not our policy. We have always stressed the difference between the two. So this is not a possibility. Whenever possible of course the best alternative is to pay the same dividend to both classes, however the conditions right now required the decision that we had to make.

Q - Emerson Leite {BIO 4003528 <GO>}

(Interpreted). Just one remark, I'm sorry, I apologize for interrupting. I do understand what you are saying, however, I believe that investors in your common stock will have a very good argument, which is the difference in the payment, or the dividend payout, would be BRL3.5 billion more or less. So you do have cash for an investment plan for 2013 and you don't have BRL3 billion to pay equal dividends? So I think this is the rationale that is reflected in the pricing of your common stock in the market.

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

(Interpreted). Emerson, the issue of the BRL97 billion of CapEx for this year that you referred to, was explained by our CEO and this refers to the continuation of our projects that we have underway and that we are implementing. So stopping this would mean a higher loss to the Company, in our opinion. So we chose to continue our investment and without adding new projects. And this represents a difference regarding CapEx when you compare it to the past, because in the past you saw an increase, year on year. And in this way we are making the necessary adjustments wherever we can make adjustments. So the interruption of projects either way would mean a higher loss to everybody.

Q - Emerson Leite {BIO 4003528 <GO>}

(Interpreted). This is good answer.

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

(Interpreted). I would like to make additional remark, you talk about the BRL3b, this would be necessary to pay equal dividends. If we take these BRL3 billion and we make little more than one additional platform, let's say, we return to our shareholders a better return. So our total priority is focused on E&P and anything that we can transform into an increase in our oil production, very quickly this is what we are doing.

Q - Emerson Leite {BIO 4003528 <GO>}

(Interpreted). Thank you.

Operator

(Interpreted). A question in English.

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

(Interpreted). I would like to go back and say a few words about imports, this is Cosenza, about the allocation of imports and exports and we use the accounting method. We export on our ships and they are only accounted for when they get to the destination port. On the other hand, when we import with our ships, this is accounted for when this is loaded. This is both for oil and oil products. Thank you.

Operator

(Interpreted). We have a question in English, Mr. Frank McGann from Bank of America Merrill Lynch would like to ask a question.

Q - Frank McGann {BIO 1499014 <GO>}

Hi, good day, everyone, thank you. Just to delve a little bit deeper into the balance sheet issue and the level of CapEx, the debt levels of course have got very high and generally the net debt to capital is rising very quickly to your limit of 35% and your EV/EBITDA -- net debt to EBITDA limit is already beyond -- the level's already beyond your limit, which would suggest that something has to be done. And I was wondering if you think that you would -- it seems you don't believe that you need to make CapEx adjustments. But how can you continue, or what is the risk that if you continue to spend as you're spending that your investment grade could potentially be affected?

And the second question would be along the same lines. In order to perhaps improve the balance sheet, it doesn't seem like you're making much progress in terms of asset sales. But is it possible the asset sale program could be moved to more aggressively and potentially be expanded to raise cash to invest in these higher return projects?

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

This is Almir, it is (technical difficulty) levels, we are implementing the projects we have in our hands and have well explained all in the E&P during this year we will have six new platforms ramping into production. And next year we are going to have a large number as well what will give us much higher cash flow than we are having at this moment.

So this is the way we are seeing the Company. We are keeping the implementation of our projects and with that even if we grow beyond our 2.5 times [ph] net debt to EBITDA, we have a bright future pr (technical difficulty) future because production will start ramping up in the mid of this year and continuously will grow through larger volume of production. We have in our hands this information, it's under control today all the projects we are implementing now and that will be implemented in the future. We have the number of leads we need. We have all the platforms being produced in the way. So this is the way we intend to overcome to bring the leverage back to a sustainable situation in the near future.

Q - Frank McGann {BIO 1499014 <GO>}

So the rating agencies are supportive of that? There's no risk of possible move by some of the rating agencies?

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

The rating agencies, they have a long-term view on the Company. It's not a matter of moments [ph] that we are leading now. And looking at this more long-term view, the Company has very good prospects, exactly because we have oil to produce and we are implementing our projects to reach the targets we have ahead of us. The targets we have delivered and we are expecting to deliver in the near future is achievable at this point. And this is our biggest, biggest effort is to deliver this target, delivering to the rating agency, to everyone, a comfort that the Company will be overcoming the current situation in a short period of time.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. And in terms of the asset sales, is it possible that program could be moved more quickly or expanded?

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

Yes. We believe -- no, not particularly [ph]. We would like to have had a better answer from the potential buyers, okay? But we believe that is the second semester of the year we will conclude some important divestments, this year the second semester. Okay?

And about each important [ph], we have been considering the divestment program result in our comparability and there are the programs of the operational cost PROCOP. It's very, very important. We cannot open [ph] the possibility of optimizing our goals to pick up [ph] goals which are important to us you remember [ph]. And we have also many other activities that need to be done together because they are a direct link between each of these important programs.

But as said by Barbassa, we have the reserves. We have the assets to produce the oil. We have the knowledge. We have the obligation to manage this Company in order to prioritize the exploration production area and to dedicate part of our budget to conclude our refineries that are now under construction. And with this view we believe that the agents, the rating agents, that they do not analyze point by point because they are not looking us they have been appreciating our portfolio of projects. That's the point.

But we have been looking for more price in order to converge the domestic prices with the international price in order to have better results in near future. That's your point.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

(Interpreted). Another question in English. Mr. John Wynn [ph] from Societe Generale has a question.

Q - John Wynn {BIO 1773407 <GO>}

Yes. Hi. Two quick ones. With respect to the asset sales, do you have data rooms open or are you just addressing your working with partners?

And the next question is on Frade, when do you expect that to actually be running again?

A - Unidentified Speaker

We have already made a roadshow through (inaudible) and through Europe. We will be doing this in the US this week. And the data room will be opened by next week here in Brazil. So things are going exactly according to the schedule. But for all the areas, there's only one vendor, international one. Okay?

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

The components will be developed [ph] by the end of April. We will have all these efforts concluded. Considering the new assets and the growth of Mexico assets. Okay?

Q - John Wynn {BIO 1773407 <GO>}

Thank you.

Operator

(Interpreted). Mr. Gustavo Gattass, BTG Pactual, has a question.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(Interpreted). Good morning, everyone. I had two questions. One is very simple and straightforward to Barbassa and another one more complex to Gracas.

Barbassa, I would like to know from the dividend viewpoint your understanding is that the minimum dividend to be paid to voting stock is 25% of the earnings per share for the year and not 25% of the total value that would be split between the two classes of stock. Anyway this is a simple question.

And the second one is to Gracas. I need additional help. I don't know whether I'm doing something that doesn't really get to the right result. Is there a variable that I don't see? But we saw a 6-percentage-point increase in your leverage, a big increase in net debt/EBITDA ratio. And if I consider simply the $18 billion growth in your debt and if you increase your production by 500,000 barrels, I don't get a coverage of 3 times debt/EBITDA. I mean that cash. Is there something that escapes me because you mentioned the sale of assets? Is there a part of the story you're working on or there is a sense of urgency to try and accelerate the problem of your leverage? So what is your frame of mind regarding that?

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted). Of course you don't have all the information that we have. But I can guarantee to you that there is no miracle involved. You see what exists. It is the same that I see and that I manage here. Undoubtedly the year of 2013 is a tough one. And we -- when we consider the indicator net debt/EBITDA ratio you can see that this is a tough year in that regard. And we are certain that we have on our table very important papers and management instruments and action instruments for us to act with the market and also with our controlling shareholders.

So we have the cost reduction program, a very strong one in the Company. We have a recovery of efficiency program, investment program. In order to open a new project in infrastructure you have to select the areas and the people and only afterwards you think about it when you can. And also the need to conclude all these resources that we will have in these assets, the assets that are being built.

So the confirmation of our reserves, the potential that we have ahead of us, this is not without fundament. We know exactly what we are talking about. Maybe you don't have the whole rationale because you're not with us, you're not inside the Company. You're very close to us but you're not inside the Company. So all this array of factors lead us to believe that we will be overcoming this very tough year of 2013 and improve the net debt/EBITDA ratio. There is no magic involved.

We have a very strong management of our different segments. And this changes the routine of the Company, of course. But it has to be changed. We have the right people in the right place. We have the reserves. We have the platforms. We have all the rigs that are already here. So we have to leave this year of 2013 behind and we have the program coordinators and we said, well, this year is going to be much more difficult than 2012. But we are better prepared. So this is the point.

I have nothing to add to what I have already told you. I'm not hiding anything. I have no good surprises to tell you about. We just have to work very hard and seek price convergence, try and seek efficiency and try and seek productivity. We have the best people I could ever have, not only in our Executive Committee but also in our team. So the rating agencies are looking at that, according to what they must do. And weighting this whole arsenal of products and people that we have in the Company. And that will lead us through this year of 2013. And we show this very clearly. And we just need some more time to talk to all of you.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(Interpreted). I would like to do some follow-up. Your sensation is that the rating agencies do not have this sense of urgency? They're really accepting to just wait and see?

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted). No. We do not believe there is a sense of urgency. In the Company we do have this sense of urgency. We are no longer the same people with the same kind of management that existed in the past. And myself and Barbassa and my other colleagues, we all have this sense of urgency. And of course we have all these big concerns regarding our investment grade, it's very important for us. We know that these problems have to be tackled urgently and we work with a sense of urgency, nonstop.

We had three price increases of our fuel that didn't reach the levels that would bridge the gap of the devaluation of the real because you -- it was 17% higher for us in reais, I'm referring to the brand [ph]. And so all this played against us, of course, all this valuation of the real. And you know as well as we do about our debt. 80% practically is dollar-denominated debt. And we know that we have to solve this equation and we're not just sitting and relaxed sitting. We are putting this sense of urgency in everything that we do. And we are permanently concerned with that and focused on that and doing whatever we can.

However, on the other hand, we are very comfortable knowing that we can implement whatever has to be implemented. And we have to be very cautious in this regard. And we are doing this with a lot of dedication and our best endeavors, Gustavo.

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

(Interpreted). Thank you for the easy question, as you say. In the case of dividend, the slide that we showed can show you that the 25% would be separated from the adjusted net income which is taken from the adjusted net income. 2% to preferred shareholders being deducted from this amount separately and the remainder for the common stock shareholders. And this is not what we are practicing. What we are practicing is 25% as a minimum for both classes of shares. And in the case of the preferred shares, the 3% are higher than that and we are increasing the amount to be paid out. We're not limiting ourselves to 25% of the total adjusted net income. Okay? So this is the explanation.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(Interpreted). Thank you very much, Barbassa.

A - Theodore Helms {BIO 15433381 <GO>}

(Interpreted). Thank you. We would now close our Q&A session of Petrobras' webcast. I would like to ask Mrs. Maria das Gracas Silva Foster, our CEO, for her final remarks. You may proceed.

A - Maria das Gracas Silva Foster {BIO 15034303 <GO>}

(Interpreted). Thank you. So much. I would like to thank you, ladies and gentlemen. for your attention. You have been with us for almost two hours now and this particular moment in which the Company finds itself leads us to understand that we must come ever closer to our analysts and investors so that you can become more familiar with everything that we are doing and what we have achieved.

What we have drawn up for this year, 2012, '13 and '14, what we are doing, what we have done and what we are trying and manage to produce, it's very important because the results which come to the market are many numbers and information. And a lot of the potential results which will come around in two or three months or two or three years or whatever sometimes are not visible to you all. So I'm sure that Barbassa has come closer to you.

But I in 2012 I'm [ph] devoted my time to the Company and I didn't go abroad very much. I haven't been very close to analysts. So this year, 2013, I want to spend more time with you. I will be helping Barbassa. And give you a much more material vision of the Company to discuss the difficulties with you. And I ask all the officers who are also immersed in their projects and that they may follow closely their work. But also give up some time and to come closer to you too. I'd like you to come into our Company, of a company with a great future which is very close to happen.

So thank you very much for being with us.

Operator

(Interpreted). Thank you, ladies and gentlemen. The replay presentation will be available on the Company's website on www.petrobras.com.br/ri.

So with this we conclude our webcast today. Thank you. So much for your participation. Please disconnect your line and have a good day.