

Q4 2013 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO and IR Officer
- Jose Carlos Cosenza, Downstream Officer
- Jose Miranda Formigli, Upstream Officer
- Maria das Gracas Silva Foster, CEO
- Unidentified Speaker, Unknown

Other Participants

- Luiz Carvalho, Analyst
- Nelson Laiti, Analyst
- Paula Kovarsky, Analyst
- Unidentified Participant, Analyst

Presentation

Unidentified Speaker

Welcome to the presentation of Petrobras' strategic plan 2030 and operating and financial results of 2013. This is being broadcast by the public audience over the Internet in Portuguese with simultaneous translation into English at www.petrobras.com.br/ri.

Public -- We'd like to inform you that after the presentations, the floor will be opened for a Q&A session. And we will have the participation of the audience present here in the auditorium. We are now waiting for the live broadcast by web TV and Petrobras Corporate TV.

We will now begin to talk about Petrobras' strategic plan for 2030 and operating and financial results of 2013. This is also being broadcast by Petrobras Workforce live on Petrobras portal through web TV. Those of you working on platforms, FPSO and subsea platforms will be able to watch this event on your television sets on channel four.

We'd like to invite Mr. Jose Eduardo de Barros Dutra, Corporate and Service Office, Jose Eduardo de Barros Dutra. Also, Mr. Jose Antonio de Figueiredo, Engineering, Technology and Materials Officer; Mr. Jose Alcides Santoro Martins, Gas and Energy Officer; Mr. Jose Carlos Cosenza, Downstream Officer; Mr. Jose Miranda Formigli, Upstream Officer; Mr. Almir Guilherme Barbassa, CFO and IRO; and Ms Maria das Gracas Silva Foster, CEO of Petrobras.

We will now have the presentation of Petrobras' strategic plan 2030 and operating and financial results of 2013, presented by CEO, Gracas Foster.

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

Good morning, all of you present here in the auditorium, ladies and gentlemen. Journalists who are following this event, Petrobras workforce, who are also watching us and you work together with the officers in this battle to build our dear Petrobras.

I will be talking to you now about three different topics. First, we will go through our results. That is the results we produced in 2013. Next, we will speak about our strategic plan with this view of 2030. That is, today, we are already thinking about our future up until 2030.

And next we will speak about our business and management plan. That is, today, we will be together during 60, 70 or perhaps 80 minutes. I will conduct these three presentations and then I will share the floor with my colleagues, Petrobras officers, to answer your questions, ladies and gentlemen.

Our results of 2013. We want to begin talking about our reserves. We are what we deliver to our clients and everything begins here in our oil and natural gas reserves. In 2013, we reached 16.6 billion barrels of oil equivalent in Brazil. For the 22nd year in a row, our reserve replacement ratio in Brazil and abroad, because we also have reserves abroad, is 131%. We have seen a growth in the last 22 years. Our reserves production ratio is equal to 20 years. And so we feel quite comfortable to speak about our future.

We feel confident because we have had very successful results. In 2013, considering the period of time from January 2013 until now, we've had 46 new discoveries. It is a large number of discoveries. And we've had significant discoveries in Santos Basin; Sul de Tupi, Florim, Sagitario, Iara Extension 4, Iguacu Mirim, Franco Leste. That is a significant number of discoveries in Santos Basin.

Let me call your attention to Sergipe-Alagoas, where in 2013 we've been able to report very successful results, Farfan 1, Muriu 1 and Moita Bonita 1.

I want to call your attention to -- also to the results of our success ratio in Brazil. In 2013 we've had 75% success ratio in Brazil. And this number that is considering land, sea, post; and pre-salt, we've had 75% which is way above international averages. In pre-salt, we've had 100% success. That is all wells drilled in pre-salt had significant reserves of hydrocarbon.

Now Petrobras oil and NGL production was 1,931 kbpd. That is we've had a drop compared to 2012. But on the other hand, our result shows that we've recovered our operating efficiency. And operating units of Rio and BC. We will give you further details about this.

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And what we call old oil, our natural decline has been below the expected range so that our result was much better than planned. It shows that we have been able to adequately manage these reserves which we call old oil.

We've had a justified delay. We were not able to deliver a few targets because we had delays in P-55 and P-58. That is they had delays between three and four months to begin operations.

However, all of our buoyancy riser systems, these technologies are brand new. These are pioneer technologies we are using for the first time here in Brazil, by Petrobras. And we have been able to prove the efficiency of this technology week after week until we started production of a well in Sao Paulo, 36,000 barrels which led us to hit a record in pre-salt production last week. So the technology has been proven. The problems have been overcome.

Large challenges we've had with PLSVs or pipe laying support vessels that should have contracted before, they were contracted with a delay. So they represented another challenge that is after drilling, after completion, to have these operating units there and be able to provide the interconnections at the right time. One more time, we are being able to overcome this challenge early this year.

Now, regarding sales and oil products output, we've had an excellent result in 2013. Our sales of oil products grew 4%. And even better than that, we've had an output growth of 6%. Our domestic production grew 6% with the same refineries. This is because we've improved operating efficiency. We've maximized our capacity to improve the refining profile of these units. So we are importing less. We've had a sales growth of 4% and an output growth of 6%.

Next, I'd like to speak about oil product prices and the gap between prices in Brazil and in the US Gulf. We've had two diesel adjustments and three gasoline adjustments. In diesel, 20%, heading up the adjustments and in gasoline, 11%.

In May, for 30 days, we came very close to the prices in the US Gulf. That is Brazilian prices came very close to prices in the US Gulf. However, because of the Brazilian currency devaluation, which was quite significant, it led to a deeper gap between prices in Brazil and abroad which means a loss, or which translates into a loss in Petrobras' results.

Looking at gas and energy, up until now, we've been working very intensely implementing all production best practices in the construction of oil pipes and in the use of energy. We have higher thermoelectric demand. The fact is that this year, the thermoelectric demand is higher. 52% was the demand of gas to generate electricity. And we have seen a great capacity of adaptation on our part. We've recently opened our third terminal, the third terminal of Bahia. So we now have three operating terminals.

Including the new terminal that's operating at full capacity, we have gas imports from Bolivia. We're actually importing more gas from Bolivia because we're sending gas also to

Cuiaba. And we bring to Brazil natural liquefied gas from different sources. The fact is that we have been able to provide the demand to the Brazilian energy operator. Our units are operating at 98%, 97%. And we've been able to meet 100% of the national operator of the electric system demands.

Now let's talk about the results of structuring programs in 2013. PROCOP is our program to optimize operating costs, PRODESIN, our divestment program and PROEF, our program to increase operational efficiency. These three programs have contributed to our bottom line with exceptional results in 2013.

We've been able to avoid costs through PROCOP and cost avoidance is way above the BRL3.4 billion target we established early in the year. PROCOP finally translated into savings of BRL6.6 billion in 2013. The gains, as I said, were above the plan. And they were obtained using different PROCOP levers. We've had effective reductions. We've been able to make better use of energy. That is we've improved our energy efficiency in our operating units, in the refineries, in thermoelectric units, also on our platforms so that we are constantly seeking for higher productivity. Optimization of maritime transportation so that we are paying very close attention and rigorously controlling our stocks. We've been able to avoid, as I've said, costs for BRL6.6b.

Now let me talk about the divestment program. From August 2012 to December 2013, we've had 21 divestment transactions. As we look at the major transactions, in fact, we divest to be able to invest in new portfolio. That is, as I've said, we've had 21 divestment transactions, totally \$10.7b. The transactions conducted contributed \$7.3 billion to our results only in 2013. The cash contribution was BRL8.5b.

Let me now speak about PROEF, our program to increase operational efficiency. Through this program, we've been able to produce additional 63 kbpd, which is significant. And it truly helped increase operating efficiency in Campos Basin and also in Rio. In Rio, we've had a growth of 2.5% in operating efficiency and in Campos Basin, 7.5%.

Even in Rio operating unit, actually this was in May 2012, we've had 82% efficiency. So we have truly been able to improve. At that time, 82% was a concerning number. We've worked hard to improve this operating efficiency. And now we are at 92.4% operating efficiency in Rio operating unit.

As regards our 2013 investments, we've had BRL104.4 billion invested, 24% higher than in 2012. But it's also important to look at the physical advance because you may make higher investments and not have the corresponding physical realization. But we've had a huge physical realization as planned. We've worked on both sides, on the financial front and on the physical front, working on capital discipline in the Company.

So speaking about these investments of BRL104b, we're also including the Libra bonus. In the case of Petrobras, 40% corresponded to BRL6b. Now these BRL6 billion were not planned for 2013.

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The management and the CEO, together with officers is tracking 158 projects every month. Some of which we track daily, as in my case, of course. The officers in each specific area track these individual projects more closely. However, we report the physical and financial advance in each one of these projects. That is, on my desk, I have 158 projects which account for 73% of our total investments.

Results in 2013, we've had a 6% increase compared to last year. This is operating income. And we've had an increase of 11% in Petrobras' net income, BRL23.6b. This increase in the net income as compared to 2012 is the result of price increases or price adjustments we had in 2012. They were in force during 2013 and we had further adjustments in 2013 in addition to the net result.

Looking at our refineries, we've had more load processed. So we've been able to reduce the imports of oil products, higher prices, better use of our refineries and cost reduction.

We had divestments, lower expenses with dry wells. In 2012, you probably remember that in the Second Quarter or 2012, we had a large volume, a large number of dry wells in this same quarter. Since then we've approved our new exploratory policy. And we've had very strong management behind that so that we will be able to minimize.

Of course, it's part of the business. If you work with oil and gas, dry wells are part of your business. However, we don't want to be surprised with a large volume of dry wells in addition to what we've planned. So Officers Formigli and Carminatti have been working in very close management of drilling and on the estimates of dry wells.

We are no longer on the borders of pre-salt. We are now working on areas that have a lower risk. So if we can have a higher cash generation, we will go back to these borders. But now we have a more comfortable RP ratio. So we can actually go towards the borders and take more risk.

Now the extension of hedge accounting favored our bottom line. Lower crude oil exports, because our refineries are now more efficient and we are now processing more oil in Brazil. Persistence of domestic oil product price differentials compared to international prices, obviously, has an impact on our net income, lower financial income and also we've had readjustment of (legal) deposits in 2012. Our debt is higher. So we've had higher financial expenses.

We feel happy with the EBITDA 18% growth as compared to the previous year because it shows our operating capacity. It shows our capacity to manage our operations, optimize them and meet market demands in different segments. So the result is very favorable. And we were, obviously, favored by price adjustments, the divestment program and lower expenses with dry wells or sub-commercial wells.

Next slide, we show some charts with the effects of the Company's structuring programs in the net result. If we didn't have PROCOP or similar actions, similar to these actions that are driven by us as a Company, then we would have a lower or minus BRL4.3 billion less in our net result. PRODESIN in the Company's net result brought BRL3.3b. And PROEF, a

program to improve our operating efficiency, brought BRL2.1b. In other words, without these three structuring programs, our impact in the net result would be BRL9.7b.

This achievement is more than just a statement or a decision. It takes a change in the Company's culture. It is a search for excellence when it comes to costs. That's what we want. We want the conviction that we have to take pretty good care of our assets not only for the sake of assets or for the oil produced. But above all, due to issues related to the life and safety of those who work in our platforms and also the fauna and flora. So this is the impact of the structuring programs on net income.

Now let us move to cash. In cash, the cash effect was BRL14.7b. And this stemmed from PRODESIN at BRL8.9b, INFRALOG, BRL800 -- I said BRL8.9 billion in PRODESIN, BRL800 million for INFRALOG. For the program that works to lower CapEx at wells, we had BRL700m. And PROCOP, BRL4.3b. So in the Company's cash, if the programs did not exist, certainly, we would need to seek more funds. So these programs were decisive to our results.

What about indebtedness indicators at our Company when we closed fiscal year 2013? Indicators, when it comes to net debt over EBITDA ratio, our growth was 3.52, outside the levels recommended or imposed to us by the Board of Directors of the Company. And the leverage has the same principle. Net debt by EBITDA or over EBITDA ratio has grown up and also exceeded number two, which is the red flag. It was over 2.5 due to higher Company indebtedness. And this stems from the new funding and also the strong effects of foreign exchange variation, dollar over real over net indebtedness.

82% of our debt today from \$70 billion to \$94.6 billion or 82% is foreign currency denominated and 73% is dollar denominated. Foreign exchange variation, (190 to 240), as we had yesterday, (230 and 4). They have a very significant impact on our result when it comes to net debt over EBITDA ratio. Leverage is 39%.

We had a variation in our debt from \$72.3 billion by year end 2012 to \$94.6 billion at year end 2013, \$22.3 billion in addition to what we had before.

What about our goals for fiscal year 2014? Let's go very briefly because we'll be giving more details again once we are addressing our strategic plan. On the right, by the way, on the left top, we have the average oil production in Brazil in 2014. We expect to see a growth of 7.5% or approximately 1%. The goal for operating efficiency, 81% for UO-BC, Campos Basin operating unit and 93.1% for operating unit Rio.

Once and for all, Petrobras management simply makes a point in improving the operating efficiency of our units. The reversal and the recovery of our efficiency has a higher cost to pay and that's why we have to be extremely careful and mindful.

Oil products or oil product goals for 2014. Our goal is 2.175 million barrels per day or 1% above our production in 2013 which was already higher than production in 2012. Our refineries, therefore, have had excellent performance. We highlight diesel production, growing 7%, in other words, another 53,000 diesel barrels in Brazil.

What about PROCOP? As I said before, we are working very strongly in the culture of excellence and costs at the Company as a whole. Our goal for PROCOP in 2014 is savings of BRL7.3b. That's PROCOP's goal. And this is monitored on a monthly basis by myself. I have meetings with these areas on a monthly basis.

In addition to Petrobras in PROCOP, ever since mid last year, we also have Transpetro with record goals doubling the results planned for 2013. BR also met the goals as well as Liquigas, (inaudible). These four Companies are also part of this relentless search to lower costs.

PROCOP, the goal, like I said, BRL7.3 billion or 11% higher than BRL6.6 billion in 2013.

Investments. Our investment for 2014 will be BRL94.6 billion or lower than our investments in 2013. 9% lower than 2013. What about E&P and total investment? This is over 57% in 2013 going up to 64% in 2014.

So this is information that I had to give you, ladies and gentlemen. about our results for 2013. Now I'd like to change our slides and then I have a chance to have a glass of water before we start our second presentation.

Strategic plan for 2030. I don't know if the slides are available to all of you now. You don't have a hard copy? You will. Okay. You have access to information though our website.

So we have about 30 minutes. Okay. Let's move to Petrobras' strategic plan 2030. So what are the main drivers behind the revision of this strategic planning? The last revision of our strategic planning happened in 2007.

And now, in 2013, we updated our strategic planning. Back in 2007, at that time, the management was highly motivated to improve the strategic plan, envisaging 2020. And it had to do with the discovery of pre-salt and the growth of oil products in the domestic market, at that time, pre-salt Brazil and growth in the domestic markets. Nowadays, there is a change in the legal framework in Brazil and we have to live with three models.

Concession when it comes to Petrobras' transfer of rights and also profit sharing. In addition, we also have a growth in shale gas production in the US and tight oil in the US. And also a crisis back in 2008 with effects that are still evident in the worldwide economy.

Our horizon at the time in 2007 to 2020, therefore 13 years. And now a horizon of 17 years. We've been effectively working with big projects. In addition to the development of our exploration potential at the time, we have a remarkable difference when Petrobras envisages its plan for 2020. Back in 2007, we had areas which had already been given to us, assigned to us. And they ensured our growth and we will keep on ensuring our growth until 2020.

Today, in order to grow by 2030, we also need the integration of new areas in new models like profit sharing and concession. So 2007, had areas at hand. And now in 2013, if

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you want to grow by 2030, we need to include new areas.

Concession or assignment and profit sharing regimes. Now very briefly, let's talk about the business environment comparing 2007 to 2013 and 2014. What are the changes in the world that directly affect an oil company at Petrobras's size? We had a positive outlook when it comes to the worldwide economic growth. And then we had a crisis in 2008. At that time, back in 2007, there was strong growth in the Chinese economy leading to higher prices of commodities. China at the time grew 9.8%. Today in the whole world we have uncertainty when it comes to the pace of the Chinese growth, what brings different interpretations, sometimes positive or negative signs.

Way back when, in 2007, when we look at this year and also the projections for the future, we would read and see strong growth in oil demand, 1.8% per year. Today 0.7% growth. And a slowdown in the growth demand for oil. Projections at that time when it comes to oil prices were very high, increasing year on year due to the big growth projected in the world economy. Today oil has its price, very stable prices. And maybe they might go down slightly in the mid-term.

Up to then, one year ago or two years ago, there was a lot of excitement with biofuels, whereas today there is a revolution for non-conventionals. And this has gained the world's attention. A lot is said about tight oil. And also about shale gas. The excitement with biofuels apparently is going down in the US. But not research. Research is still very intense when it comes to biofuels in the US. In 2007 there was a gigantic outlook. And oil-producing countries with big liquefying rains saw the US dependency when it comes to LNG. US imports LNG to maintain today's regasification units up and running.

Today the US and Canada together are self-sufficient in gas. 2.5 million cubic meters are produced per year. And also increasing production of tight oil. Today they have 2.5 million barrels of oil. And forecast 0.2 -- 4.5 million growth in future years.

What about Brazil and the business environment, 2007 versus 2013? We looked at the world first; what about Brazil now? Back in 2007, when we discovered pre-salt, in 2005 or 2006, there were many questions about the real existence of pre-salt, not by Petrobras, obviously. But generalized questions in Brazil and abroad in some cases. There was this big question mark or a statement that we lacked technology at that time to produce pre-salt. But pre-salt today is a reality here in the cost reduction phase. This is the phase to lower costs. In pre-salt we broke records, 36,000 barrels of oil per day in a single well.

E&P in Brazil was regulated only by the assignment or concession regime. And today we have transfer of rights, profit-sharing. And there is no noise about these three models. But how can these three models be together? This is very natural, as it happens in a big oil company like Petrobras with several big partners. Our naval industry could not be born again or meet in local policies. This is not going to prevail. But it actually did. The local content policy is the same adopted by the federal government and our goods and services industry, particularly offshore naval industry, gives signs of real competitiveness. We still have a lot to learn, a lot to be optimized. But it does produce for Petrobras and our partners.

The outlook for growth in oil product demand for 2007/2011 was 2.8% per year. And eventually was 4.5% per year. In other words, the oil product marketing the country was one of the fastest growing. And 4.1% per year, that's the growth in the fleet. But actually it was 7.4% per year. There was a lot of expectation of massive investment, strong expansion of ethanol production. We failed to see it. What we have is potential and strong moves to recover the expansion of ethanol units and also growth in biodiesel.

Now a little bit more data on supply, the business environment 2013 to 2020. This chart is a very busy chart. But you have access to this material.

If you look from 2012 to 2013, in the upper part, in the blue curve, we can see the graphic demonstration of demand. At the top we have demand, at the bottom we have supply. And it goes down; wells are going down, not only wells in Brazil, not only in Campos Basin. But all wells are going down. They start and they go down. There is a whole work to prevent these drops according to best practices. But they are going down anywhere in the world. So in 2020 we have to replenish this difference of 22.1 million barrels of oil per day.

Data on the right came from Wood McKenzie, for Brazil broken down and Petrobras. In 2020 Petrobras and Brazil will be those that will contribute more to meet demand, followed by Venezuela, Western Africa, Northern Africa, US and then comes tight oil, Canada, sandstones in Canada but by 2020 demands will be met. And companies have already been positioned. And countries have already done their share. So this chart depicts this red line, 23.1 million barrels of oil per day. These projects are already set. And we have to be competitive.

In 2013 the demand is also set by our forecast. Considering the current drop, worldwide even in the new projects that I showed before, we have 50.8 worldwide of challenges or new oil that has to get in, in order to meet demand in different economies. Challenges behind new production projects for 2030, each project has a common challenge, which is CapEx. Recently one of the most important newspapers in Brazil, maybe three or four weeks ago, mentioned the uncertainty of bid operators with increasing costs involved in the projects.

So this is the big challenge, to maintain our competitive edge, to have a breakeven point that allow us to compete with all the other sources of supply. In Brazil's case, our focus in Brazil in deep waters, the pace of auctions or opportunities and duties will be the variables to be taken into account by companies to decide their interest and stakes in consortiums and agreements, bids and consortiums with big companies.

Now this is the demand. And we have the potential of each country as listed on this slide on your right-hand side.

Next. So we've looked at demand, supply, business environment. Let us now look at prices, price projections, I mean. Petrobras prefers to use the more conservative market projections. So the blue Petrobras line, this blue line saying Petrobras, this is what we

consider that is Brent oil at the lower portion of all projections, at the lower part of the curve.

Now we've also used other predictors for gas. But we can see that gas will -- gas prices will remain at these levels up until 2030.

Now we want to go down into further details. Let us narrow, looking at Brazil, let us narrow our view of Brazil and look at each one of our areas. We've assessed the potential of areas granted to Petrobras and also other areas. In 2007, as I said, we had all the areas already under our control, 140,000 square kilometers. But end 2013, we have 76,000 square kilometers that have been granted to Petrobras for exploratory activities. So for us to grow, we have to participate in the auctions and be successful.

If we look at sedimentary basins onshore and offshore, this is how we project our future. Then we made our choices in Petrobras' strategy, I mean, the strategy was approved yesterday by our Board. And let me now read about our choices. And we will further discuss them. So we want to produce on average, I repeat, on average, 4 million barrels of oil per day between 2020 and 2030 under Petrobras' ownership in Brazil and abroad. For that we will acquire exploration rights over other areas to meet this target. In refining, we want to supply the Brazilian oil products market, reaching a refining capacity of 3.9 million barrels per day to match the domestic demand, that is, we will follow the market.

Third choice, maintain leadership in the domestic market for fuels. This is for BR, our distribution company, increasing the value added in the preference for Petrobras' brand.

Now talking about natural gas and energy, we want to add value to the businesses of natural gas chain, ensuring the monetization of gas from the pre-salt and Brazil's land basins. In biofuels, keep our growth in biofuels, ethanol and biodiesel, following the domestic demand for gasoline and diesel.

Internationally we want to work on exploration and production activities, focusing on Latin America, Africa and the USA.

Now for us, international, we are looking at exploration and production activities. Now regarding exploration and production or the upstream, we show you this black line. This black line is the average oil production in Brazil between 2020 and 2030. The average of Brazil, 5.2 million barrels of oil per day. This is Petrobras' view. And it's very much in line with the Department of Energy, DoE, also very close to Wood McKenzie, (SARA) and AIE, 5.4 million AIE.

But these figures are quite aligned. And outside the 2030 horizon, Petrobras does not disclose its projections. But if you look at other predictors, DoE, for example, it's talking about a Brazilian production of 6.6 million barrels per day. So Brazil would therefore become the sixth largest oil producer. So the black line is Petrobras' line. And as I said, it is very much in line with the other predictors, or the other predictors are very much in line with ours. But this is what we view in terms of future production of oil in Brazil.

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In the next slide we see Petrobras in Brazil. So Petrobras will have its own production, production by third parties. And the government's production, because there you also have Libra and other areas, other concessions that are under the regime of production sharing or profit sharing. The average Petrobras production in Brazil, as I said, will be 3.7 million barrels of oil per day. As we look at our international operations, we will then reach 4 million barrels of oil per day.

Our average today, as we look at 4.2 million in 2020. And as we analyze this time period between 2013 and 2020 our average production will be 2.9 billion -- 2.9 million barrels of oil per day. And we will reach 3.7 million barrels per day between 2020 and 2030.

Our strategies for exploration and production, discover and incorporate reserves in Brazil keeping a reserve to production ratio above 12 years, develop exploratory efforts in Brazil's sedimentary basins selectively. And sharing risks, always working with partners, because this is how we are going to develop our full potential, having more resources and so that Petrobras has less risks, has less concentration of risks.

Develop exploratory efforts for natural gas in Brazil's sedimentary land basins, maximize with profitability oil and gas recovery in Brazil's concessions under production. And keep our high operating efficiency. At the same time, develop the pre-salt area production in Brazil.

Now let us talk very briefly about refining. And I'll go back to Brazil's production curve. 5.2 million barrels of oil per day, this is Petrobras' view, with the data we currently have. And the demand for oil products, which is the red line. We believe there will be a growth of 2.7% a year of oil products in Brazil, up until 2020. And 2.7% -- 2.3% per year until 2030 production curve in Brazil and oil products in Brazil.

Next, we show you Petrobras' average production, 2.9 million barrels of oil per day between 2013 and 2020. And then 3.7 million barrels of oil per day between 2020 and 2030. Now looking at Brazil's curve, demand for oil products, our average production, we can project what we believe will be the volume of oil refined in Brazil. So self-sufficiency in volume will happen already in 2015, where the oil product production will be equal to the demand. And in byproducts we will be self-sufficient in 2020.

Now this is our understanding of Petrobras' production of oil in Brazil. And the demand for oil products.

Next we will talk about distribution. Petrobras will grow organically, that is BR will grow, reaching 38% in 2030. No significant market share gains will be seen between 2014 and 2020. The volumes consumed will be 74% higher and BR Distribuidora or BR Distributor will have to prepare a logistic plan to meet this future demand.

Gas and energy, our infrastructure is ready for imports. This is enough to meet the demand of gas in Brazil up until 2030. We do not expect a very significant growth. We're talking about this demand to bring gas to the land, that is, bringing the gas from the

offshore platform to land requires investment to produce more oil and more gas. But our infrastructure is already there, that is, it has been installed, at least to a large extent.

Next we want to speak about biofuels. Ethanol and biodiesel will follow market growth. So as we have more growth, then we will have more efforts concentrated in ethanol and biodiesel.

The following slide we talk about the international area with huge challenges we've had, divestments, as you know, in 2013. Our average international oil and gas production is today 123,000 barrels per day and it will grow. We will be working very strongly to structure our exploratory portfolio, our international exploratory portfolio. The quality of this portfolio will be significantly improved in the following years. That is, if you look at our business plan and in the strategic plan that is with this horizon up until 2030.

We have challenges looking at human resources. Of course the Company is growing. But it's growing in a controlled manner, that is, it's growing in a managed fashion based on principles and calculations. We've been working very intensely because we have to protect our greatest asset, which is our workforce. So our corporate officers are already conducting efforts to attract to Petrobras qualified professionals, qualified talents that can help us meet this growth we've planned for. Social responsibility is a challenge for us. We consider social responsibility in all our decision-making processes as we decide whether to participate in a certain business or in a certain venture.

Let me also highlight with a lot of emphasis that for us, health, safety, environment are a priority. Technology has brought us to where we are. We have one of the greatest research centers in the world. And we want to keep this tradition. That is, we want to continue to be one of the companies in the world that invests the most in research.

Now our mission and vision for 2030, to work in the oil and gas industry in an ethic, safe and profitable way, with social and environmental responsibility, providing products that are suited to the needs of our clients and contributing for the development of Brazil and the countries where we operate. We want to be one of the five largest integrated energy companies in the world and the preferred company by its stakeholders.

That is, to be one of the five largest means to be one of the largest producers of oil in the world. Corporate drivers, integrated growth, many times we are asked why we pursue integration. Well this is one of our assumptions and this has been the model adopted by successful oil companies in the world today.

So this is what we are. We work on production, refining and we meet market demands. But also with profitability, social and environmental responsibility. So this is our vision, this is Petrobras' vision. Petrobras will produce in Brazil, we plan to produce in Brazil on average 3.7 million barrels of oil per day between 2020 and 2030.

Now when I look abroad, when we include our international production, we will come to 4 billion barrels of oil per day. We have a large potential of hydrocarbon reserves. And we may one day have one of the most developed and attractive and competitive oil

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industries in the world. We will not be 100%. But we want to be a bit more than 70% of the overall production. This is the position we would like to have.

Now I'll drink some more water and ask for another 30 minutes of your time so that I can talk about our business and management plan. Our business and management plan 2014/2018, we've shown you 2014 up until 2030. So -- but now, the management plan, the business and management plan will show the feasibility in each one of these years, that is between 2014 and 2018.

We have been leading the Company for two years. And this is now our third business and management plan, that was approved yesterday actually by the Board. It shows that we are permanently keeping our feet on the ground, reviewing targets, improving indicators, checking on the feasibility of doing or postponing analyzing the market. So in two years we've produced three business plans. And we reviewed a plan that has a longer horizon, up to 2030.

Let us now talk about our business and management plan 2014/2018. 46 discoveries in the last 14 months, 24 offshore. Because of course everything begins from the reserves. In the oil industry everything become -- everything begins with the oil potential of the country where you operate. And in our case, we invest 96% of our CapEx in this country. So 46 discoveries in the last 14 months, of which 24 were offshore, 14 or 15 in the pre-salt.

Exploratory success ratio has been exceptional, as I said -- 100% in pre-salt, 75% overall. And huge work to increase our production.

Let me now show you the next slide, talking about our growth in 2014, 7.5%, approx; -- 1% more or less. And let me call your attention to the fact that in 2020 we will be producing 4.2 million barrels of oil per day, in 2018, 3.2 million barrels of oil per day. This is a new number on the curve, 3.2 million barrels of oil per day. In 2020 we will be operating 4.9 million barrels of oil per day. So in addition to these 4.2 million barrels per day that we will produce, we have approximately 0.7 million barrels per day which will be produced by our partners. And we will be the operators.

Today we already have an oil production that Petrobras operates, 1.98 -- 1.93 is the Petrobras production. But we have the additional production by our partners. So we already have a significant volume where Petrobras is only the operator. This is the oil curve.

Right now, let's have a look at the gas curve for Petrobras. If we consider barrels of oil equivalent in 2018, 3.9 million boe and in 2020, 5.2 million boe.

Now what is happening in the naval offshore industry? What's happening in the service industry. So that we can confirm this Petrobras production.

Now nine production units were concluded in 2013; five have already produced first oil. In other cases we're still working on the interconnections, such as Sapinhoa, for example. P-

58 and P-62, P-61 and TAD and P-63, they are already going through the final stages of completion, that is, we will soon have the first oil. 2014 and 2015, we look at quarterly forecasts. So we say that Cidade de Ilhabela will start production on the Third Quarter. If you go to Brasa's shipyard you will see this unit. It's about to be completed. The models are already being assembled. Iracema Sul and Cidade de Mangaratiba in Angra, you just have to travel there, you will see it. Iracema Norte, same thing so.

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We have a very accurate view of what will happen in 2014 and 2015. Now in the following years, 2016, 2017 and 2018, this is no longer today. This is the future that we are building, year after year. So we are not -- I mean, in -- as we look at these nine production units, we worked very intensely to complete these nine production units. But now we have to think about four or five years ahead in time. Because what we have today is what we built four or five years ago. Next year will be the result of what we did three or four years ago. So now we are working very strongly on 2017/2018. We still do not have a forecast by quarters. We have the forecast only for the year.

On the previous slide, because I want to go back to it. So I can tell you the rationale of the fundability of the plan. These units in red was not on the bid yet, Tartaruga, Mestica, they are in the bidding process. And the others already in the process. But we're not yet with a tender for bid.

Next, year on year, 1 million barrels of additional capacity in 2013/2014, another 300,000 or 150,000, 2016 or 2017 1 million barrels, 1.5 million barrels of capacity. And these are works. That's why planning is so hard. But it was less hard compared to three or four years ago, when we had this big, burning question of what the national or domestic industry could do or what China or Korea could do. How can we deliver and integrate Brazil and other shipyards? So today our planning is far more reasonable. That's not an easy task. But it's more reasonable. And all these units will be up and running. They are for the bidding process between 2014 and 2015. So the first oil Tartaruga Verde, Mestica are happening 2017. And the other six units take place in 2018. We have the drilling rigs, we have production units. And we need the vessels for interconnection, PLSVs.

Now 2013 was a tough year, due to the low number of these units and these vessels available. These are high-end or high-technology vessels, more than 40 months to be built and delivered. Over 2014 we'll be working on restrictions related to PLSVs which should have been contracted in 2011 and started being actually in 2012 and 2013. So that's another challenge in our operation.

Next slide, refining. Working on the curves that you saw in the strategic plan. And in red we have the demand. In blue we have the production of oil by Petrobras, because things come from the past. This production comes from a very strong study on reservoirs. It stems from knowledge, determination based on the production curve. So we can really set our refining strategy. RNEST, one RNEST train II Second Quarter, Comperj over year 2016, Premium I in 2018. For Comperj I'll show you the progress on the next slide. It is very good progress this quarter. We are very happy with these curves.

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So the tax and financial (inaudible) are hand in hand. 87, realized 87. And accomplished, these are January figures. Finance coupled with the forecast and accomplished. And the S curve of Comperj also very tight with physical progress and financial progress. So the alligator mouth is closed. That's a real -- really tough job. But we'll get there. These are big projects, huge projects.

We don't build services and materials. But we hire them. So it takes a lot of management by the refining area. For gas and energy projects UTE Baixada Fluminense closed on the deadline or actually one month beforehand. We have the different settlement price for megawatt per hour, the thermal plant started before. So we have excellent results within the deadline or one month before.

Costs, we have projections for other thermal plants as partners and smaller infrastructure projects just to deliver gas. Ammonia sulfate is a GP fertilizer, Fertilizer Unit III already with 64% and part of it starting up at the end of the month. Fertilizer Unit V recently joins the package of implementation and projects.

What about the values behind the management program, the international area? Our business, like I said, is exploration and production, not refining, not oil products or thermal plants. It is basically exploration and then production, which is the big challenge. You have to grow at a rate or growth of 8.9% per year to give this production by 2020. And considering our oil and natural gas, the ratio is slightly higher.

What about the fundamentals of the business and management plan? They are precisely the same fundamentals of what we had from 2012 and 2016, 2013, 2017. So priority exploration and production.

Capital discipline, focusing on achieving our goals, integrated management of our portfolio. Here is a company that has subsidiaries. But it's a single company. Maximum use of assets among companies which save the environment, safety, health, investment levels. And we won't have new stock issue. Convergence with oil product prices, partnerships. And restructuring in our business models, partnerships and partnerships.

Our portfolio, approved yesterday by the Board of Directors, \$220.6b, with the following fundability assumptions. By the way, EEP has a big share of it. Maintenance of the level of investments. There is a commitment and obviously effective demand by the Board. So our indicators go back to the levels set by the Board within 24 months. It is really important to show our reverse of the rising trajectory of these indicators. We're doing everything in our power to have a trend and to lead to a drop. And within 24 months we'll be able to achieve the levels set by the Board, which are lower leverage, lower than 35% net debt over EBITDA, lower than 2.5. As I said before, no further stock will be issued. Convergence with foreign prices, partnership and restructuring in our business models.

Investment for the business plan, \$220.6b. Up to then we had a portfolio under implementation and another under assessment. We maintained the one under assessment. These are less mature products. And now we also have a breakdown between projects under implementation -- projects under implementation are those that

are under construction. And the minority, the contracts are already signed and companies are in the process of transfer.

In the same portfolio we also have projects in the process, or in the bidding process. Every project from E&P were considered until last year under implementation even if we hadn't even started the bidding process. But it no longer happens that way. These now are processes that are under the bidding process, Tartaruga Verde, Tartaruga Mestica are already in the market. Other units are not here yet. But for these projects, for E&P, we also have Premium I and Premium II refineries.

Refineries Premium I and II will start up, or will be starting up the processes, the bidding process, starting April this year.

Now the exit from implementation projects for E&P projects makes it clear that this will happen if this is in compliance with international standards. They thought that if it was under implementation, Petrobras would do it anyway. It won't be like that. We took them away from the portfolio to make it clear that they would be done provided we have our profitability, principles or net present value and also if they comply with international metrics. This applies to Premium I and II refineries and to every project related to E&P. In other words, we have \$13.8 billion in our portfolio being assessed, less mature projects. And projects that are very mature, the vast majority already under construction, \$206.8b. And exploration and production, \$163.9b, 73% for development and production.

The difference for exploration and infrastructure and support, if we look on the right, the pie chart of the \$135.9 billion from the development of production plus exploration amounts to 40% in post-salt and 60% in pre-salt. It's important to mention that investments in exploration and production in Brazil total \$198.7b, because \$44.8b, in other words, 23%, come from our partners. That's a matched or binding interest, Petrobras and the partners. So we're speaking of something around \$200 billion in exploration and production alone. And that's why we stress that as of 2020 we'll have 3.7 million on average over 10 years of 3.7 million barrels per day, on average, or 2.9 million over 2013 and 2020. So investments are happening with a high level of maturity.

In other areas like downstream gas and energy and international, investments total \$58.5b. We have a portfolio under implementation and another under bidding process, which is the case of premiums 1 and 2. \$38.7 for downstream, \$10.1 for gas and energy. And \$9.7 billion in the international area.

Once all these programs are maintained, this will be very rewarding. It's easier to present these programs to you, to the media, to the market, because they have numbers and they also have results. PROCOP, BRL4.3 billion in the Company's cash, Infralog plus PRC posted BRL1.5 billion and PROEF BRL3.2 billion in the Company's cash. So we are much eager and positive and assured. Programs will continue from 2014 to 2018.

We also have clearer metrics for these programs now. PROCOP, for instance, lifting costs net of PROCOP would already show a reduction of 5.9% per year due to the big potential of pre-salt wells. With PROCOP our reduction in the cost, lifting cost, is 7.2% per year.

In logistics and downstream, without PROCOP our growth would be 0.78% per year. With PROCOP our growth, because we have more oil, more oil product, more logistics costs, 0.12%. And it's amazing to see refining costs plus refineries. We would have a reduction without PROCOP or an addition of 1.32. And we will have an effective reduction from minus 0.40. So in other words downstream has been huge, with other areas as well. But particularly downstream has bring in clearer results now in the short term.

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Moving to the end of our presentation, will be addressing the fundability of the Company. Considering the low maturity of the projects not considering in these metrics, therefore we cannot consider as fundability if you have a negative net present value or a project that has not manifest 1 or 2, or has a long way to go, just we had with Premium I and II, once they have their economic feasibility confirmed.

Portfolio under implementation, which ensure production of 4.2 million barrels of oil per day. Our financeability is \$206.8b.

On the next slide, once again we show the big share of E&P in Petrobras' investment. And they've been growing for the last five business plans. From 2010-2014 48% E&P, now 52%, 56%, 72% and now 70% of investments to E&P. For downstream, a reduction of 35% down to 27% in the previous plan, 18% in the current plan and other areas growing 11% to 12%, virtually the same.

Financeability. Assumptions of financial planning. The analysis takes into account a portfolio of \$206.8b. The portfolio of the previous plan was very close. We didn't have refineries and several of our projects were completed. Brent price \$105 in 2014, going down to \$100 up to 2016, to \$95 in the long run.

Foreign exchange rate on average, BRL2.23 in 2014, going up to BRL1.92 in the long run. Leverage lower than 35%. The limit is going down but exceeding the limit in 2014.

Net debt over EBITDA, lower than 2.5. And the limit exceeds the limit in 2014 and remains below 2.5 times, starting 2015 and below 2 times at the end of the period. These indicators, like leverage and net-debt-over-EBITDA ratio, are being followed up by Petrobras' Board of Directors, not only because they approved the plan yesterday. But they also have been following for us -- with us for three months. And they know we need to bring the indicators back to the value set by the Board. And it will take us two years to do that. That's why 2014 is the year and we cannot reverse these indicators in a logic manner for 2014.

Price of oil products in Brazil. Now these words were taken from our material information in November 2013, approved by the Board. Well not the material information. But the commercial policy, like price convergence in Brazil and international references according to the price policy for diesel and gasoline, appraised by (CA) in November 2013.

Last slide, operating cash flow and funding needs. We have the source and the uses. Our operating cash flow after dividends and divestment is \$182.2 billion or gross funding of \$60.5b. And next, the use of cash of \$9.1b. And restructuring in the business models

totaling \$261.7 billion at source. As for uses, we have \$206.8 billion investments in portfolio under implementation, under the process and payment of debt amounting to \$54.9b, totaling \$261.7b.

Our annual funding need from 2014 to 2018 exists. But we maintain the free cash flow before dividends starting 2015 until 2018. We also have gross debt and therefore we need to fund \$12.1 billion and \$1.1b, which will be our net debt, which adds to our investments. However, lower than what was said in the previous plan of \$4.3 billion as net funding.

There's growth in our operating generation. It stems from increased production. In 2013 we moved from 1.93 million barrels to 2018 with 3.2 million barrels of oil per day of oil produced.

In addition and also extremely important, we've concluded RNEST, both phases one and two. And also Comperj phase one. These will be concluded by 2015 so we will have more product, more domestic oil products, thus minimizing our inputs. It's important to restructuring our business models to reduce our need for cash. That is we've exchanged CapEx for OpEx as we restructured our business models.

Finally. And now very close to my conclusion. And honestly thanking you all for being present here, I'd like to speak about our declining leverage. As of 2015 already within the maximum limit of 35% and a declining net debt over EBITDA. That is again within the limits as of 2015.

This was it. Thank you very much. Thank you. Our employees who are watching us, thank you. I want to also thank the journalists who are watching us. I want to thank Petrobras officers.

And we will now open the floor for questions. And we will have our officers here to answer your questions. I believe most of the questions will be answered by the officers here.

Thank you very much, ladies and gentlemen.

Questions And Answers

A - Unidentified Speaker

Now we want to thank the CEO and the officers of Petrobras for this presentation. At this time we will conclude the broadcast over web TV. I want to thank our workforce for watching us today.

We'd like to remind you this event is broadcast to the public audience over the Internet in Portuguese with simultaneous translation into English at www.petrobras.com.br/RI.

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This presentation is already available at www.petrobras.com.br/RI. A video will be made available later on today. We have approximately 1,500 people watching this event in Brazil and abroad, over the Internet and telephone lines.

We will now open the floor for questions and answers. Only the audience in this auditorium will be allowed to ask questions. Please ask the microphone. We'd like to request you please raise your hand so a receptionist will take a microphone to you for your question. Please tell us your name and ask your question into the microphone.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Good morning. Good morning, Mrs. President. Good morning, officers. My name is Luiz Carvalho from HSBC. First question to CEO Gracas. You mentioned a stable production curve between 2020 and 2030. We have quite a few people from the industry, equipment suppliers, rig suppliers. And the efforts that will have to be made to go from 1.9 million to 4 million barrels per day is very different from what will happen after that. This is a discussion I've always had with Formigli. But let's imagine that production will then be stable and begin to decline. So what will happen to equipment providers with a lower demand?

Second question goes to Barbassa. One of the things we've seen, RNEST will have an approximate cost of \$20m, \$22m. Today Petrobras has had negative margins in refining. This is basically because of price differences and foreign exchange rate. But when this new unit starts production we will conduct tests. I'd like to understand how this has been negotiated, if you are already discussing about this at the fiscal council, for example. And if we have -- if we truly have a relevant decline, how will that impact Petrobras policies of dividend payout?

And the next question to Formigli, I'd like to understand about the transfer of rights or assignment agreements. I'd like to know if you have already included that in the plan. Thank you.

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

Okay. Thank you for the question. Production curve, a constant curve. Well we've shown you the average production. So you have ramps up and declines. And we're now at 2014. The curve has been defined up to 2020. But for us to project 2030, it is not the right thing for us to talk about peaks and valleys there. These are production curves that consider only the average.

When you go from 2.8 to 3.7 only in Brazil. And this is average, of course you have peaks and valleys. On average this is the production Petrobras has projected. And Petrobras views Brazil with an average 5.2. It's not flat; it's an average.

How do I view the industry? Well the oil industry and the industry of offshore products and oil drilling equipment is doing very well in Brazil. Very few countries have the same regulatory stability as we do. Today we have three different regulatory frameworks that

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live together perfectly well. And we have a big potential, a big oil potential still to be tapped.

We have been working very conservatively. Petrobras' vision, our business vision, compared to our potential, other predictors are much more optimistic than ours. But we look at this curve. We conducted a deterministic as well a (probabilistic) analysis, looking at the whole industry up until 2030. And we believe the industry will do very well.

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

Now RNEST in impairment, we do not expect the works to be concluded to conduct this assessment. This assessment was conducted late last year and this is something we do for all large projects. During the course of production, that is during the works and our conclusion was that there was no impairment. We must talk about the criterion that is applied, the criterion that is used for these assessments, for the calculations in these assessments.

In our refinery area, we have integrated management. That is our refineries are integrated under the same management. The new refineries, of course, they have new technology. They have a differentiated productivity level. But they're integrated to our refining network, bringing different products or adding more value. Actually adding much more value than it would if it were considered individually.

So in terms of cash generation for the impairment test, we look at all refineries. We look at the refineries in an integrated way. As I said, we conducted this assessment late last year. We will do the same thing at the end of this year. And our assessments have shown that the payback of the investment will be -- we will have a return on the investment as soon as production begins.

I'd like to add that it's not -- integration is not only to offset problems we may have in one refinery or other refineries. The fact is that we have made these investments because they have improved our quality and our volumes.

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

So let me answer your questions, Carvalho, talking about transfer of rights or assignment agreement. We started negotiations as of December. As you know, Franco was considered commercial. Also Tupi, that is now Sul de Lula. We are now working on drilling tests.

These negotiations, today we have at the table Petrobras plus three other departments, mining and energy, development and energy. On our part we are considering all costs involved, CapEx plus OpEx specific for this area for each specific transfer of rights because we talk about pre-salt. But there are different areas, each one with its own specificities. We are currently documenting these specificities. And we now have this joint document with other government departments.

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We have a deadline of December 2014. We believe we're doing very well in the exploratory campaign. If we have to extend that a bit further because we may need more information, it will be possible to do that. But so in terms of the assignment agreement or transfer of rights, we have the expectation of producing 5 million barrels as planned originally. Oil is there. We have no doubt that there is oil there.

I just wanted to make a comment about decline, adding to what our CEO has just said. And back to your question about the industry. If 5.2 million was resource production under Petrobras operation throughout Brazil, this production will have a natural decline. If we continue to manage these reserves as well as we've done until now, the decline will be 10%. So every year we need 10% new oil. But that means 520 or 600. So you need work-over in the wells. You need maintenance. That is the demand for services will be huge between 2020 and 2030.

Well I thought your question was about why the curve was flat between 2020 and 2030. Perhaps I misunderstood your question.

Q - Luiz Carvalho {BIO 18040760 <GO>}

No. It's because the effort to go from 2 to 4 or to go from 2 to 5 is very different from the effort required for just maintaining the same volumes. So my question was about the capacity of your suppliers. That is if -- but you have answered my question. So thank you.

Q - Unidentified Participant

Good morning. My name is (Vicente) from the Bank of America. My first question goes to Cosenza, if he could explain this decline, this 40% decline in refining. I'd like to know the percentage of construction work in Premium I and Premium II, if the numbers will remain the same in the following years or if they will go up.

The second question goes to Formigli about the plan, the strategic plan up to 2030. How much do we need in terms of new discoveries to maintain the same level of production as we have today?

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

If I understood your question correctly, we have an investment plan in terms of or related to financial sustainability in our projects. That's the phases of the plan. The alternatives were seeking or precisely the ability to have financeability in our plans and that's why we have the CapEx generated. And the same goes for supply.

My question is what do you want to know? What is your straightforward question? Please ask a straightforward question so we can answer you, otherwise we can't.

Q - Unidentified Participant

What is the percentage of works in Premium I and Premium II that is included in the current CapEx? 50%? 20% of the works?

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

We don't have that yet. We're still evaluating the projects. We don't have works under construction in Premium I and II. We're analyzing the project. We already have a net present value which is positive. We're seeking optimization. This is a means to make the project feasible through financeability. That's it. We don't have works yet. What we have is to study the project engineering. We don't have details yet. But we're working on it.

Q - Unidentified Participant

Thank you.

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

In order to maintain that production level of 3.7 down the road, today we have an R over P of 20, or about 2 million to round up the figures. So if we virtually double and maintain also the R over P because we want to continue as a company at the end of 2030, what we usually consider is that we try to have a recoverable reserve volume. These are not actually reserves. But we try to have a reserve between 2 billion to 2.5 billion per year.

And this number is not disclosed. In other words, we don't know what Petrobras uses. But the long-term plan for the reserve value, if we consider, like the CEO said, the exploration policy and taking risk into account, we try to have opportunities that shows the recoverable discovery value per year.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Good afternoon. Paula Kovarsky from Itau BBA. I will try to have a very straightforward question. And this relates to the financeability of the plan. Cash generation and also the restructuring of the business model, I understand this means lowering CapEx and increasing OpEx. All this projection takes into account a series of assumptions. I'm not going to get into detail with oil price, foreign exchange of 2.30 or the assumption to get to (1.2). But this cash generation, it is aggressive to say the least.

What I'm trying to say is if the Board really wants to consider seriously to have 2.5 times the net EBITDA in two years, it takes flexibility in other areas. So what is my real question? What is the real difference between CapEx under implementation and CapEx under bidding? What kind of flexibility is there in terms of taking part of this CapEx under bidding and postpone it if you cannot have the indebtedness level of 2.5 times?

And to what extent the Board's commitment with such level of leverage is really aligned with the Board's commitment to increase prices in the future. Otherwise at least in our math it would be too tough to get there, even though we have a better outlook for growth in production.

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

Regarding the split or breakdown of the portfolio, I can have zero portfolio under implementation. I have a portfolio under implementation which is a commitment made.

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These are construction works that are being carried out in several areas. Our assumption is to complete these works.

And we took away from the Group under implementation what was not effectively under implementation. And effectively it is not a commitment made. There are some production units in that case. These are production units that are not effectively under implementation because they don't have works, to start with, nobody breaking stones or cutting weights.

So we work on this portfolio that puts together Premium I and II refineries, bidding of Tartaruga Verde, Tartaruga Mestica, Espirito Santo, a series of projects. Effectively we have all the freedom and above all it is our duty to only work on them if we have conditions to work on the whole package for implementation purposes.

Now what about 2.23, the foreign exchange rate? You said you didn't want to discuss it. And coming back to 1.92. I think you should be concerned if we had a projection on the foreign exchange rate at 2 or maybe 2.60, when exporters, oil exporters, the Company's result is much better when the exchange rate is even more depreciated than real.

Q - Paula Kovarsky {BIO 15363001 <GO>}

That's true. Several stress tests were made. And you consider this financeability and you have a higher exchange rate in the short term, higher than 2.23.

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

Now high exchange rate is also maintained when production goes up. And you see that after two years, well, with the first year you have higher funding and you have a worse indicator compared to what we said. 2014 is a year set and it was billed four, three, two, one year ago. That's the year. Fiscal year 2015 is not so much at hand when it comes to solutions compared to 2016 and 2017.

So in this scenario in which we're effectively very close to becoming an oil exporter and when exchange rate in Brazil, BRL1 or even more depreciated, it is in our favor. That's why we decide to use an average. And we've carried out stress analysis effectively in order to feel comfortable, or at least assured when working with a foreign exchange rate that I just exposed today. So you can work on a simulation, 2.5, 2.6, 2.7 in the future exchange rate.

Have more funding in 2014, less next year. You use a little bit more of cash this year or you fund and fund less next year. 2015 will have less or fewer investments compared to this year. So we're comfortable. Well we're never comfortable. But at least we know we -- what we've done.

Q - Paula Kovarsky {BIO 15363001 <GO>}

I'm sorry. I apologize, Gracas. I don't want to get into the discussion of exchange rates again because this is as true as the fast price conversion takes place. So that's our burning question. Unfortunately we have to live with it. So maybe the last way to phrase my

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question is what is the size of implementation CapEx and the size of the CapEx under bidding. I wonder if you could share these figures with us. It would be easier for us to have a better understanding and feel more comfortable with trends.

And also try to check and anticipate any possible measures to help this conversion of net debt over EBITDA with or without parity.

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

We work with price convergence. And if we break down what is implementation and what is underbidding, this is very fast and easy. We can easily have reference prices to give to the market. But we don't want to do it. So under bidding and under implementation. And the portfolio under bidding will be perceived because it will move forward. You see that fewer projects under bidding are expected to happen.

Now the fact is that two years ago we held the new project portfolio, projects under evaluation. Three were approved. One had already been through the bidding process, which is the ammonia unit. It is the only project that moved or had the contract signed. We have started mobilization yet and refineries one and two, they still have a way to go with other production units and other contracts.

They have to abide by international prices and comply with the net present value, justify and moving from evaluation to bidding. But we'll have a chance to talk more about foreign exchange rates in the future, Paula.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Just one last question. This discussion about the change in the model, in the business model, you made comment on going down on CapEx and increasing OpEx, probably to have more leasing, right? I wonder if you could tell us or give us an order of magnitude or the CapEx reduction that this revision might lead to.

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

Well I can't disclose it right now. But our variation is upwards or downwards, exchanging CapEx for OpEx. And it depends on the cost behind it, how much it is a relief and how much we actually need this exchange. And we also need time. We have limits, time limits in our plan. And we'll soon disclose it to the market and we'll be showing our proposals so we can feed the market on a gradual basis.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Thank you.

Q - Nelson Laiti

(Nelson Laiti from FMC). My question is from equipment supplier, not from banks. My question is addressed to what you said. You mentioned price divergence, very much focused on exchange rates. If possible I'd like to have a better understanding of the

sensitivity behind this business plan, Petrobras' business plan when it comes to price convergence, domestic versus foreign. How sensitive is this business plan. And obviously a business plan from 2014 until 2018?

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

Well this is a vertical company so we're looking at the oil business because of our size. And our results are obviously very sensitive to margin, to prices in Brazil. We do not have an assumption that Petrobras will not have price convergence. We will -- will we have 10% convergence in 2014? No. The plan has not considered 100% convergence.

However, the plan considers that we will move towards this convergence in the next two years. That's why I need options. I need alternatives. So I have a few projects under implementation. This is a fact. But I must also have opportunities and different alternatives. So depending on the indicators, we will make a decision because debt has to be controlled, EBITDA has to advance and then we can do more. The plan has not excluded any projects of our portfolio. However, it does not go forward with projects where we do not have the profitability we need. So for us, we do not talk about plans that are not based on the assumption of price convergence.

Do we have any further questions? Anybody else has a question?

Q - Unidentified Participant

Good morning, (inaudible) from (FMC). I'd like to ask a question, not about finance. But about equipment. As you talk about the decline in more water production, last year Petrobras received an award by the Brazilian agency for its technology to separate oil and water. Now are you going to use new technologies in the future to maximize the oil being recovered either using a pumping system or other separation technologies? And let me remind you that if we look at the average production of oil and with this regulation of 1% investment in technology, then we will generate \$1 billion in terms of expenses or investments every year. So how will Petrobras work with these two factors?

A - Unidentified Speaker

(inaudible), look here, as regards new technologies, well, your question began when you talked about an increase in the decline. No. The decline is not increasing. Water production exists. It has to be managed. And if you do not inject water and if you do not produce water, you cannot have more than 50% recoverable oil in sedimentary basins, such as Campos, for example. So we shall not invent problems where they are not present.

And technologies are there to help us because we have to inject water and so technologies have to help us separate and dispose of this water. The technologies we currently use are working well. Today, as you look at our projects, you see, for example, Marlin revitalization. We have two revitalization projects. It is not just a matter of adding more platforms. We are considering other alternatives, such as, for example, add subsea systems to reduce the need for process capacity because my colleague Figueiredo will have to build more platforms otherwise.

So we've had excellent results with multiphase pumping. This is a technology we have mastered from the first projects. This is something that we consider as a technology we've mastered. Not only Petrobras, other companies, including companies operating in Brazil.

Q - Unidentified Participant

But I did not really understand that \$1b. Is that about the special participation regime? Is that what you were referring to?

A - Unidentified Speaker

Well if it is about this, well we will have to make investments as we increase production. Please do not forget that we have production increases in places where we will not have to pay for this additional portion.

Also depending on the model adopted, for example if it is a production sharing, then we will not have to pay for that special participation. Of course, we will invest in projects that are approved by the oil agency and begin to use technologies that will help us continue to manage our older wells. But also newer wells.

Do we have any further questions? Well if we do not have any further questions, ladies and gentlemen. we will now conclude this meeting and Petrobras thank you all for being with us this morning.

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