Q1 2013 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO, IR
- Jose Alcides Santoro, Gas and Power Director
- Jose Carlos Cosenza, Downstream Director
- Jose Miranda Formigli, Exploration and Production Director
- Maria das Gracas Silva, Executive Manager, Business Performance
- Theodore Helms, Executive Manager, IR
- Unidentified Speaker, Interpreter

Other Participants

- Christian Audi, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Marcus Sequeira, Analyst
- Paula Kovarsky, Analyst
- Robert Canfor, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

(Via interpreter). Good morning, ladies and gentlemen. and welcome to Petrobras conference call with analysts and investors for the presentation of the First Quarter 2013 results.

We would like to inform you that participants will be in listen-only mode during the Company's presentation which will be conducted in Portuguese with simultaneous translation into English.

Following the Company's presentation, we will proceed with our Q&A session in Portuguese and in English when further instructions will be provided. (Operator Instructions) This broadcast is being recorded.

Present here with us today are Mr. Almir Guilherme Barbassa, Chief Financial Officer and Investor Relations Officer, Mr. Jose Miranda Formigli, Exploration and Production Director; Mr. Jose Carlos Cosenza, Downstream Director, Mr. Jose Alcides Santoro, Gas and Power

Director, Ms. Maria das Gracas Silva, Executive Manager of Business Performance as well as other Company officers.

Before we begin I would like to give the floor to Mr. Theodore Helms, Executive Manager of Investor Relations. Please, Mr. Helms, you may proceed.

Theodore Helms {BIO 15433381 <GO>}

(Via interpreter). Good morning, everyone. We will now initiate another Petrobras conference with analysts and investors for the presentation of Q1 2013 results.

This conference call is being broadcast live via the web at our website www.petrobras.com.br/ri. Also, you -- if you want, you can follow it in Portuguese and it's available by dialing 11 21011490 or 11 31938000. To listen to this conference call in English you can go to our website www.petrobras.com.br/ri/en or call 1866 8902584 for US participants and also 1646 8436054 for participants from other countries.

Before we continue, I would like to remind you that this meeting is being recorded. And I would like to call your attention to slide number two, which contains a notice to shareholders and investors. The words believe, expect and the like related to the projections and goals of the Company are mere forecasts based on the expectations of the executives regarding the future of Petrobras.

Lastly, I would like to inform you that the results have already disclosed, both in Reais and dollars, both in accordance with International Financial Reporting Standards, IFRS. However, today's conference will be limited to figures expressed in Reais.

At this time, I would like to call CFO, Almir Barbassa, who along with the other officers will present Petrobras results and the main events that took place in the First Quarter of 2013. Afterwards, we will be able to take any questions by the participants. So please, Mr. Barbassa, you have the floor.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

(Via interpreter). Thank you, Theo and good morning. It is a pleasure to be here once again with you to analyze and also talk about the results -- the results we had in the First Quarter of 2013.

Now, looking at our net income, we were in keeping with what we had in the Fourth Quarter of last year approximately BRL7.7 billion that when we analyze this result, you will see that this result has more quality to it than the results posted in the previous quarter.

Our operating income grew reaching BRL9,849 million and this also gave us the opportunity to generate more cash reaching BRL16,231m. With this cash generation, this positive cash generation, we were able to reduce our ratio of net debt over EBITDA reaching this quarter 2.32 times. Therefore, being below our internal target of 2.5 times.

In regards to exploration which will be elaborated further by our officer Formigli, we experienced a reduction in production when compared to the previous quarter. And Mr. Formigli will give us more details, elaborating more on the reasons why we experienced a decrease in production and which is in keeping with what we had projected.

Domestic production of natural gas increased. And it did increase in an important moment of higher thermal demand. So Director Alcides will also give us some more detailed information about the performance of this E&P area.

Pre-salt production which is a reality today and is indeed a reality that accounts for more than 15% of Brazilian production reached a peak of 311 kbpd a day in the middle of April. We also installed two platforms this year -- Cid. de Sao Paulo in Sapinhoa. It's a pilot project. And Cid. se Itajai. That's in Bauna.

And others will come. Cid. de Paraty is currently being anchored at location. It will be a pilot for Lula Nordeste. And four other production start ups are expected to be installed by the end of the year. And all together they should contribute with 500,000 barrels per day of additional capacity.

Also, this year, we contracted two new leased FPSOs Lula Alpha and Lula Central for the Lula fields where pre-salt is produced. And also in terms of exploration, we had some new discoveries. In Sul de Tupi and Florim in areas of the Transfer of Rights and Sagitario in the pre-salt Santos Basin as well as Mandarim which is linked to the pre-salt Marlim Sul field of Campos Basin.

Downstream had an exceptional performance this period reaching from records figures of process volume reaching 2,149 million barrels per day. And also, there were two price increases for diesel totaling 10.7% increase and there was one adjustment for gasoline of plus 6.6%. Both took place this quarter.

Gas and Energy, Gas and Power met a gas demand of 88 million cubic meters a day. And it had its own generation of power of 5,120MWs of thermoelectric in our thermoelectric plants.

In terms of management PROCOP is very, very good results and Marie das Gracas will give us more details about these programs.

The same thing goes for PROEF. PROEF is complying with the estimated targets bringing along all of the benefits that were in our pipeline.

And now I'll give the floor to Formigli. And after his presentation we will hear from Cosenza, Alcides and Maria Gracas and at the end, I will come back again so that we can talk about the financial results. Thank you very much. Formigli, you have the floor.

Jose Miranda Formigli {BIO 16037392 <GO>}

(Via interpreter). Thank you, Barbassa. Good morning, everyone. Continuing with the presentation, average oil production in the First Quarter of 2013 was 1,910 barrels per day. It is a 4% lower production when compared to the previous quarter and this is in keeping with what is planned by the Company for the year of 2013.

This process is linked to a significant number of scheduled maintenance that we had throughout these past months. And I would like to highlight the P-34 platform Capixaba [ph], P-9 and in February and January we also had large production platforms which had the scheduled maintenance as P-37, 53 and P-33.

All of these scheduled maintenance are part of a structured recovery program to reinstall the efficiency of these units and it is severely monitored by our production team together with the implementation of actions related to PROEF, which is the program to increase performance.

This 4% reduction in the case of scheduled maintenance stoppages was related to marina's 23,000 kbpd/year. And another important item that was also -- was also part of this problem was the end of early production systems that were taking place until December of 2012. And again, as planned, had its production suspended.

This is also associated to the thermoelectrics of Capixaba which used to be conducted by SS-11 platform and as of February this production is now being conducted as part of our ramp-up SS Cidade Jardim. The results of the suspension of the ameba well that produced to FPSO Cidade da Brazil.

The P-34 platform produced part of the Cidade production. And as planned, we interrupted that production for the further transfers to FPSO Tapishada MC-37. Also, there was a natural decline in production which was around 10%. Therefore, last year this (inaudible) line was 9.4% as a whole.

And we are also encountered some operating problems which were very specific and occurred due to the exchange of subsea units that produced UP-57 and other significant problems that occurred in FPSO Cashishaba NP-9 which have been already solved.

The production target for 2013 is still 19 in keeping with the production of 2012. And the Second Quarter of this year will continue to have a certain number of scheduled maintenances with the installation of a system that has been previously mentioned by Director Almir, which is the pilot of Lula. This last weekend we started and concluded the connection of the electrical and hydraulic pipeline.

Then with that we are within schedule with the securing of the FPSO by the end of May starting with the ramp-up of the other units of Bauna [ph] and the pilot which will then be integrated to the other four units in addition to these other two that I just mentioned in the second half of the year. They are in A3, (inaudible) 58 and P-61. P-63 and 61 is a system largely (inaudible) and P-58 is another unit (inaudible).

So continuing on I would like to talk about the importance of the recovery work to regain efficiency, especially in the case of old assets like the Campos Basin. inaudible) and 82 launched June last year today and the First Quarter won three contracts for production that we would have in case we had not introduced additional improvement measures to boost efficiency our production would be decreased by 14%. So today we have these 14,000 barrels per day in our operating units at Campos Basin. These are the older assets that ultimately include mining in other core fields.

If you look at our slide on operating efficiencies, we were able to gain an additional 6% in operating efficiency. And this just says that this is an example that says that this program is very relevant because it allows us to operate in keeping with international standards. So it's still going up and the target for this year is to be around 76%.

And the reason is that we still have to keep some scheduled maintenances to put this line in the standards that we desire. Now, when we looked at the expectations for 2013, the forecasted gains is for 36,000 barrels per day. And if we add that to what we already have in our efficiency performance for all Rio de Janeiro responsible for the most recent assets of the basin and therefore tries to avoid any drop in efficiencies that we experienced last year in the Campos Basin we will come up to a figure of 34,000 barrels of oil per day. And the projection for the whole year gives us 62,000 barrels per day associated with this program

It's important to highlight that NPV is still growing and positive when it comes to these innovations because these innovations were able to give us an oil with a high internal rate of return allowing us to experience to have $542 million that can be used as investments between maintenance and investments and CapEx in our guidance of about $100m.

Now, referring to lifting costs, this quarter our lifting cost, total lifting cost was slightly lower than the lifting cost of the Fourth Quarter of 2012. This already indicates that the Company is doing a lot of things to help us increase our production capacity of oil in the future at the lowest unit cost.

As production in this quarter was lower, even though we were able to reduce the total cost, our average cost was higher. Those costs is in keeping with what is planned and forecast that Maria Gracas will elaborate more on that, will also give us clear improvements in our line of operating costs.

The movements that explain this cost increase are first related to the scheduled maintenance stoppages and the introduction of new systems which are not fully operational. Therefore, we have the revenue of new systems and their costs are now posted in the operating cost line and production is not at full force as it's still in the ramp-up phase. The unit cost for that oil that is produced has been increased. But this time, this cost tends to decrease.

Now, moving on, we have now exploration -- the exploration area. We were able to keep good control in terms of lower number of dry and subcommercial wells, exactly as it was planned as of the second half of last year when Petrobras set up its exploratory policy balancing the aggregation of new volume with our capacity to take in more dry wells experiencing the exploratory risk of the portfolio.

Out of 18 wells where none of these wells were pre-salt and four post-salt in the onshore area and three cancelled projects, we are still keeping very tight controls in this area. And the numbers projected for this year are still according to what was planned last year, which was lower than what we had in 2012.

So this is what I had for you at the moment. And now I'll give the floor to my colleague Cosenza who will talk about the results for refining.

Jose Carlos Cosenza {BIO 17643628 <GO>}

(Via interpreter). Good morning. When it comes to downstream, I would like to begin by talking about oil products. First of all, I would like to say that more recently we had three records of oil processing. The first in March of 2013 of 2,125 followed by March 30 with 2,137 and more recently in April we had another record of 2,149. This stems from the integration among all of the processing areas which led to performance increases. So how processing means more oil products.

So when we compare Fourth Quarter of last year with this First Quarter, we experienced a 6% increase in production. Our profile of the refineries is still maintained. And then it was removed through seasonality, not seasonality. But when we compare the First Quarter of 2012 with Fourth Quarter of 2013, we see a production increase of about 10% which certainly comes from those higher processing levels.

When we look at refining cost, the result was a reduction when we compare 4Q 2012 with Q1 of 2013 from BRL6.98 in the Fourth Quarter of 2012 to BRL6.24 in Q1 2013. And this 11% difference is attributed to a reduction in working maintenance expenses and also an increase in processing in our refineries.

The result of higher processing was translated into the utilization of our facilities. In the First Quarter this year, when you compare the value of the industry which is 98%, or out of this 98% processing 2,083 that was the average for the quarter. And out of this figure 2,083 of oil, total oil processing 1,722 is our own oil accounting for 82.6% of national oil processing being done in our refineries.

When we talk about oil product sales we see here the effect of seasonality when we compare the Fourth Quarter of 2012 with the First Quarter of 2013. These comparisons include seasonality both for gasoline and diesel oil.

Now, when we compare the first Q of 2013 with first Q of 2012 we see a 7% increase in diesel which accounts for the development in growth experienced by the country and also the results that we anticipate in terms of oil products. So this is a significant increase of 7% if we compare this First Quarter with the First Quarter of the year before.

In terms of oil product prices, there was an increase of 21.9% for diesel and 14.9% increase for gasoline in this First Quarter of 2013. So it was a 10.7% increase in diesel oil and 10.6% -- see presentation 6.6%. These increases tend to converge to international prices of oil products.

In those curves, as you may see, the down curve of the ARP in Brazil and the other curve shows ARP in US gold cost. And so you see a variation of prices and you see a significant trend as well.

In terms of trade balance of oil and oil products in terms of imports, I would like to highlight the fact that talking about exports, when we compare the First Quarter of '12 and '13 in terms of the figures, we see a reduction in oil exports due to lower production and also associated to higher processing in our refineries. We are buying more light oil products to cope with our processing capacity. Therefore, they would reach the numbers that we want.

(Technical difficulty) was significant highlight when we compared with the First Quarter of 2012. Well the First Quarter of 2012 compared with the First Quarter of 2013 we had a reduction in the number. Comparing with the First Quarter of 2013 with the First Quarter of 2012, we had a significant input. But when it was compared to the First Quarter of 2012, it was similar cost reduction of 15,000 barrels per day which is quite significant. And this consequence is seen in the cost of oil products produced, lower production of oil for this in the market.

And finally, the net balance shows that the trend has increased (inaudible) particularly given that (inaudible) the higher demand, higher processing and oil production of oil products.

Thank you. I now give the floor to Jose Alcides Santoro.

Jose Alcides Santoro {BIO 17547916 <GO>}

(Via interpreter). Good morning, everyone. (inaudible) due to higher demand from natural gas to 88 million particularly compared to the thermoelectric demand, a saving of 40.2m cubic meters. This was 40% higher than in the First Quarter of 2012 and showed 144% higher compared to the First Quarter of 2012.

Thermoelectric consumption of petro clients was in keeping with (inaudible) First Quarter 2012 about (inaudible) in the period. (inaudible) around (inaudible) oil domestic production (inaudible) this quarter. And domestic gas showed a significant increase of 16.7% higher than the First Quarter of 2012 total production of 12.8% (inaudible) for the LNG tariff.

Now for the PROCOP (inaudible) strategy we are going to talk about PROCOP. On slide 14 we have a summary of PROCOP results. Our goal was to further translate 87 wells in 2013 (inaudible) activity. From left to right we have (inaudible) our onshore production, offshore production into that (inaudible). Then have downstream with activities that range from refining, logistics, commercialization and all these proposed areas.

We have gasoline LNG. We have activities related to (inaudible) in natural gas (inaudible) energy part in keeping with First Quarter of 2013. There was no growth linked to this operational activity.

Continuing on the horizontal axle how we are going to technology and material production shown in the PROCOP growth rate (inaudible) and communication.

The costs associated with equipment and clothing, travel and laundry and in managing health, safety and environment. So around these further initiatives concerning structural initiatives and strategies.

Now (inaudible) our future operational activity is progression (inaudible) contribution to the growth every year. For example, it becomes very clear when we're finding upgrading activities to the growth for 2014.

On the vertical axis (inaudible) accumulated in which (inaudible) per year compared to what we expected to accomplish versus expected. So the dark line shows the expected savings percentage operating activity.

The colored boxes show the (inaudible) the increase over time the (inaudible) 100% of the goal of the target is improving. The color code is linked to achieving the guidance or below target. In the First Quarter we were expecting an accumulated savings of BRL646m. The accomplished cost saving was BRL1,260 million in the first two months of the year leading us to an actual saving rate of the internal target for 2013. Most (inaudible) which was better than expected. We invested in three new mains activities.

Firstly, we have seen in a number of our operating activities better efficiencies than were expected (inaudible) for the (inaudible) year. Affecting (inaudible) some gains that were expected to happen later on in the year (inaudible) optimization actions were successful and the rewards came through our expenses. But it will happen that we are going to have additional gains with those activities along the year.

And finally, some activities that we expected for the First Quarter were boosted and those were efficiency gains (inaudible) when those activities that (inaudible) were confirmed that the expected gains were (inaudible). In other words, we will maintain the target for 2013 through (inaudible) we announced in savings related to our operating activities.

Thank you.

Unidentified Speaker

(Via interpreter). Thank you, Jose Alcides Santoro. Now we are going to talk about the quality of our earnings for this quarter. In the First Quarter our operating income was

BRL5,739m. Due to a seasonal reduction in lower demand for our products in the country, the market shrank a little and that's why our sales were reduced.

So now lower oil products for the domestic market. However, COGS had a significant contribution of BRL3,164m. This is explained by the cost of goods sold and there are two factors, basically. (inaudible) produced more product sin our refineries and those new products that were produced here with a higher operating utilization and given the start-up of new units in the refineries. So there (inaudible) applied of the inputs of our products in this production in oil products important give us a lower cost of goods sold. With that, we had a major contribution in the period, comings from a reduction in reproduction costs to a reduction in the operational refining cost has also contributed to the cost, reducing the cost of goods sold.

The costs were progressed overall. Sales and general and administrative expenses were also up overall. And also, the number of loans written off was lower with (inaudible) expenses and that contributed, that reduction contributed with another BRL1.6b. And with that, we reached an operating income in the First Quarter of 2013 of BRL9,894m. And we can see a big improvement compared to BRL5,739 million in the First Quarter of 2012.

Let's talk about the net income. It was greatly impacted by our operational performance. Operating income from net income was another BRL4,110m. Thus, in the First Quarter, we did not have the effect of the sales that we intended that we had in the First Quarter. That was a one-time off situation, an exceptional situation, as we saw a further contribution is not seen in this quarter.

In the First Quarter of 2012, we provisioned interest on equity, which is not seen in this quarter. These three elements, however, still maintain our net income, BRL7,747 million in the First Quarter of 2012 and BRL7,693 million in the First Quarter of 2013.

Looking at that exploration and production, looking at this segment now, we saw, as expected, a lower production in the quarter for E&P. E&P operating income BRL17.5 billion was negatively impacted by the price of oil that E&P suffered on exchange. And that was just up a little. The lower production actually caused a reduction in E&P for the period.

And also, the cost of E&P average production COGS, has increased. That was just over BRL1,146m, the average cost effect on COGS.

Because we produced a lot, E&P also spent less and the (inaudible) overall improvement, BRL1,388 million and BRL621 million came from operating expenses. The level of expenses related to dry holes or abandoned holes was BRL621m. And with that, E&P in the Third Quarter was BRL15,084 million and operating results.

Looking at downstream now, we are on slide 17. We will start with the last of BRL8,715 million in the First Quarter of 2012. Further price effect on that (inaudible) and then BRL1,651m. However, there is some seasonality involved. We had managed to sell less of our products. With that, still from downstream BRL2,440m.

Just now we had the operational contribution already higher, domestic production on oil products, that allowed us to reduce the imports of our products to supply the local demand. We acquired less of it because it was a lower-than-expected amount and gave us another BRL3,378m. So that is volume effect on COGS. With that, our operating income was BRL6.5 billion BRL2.2b better than the operating income for the First Quarter of 2012.

We want to give you the net results by segment. This is the summary of the factors that improved or reduced the performance per segment. For E&P production, we had a decrease of oil and NGL production in Brazil, lower dry subcommercial wells write-offs and lower total lifting cost. That also contributed to improved results.

Gas and Energy had a higher power generation revenues, due to energy prices in the market. We were able to keep a flat volume supply for natural gas, with more natural gas available. We also had a larger acquisition price of LNG. This was lower amount given (inaudible) domestic production.

For the International segment, well, we have a quite positive result. We had a negative BRL6 million move into a positive BRL7 million with higher sales volume, mainly of oil products abroad. We had a higher production of our refinery overseas. In this quarter, there was impairment which actually happened in the Fourth Quarter of 2012. We had one dry well write-off for the commercial (inaudible) in this quarter when compared to the First Quarter. And also there was no stock revaluation of all our products abroad.

Production really was positive in the (inaudible) here, just like the International segment. For downstream, we had a price increase that was on gasoline, as I have mentioned, that contributed positively. And the lower share of imported oil products in sales was reducing more part of the oil products proven in the domestic market. And was also a positive. And we had a higher oil product production in Brazilian refineries, which allowed us to have more lower cost oil products.

We're going to talk now about investments. We grew our investments fund 10% higher than the investments in the same period as last year, BRL19.8 billion worth of investments in this quarter. And these investments were basically made in two areas that practically adds to 90% of the total of investment. 54% went to E&P. 35% went to downstream.

And by tracking the major projects of the Company within the S Curves, we can see that of the 160 major projects, we had an average physical accomplishment of 98.9% and 97.8% for financial progress, very close to that explained.

Now, looking at our debt, we have a total debt which remains stable, BRL196.3 billion -- BRL196.9b. So across that we have operationally made more barrels, slight appreciation of the real. In this Fourth Quarter it was BRL2.04 per US dollar. It is now at BRL2.01 real per dollar at the end of the First Quarter of this year. And because of the investments made, we have slightly lower cash and cash equivalents. But of this BRL2.2b, about BRL1 billion was invested in stocks, in buying our stocks.

You can see the Second Quarter of any given year brings a positive thanks to the demand of our products sold. Since the Second Quarter is coming, we decided to have our stocks stronger in debt and cash and cash equivalents. That's the final result. There will be net debt to EBITDA ratio declining from 2.77 to 2.32 times. That's because of our excellent cash generation in the period.

With that, I would like to close this presentation and we remain available for questions you might have.

Questions And Answers

A - Unidentified Speaker

(Via interpreter). The question and answer session of the Petrobras conference will start with questions in Portuguese, followed by questions in English. We request that you ask at most two questions per participant. Questions should be asked consecutively so that executives may answer them afterwards.

Operator

(Via interpreter). Mr. Marcus Sequeira from Deutsche Bank is about to ask a question.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(Via interpreter) Good morning, to all. I've got one question about E&P, one about downstream. In downstream, in the meeting you indicated that there would be a price increase (inaudible). The question is, has the further increase happened in the First Quarter, or can you expect further increased production of gasoline and diesel for the coming quarter?

And can you explain any scheduled stoppage that could have a significant impact on the margin this year?

And 2013 could you talk about the performance on (inaudible). Do you expect that that fund (inaudible) that will stand up in the next month -- do you expect them to be significant tax rates compared to the flood of assets?

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

(Via interpreter). Well this is Cosenza. I am going to answer your questions about downstream. In the next quarter, we don't expect any significant impacts to our strategies, maintenance strategies. There might be some reduction in production but not anything substantial to impact our indicators.

As for the future, in terms of generating producing diesel, we are looking into that. As Barbassa also mentioned, we have rolled out several strategies in the summer. That will give us more flexibility in refining. And thanks to that, we were able to increase our processing. In addition, we agreed to buy oil, which is adequate to new refining scheme.

But we are making available (inaudible) of the investments more than refining. I am talking about this as far as operating refineries. But our outlook is very positive for the future and we should have some additional production.

As for scheduled stoppages for E&P, they will still continue in the Second Quarter in those small and medium-sized platforms as well as in (inaudible). We cannot give you any projections. But what I can tell you now is that the level of stoppages will impact no (inaudible) as expected for our planning in 2013. It is all in keeping with the same straight strategy. And we track these stoppages, comparing what is estimated with what is achieved. And it was the second half with (inaudible) in the reduction in the frequency of stoppages, then we will be able to see a sustainable increase in production. And that will be substantial.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(Via interpreter). Thank you.

Operator

(Via interpreter). Paula Kovarsky from Itau wants to ask a question.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Good morning, to all. My question is also about refining. And my second question is about E&P. My question in terms of refining is, other than more working very higher utilization rate and this will bring up a positive in terms of reducing your average. But in the second and Third Quarter, it is (inaudible) a higher efficiency ramp, higher than the average of the industry. So my question is, I want to understand, is there any operating risk of operating at such a higher utilization rate? Thanks.

It is a fact that last year more recurrent strategies in refining. For (inaudible) lower maintenance level for this year. But I'd like to know, if you continue to operate at an 97%, 98% utilization rate for how long? And could you please comment any operating risk for acquiring more maintenance strategies. I just want to understand of this level of production.

My second question is related to E&P. I'm (inaudible). You mentioned that, first of all, the strategy in the First Quarter accounted for a reduction of 23,000 barrels per day and that averaged to a much higher decline of production of operating problems amounted to 11,000 barrels. We could 33,000 barrels per day reduction. And for (inaudible) we have scheduled and unscheduled stoppages and lower decline and all that together you're having a production -- a reduction in cost to 100,000 barrels day, if we don't insert that scheduled and unscheduled stoppages. Does it account for a reduction of 60,000 barrels a day? I would like to understand what it is in this First Quarter?

We consider (inaudible) scheduled and unscheduled stoppages. We ramping for a full production loss related to that. And in the Second Quarter, could we expect with a higher production level that you are insisting that stoppages will be concentrated in the First Quarter? Perhaps in the Second Quarter, we going to have two stoppages?

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

(Via interpreter). Paula. Good morning. This is Cosenza answering your questions. I think your comments are very appropriate. Refinancing process together with the rest of downstream works towards reliability. Works for reliable system. For a long time we believed the systems, control systems and continuous improvement systems in our refineries. We (inaudible) they were going to mature at the upper age with high utilization rates in the first place. Never do we avoid stopping for maintenance. Maintenance is necessarily in the stop and we repair. Never do we operate on systems with less than optimal conditions.

What I can tell you is these numbers are sustainable. We are working strongly. The big difference between Petrobras now and Petrobras a few years is the complexity of the refining products that allows us to increase the through price but never do we ever maintenance that is necessary, because we know that maintenance that we do not do today will come and haunt us six months from now, with different types of impact as related to safety, the environment, etc. But we are fairly convinced that this is value, maintenance is a value to us.

We focus on the safety and maintenance of our facilities for us to maintain good results. This is all of it. So confirming for this year, we are not thinking about aiming more relevant stoppages. We have natural stoppages at facilities where the maintenance is necessary. We are going to have maintenance stoppages in the Second Quarter. We are going to have some stoppages, like I said. And we have substantial maintenance that are done in the last quarter that is all part of our cycle of maintenance. It is nothing exceptional given to one issue here or one issue there. It's natural maintenance.

Now, here is (inaudible). Well first of all, the level of stoppages that we had in the First Quarter was higher when compared to the previous quarter. And we will remain in that same level and maybe a little bit higher in the Second Quarter. There is no way to avoid these scheduled maintenance stoppages, because they are part of our refining schedule. And this is the way to achieve a sustainable growth in operating efficiency. We cannot afford to lose any more operating efficiency in the absence of compensation. And we cannot allow to decrease our average efficiency in the absence of our role.

And the second point related to decreases in production that you talked about, relates to operating problems. We had some operating problems associated as I said very briefly -- associated to two platforms, P-19 and FPSO Capixaba, which were quickly sold. We also experienced a drop in the subsea centrifuge that were problems that are still -- they are underway and they are close to being concluded and resolved.

But I think that what really made a difference between one quarter and the next relates to the suspension of production which we showed in one of the slides to 36,000 barrels per day. With this requirement of sustaining production without being able to make it up for the ramp-up of Bauna and Piracicaba is that we experienced also a drop in potential. But not associated to a decline. But it was linked to a schedule of suspension of TLD in platforms that were under production.

And in the case of P-34, they will be reallocated to P-57 and in the case of TLD, the Piracicaba platform is already producing more than in the First Quarter. And it's not even fully operational. This same process, if we want to extract a little bit, happened throughout the year of 2012. So that when we compare the First Quarter of 2012 to the First Quarter of 2013, we experience a 9.4% drop in this period.

And we also had some exiting out of units of 60,000 barrels. So in addition to Itau and Bauna, we had to add Prajee out of that production. And in that period, we had the addition of a system that was Anchieta. And the response from the reservoir was quite positive. And we also added the start-up of our Sapinhoa pilot and TLD Sapinhoa North -- Norte. And as I said, the initial ramp up of the Piracicaba. So when we get this new oil, it's not yet enough to offset for the decline, which is within the budget below the historical 10%, which is very peculiar of high large production in deep water and the start of order is of 18,000 barrels.

I may tell you that the process is under control and as we have new oil coming into the systems that are already installed and those that are yet to be installed in the next coming months, then we will have sustainable production growth.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(Via interpreter). So let me see if I am comparing the right numbers -- stoppage unit, maintenance, 23,000 barrels a day. When compared to that number. So as an average for 2012, adding up scheduled and non-scheduled, that was around 50 to 60? Am I right when I run that comparison -- 23? This 23 does not include non-scheduled, just scheduled, right?

A - Unidentified Speaker

(Via interpreter). Yes, precisely. And what we are saying is that the overall difference is that 23, right?

Q - Paula Kovarsky {BIO 15363001 <GO>}

(Via interpreter). Thank you.

Operator

(Via interpreter). Mr. Gustavo Gattass from BTG Pactual has the next question.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(Via interpreter). Good morning. I have a few questions here. But I think I will just ask two of them. First of all, I would like to understand one thing. I was looking at my Maria Graca's slides and what I could calculate. And I do apologize, because I may be too precise. But I think you have something like BRL330 million in gains in E&P and BRL600 million in savings in that cost efficiency program. But when we look at slide 16 and 17, how do we see that? Where does that appear, average cost reduction in COGS? I just want to establish a bridge between what you're doing on the one side and what is happening on the other side.

One other point that I would just like to touch upon is that in the quarter, we see a significant improvement in the results of fuel oil distribution. You didn't really elaborate on that subject. Was there any relevant impact when it comes to views on stocks in that quarter because of price increases? We cannot see any more what is the (inaudible) BR Distribudora. I would just like to understand, what is your point of view and whether there was something extraordinary?

A - Unidentified Speaker

(Via interpreter). The costs, I'll ask Maria Graca to explain further, to talk about the costs. And then next I will talk about distribution.

A - Maria das Gracas Silva {BIO 17585565 <GO>}

(Via interpreter). Gustavo. Good morning. In terms of that rough estimate, your approximation is correct when you look at the total gain in the area. And then indeed, you arrive at significant savings in every operating unit. The comparison with the extraction costs, refining costs, etc., is not so direct because in that slide we are comparing one cost that would occur without the program compared to an actual cost, a realized cost.

When it comes to lifting and refining costs, we are comparing it with the previous period. But in these figures, there is an effect coming from cost all right. But this is not a direct comparison because, again, one is being compared with the previous period and forecast is measuring savings. So one cost that I would have addressed the problem were not introduced -- was not introduced. So what is it expected of a base cost inflation for costs is quite a lot. That's an interesting point, because one operating cost has the element, the level of activity, output and unit costs. Petrobras is increasing its level of activity. This is a fact. We are working per cost with productivity and unit costs, especially productivity.

So if the Company increases its level of activity, the total cost increases. But it increases much less than what it would increase without the productivity increases that we are attaining with this program.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(Via interpreter). Okay. Thank you.

A - Unidentified Speaker

(Via interpreter). Talking about the cost of the products, we increase from an average price in the Fourth Quarter of 2012 from $110 to $112 for -- in the First Quarter this year. So it increased from $110 to $112. So the stocks in the Fourth Quarter that were eventually used here did not pay a significant contribution. There is something positive that there isn't anything too relevant about it.

But when it comes to distribution, we experienced a good result. Amongst other things, it was due to the fact that the thermal plants produces fuel oil. And there we experienced a significant increase, with the supply of the refineries, which made that available. And also, distribution increased approximately 15% when it comes to delivering that fuel oil to the thermals, which also allowed them to experience additional gains.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(Via interpreter). Okay. Just as a follow-up, the margins of fuel oil tends to be higher than the average margin of other products? So you were referring particularly to the distributor?

A - Unidentified Speaker

(Via interpreter). Well I'm talking about the EBITDA margin of BR Distribudora, which was very good and much higher than what we saw in other distributors.

(Via interpreter). I do not have that information to give you, unfortunately.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(Via interpreter). Okay, we can talk about that later.

Operator

(Via interpreter). Mr. Luis (inaudible) from Agricreditora [ph] has the next question.

Q - Unidentified Participant

(Via interpreter). Good morning. I would like you to talk a little bit about the debt market for Petrobras and whether you want to do some fundraising now or maybe by the middle of the year and what about the funding costs?

And the second part of my question is whether you're monitoring regarding the platforms that you will be receiving in the long range from the Brazilian, shipyards whether your level of concern is aligned with last year or whether you are more concerned this year?

A - Unidentified Speaker

(Via interpreter). (inaudible). The debt issue is aligned with what was happening before. Petrobras has very good penetration and acceptance in this area. The last capital raise we did in February of last year in the dollar-denominated market was up 7 million with a demand for 25 million demand in dollar terms. We also experienced very high demand in Europe where we were able to get 3.5m equivalent, right? And the demand was close to 10b.

The view that the market has of Petrobras of a company of very strong growth with products to deliver, with discoveries in the pipeline, all of these things together are very positive for fixed income investors. And this is our reality. We are working, as you can tell throughout the presentation, that our delivery goals for installation of producing units are quite significant and the goal is to increase production as of the second half of this year. And we want to continue to grow continuously as much as our eyes can see far away in the horizon. Therefore, Petrobras is in a very comfortable position in this market.

Costs at times slow due to several other elements. But it has been very favorable to Petrobras, especially when we compare the current position in the market versus other fundings or capital raises in the past. Then you saw the results of the Company in terms of cash and cash equivalents and total debt level, which has been kept stable. And this shows the achievement through the growth of our internal generation of our cash. So in 2015 -- by 2015, our cash flow will be positive for the entire Company.

Now, I'll give the floor to Formigli, who will talk about the delivery of platforms.

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

(Via interpreter). Good morning. When you talk about the mid and long-term platforms, I think that you were talking about those that are to be delivered by 2016.

Q - Unidentified Participant

(Via interpreter). Precisely, right.

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

(Via interpreter). So let's talk about those. First of all, all the shipyards and work sites where we have projects either related to projects or integration or the production of the ships -- the hulls are moving according to plan. In virtual terms, I would say that they are under construction. They are being built. And the schedule is aligned with our own schedule. What we are doing is monitoring not only the hiring of the units. But the construction of where they will be either integrated or assembled. And all of this is being monitored by our engineering department.

And whereas we see opportunities in our portfolio to allocate an additional unit, we are then managing the risk which is associated with the construction of the platforms. And as Barbassa said, we are now contracting two units, the Lula Alto and Lula Central for early 2016. And this will give us some more room for FPSOs where the platforms are being built at Rio Grande shipyard. But everything is moving according to schedule.

We will allocate two of these units to the transfer of rights where the results are also very positive. So in summary, in areas where we have to build platforms or rigs, all of the orders are moving according to schedule, the purchase of equipment. And also right at the beginning and the cutting phase, everything is happening according to schedule. Thank you.

Operator

(Via interpreter). Mr. Christian Audi from Santander would like to ask a question.

Q - Christian Audi {BIO 1825501 <GO>}

(Via interpreter). Thank you. I have two questions. Barbassa, the first one is to do with taxes. I noticed that tax has increased from 25 (inaudible) to 31, about 31 (inaudible). I would like to understand was this stainable? Whether the tax is to remain at a higher level or will it drop in the next quarter?

And second question, the (inaudible) could you give us an update? As quickly as possible, could you give you us an update in terms of the start-up timing for P-63, P-55, P-61, P-58, P-62?

And the third question has to do with refining. I would like to understand if it's possible to increase the utilization rate which is already very high, 98%. Are you expecting to increase your refining production capabilities any further for the next quarter, or should they remain at this level?

A - Unidentified Speaker

(Via interpreter). So in terms of the maintenance schedule current production to fall from 98% and then pick up again. So it (inaudible) update on that. Christian, relating to the First Quarter -- when we compare the First Quarter of this year, financially, it is in (true of(equity. The First Quarter we had an accumulation of both (we make) this kind of statement.

In this quarter, it was the same. And that is what really accounted for this difference related to taxes. Could only (inaudible) one thing this is the accounting of taxes. From a financial view, well, you must use different criteria when we're thinking about this benefit. It doesn't mean that the amount that the amount that you see there will follow this (trend).

Q - Christian Audi {BIO 1825501 <GO>}

(Via interpreter). As for the second and Third Quarter, we should see something similar to what we saw in this quarter?

A - Unidentified Speaker

(Via interpreter) Christina, looking ahead at the second and Third Quarter, the tax level in terms of percentage, perhaps it should be close to what we find the First Quarter. We wouldn't be looking at this quarter on quarter. I would be looking at this for the whole year. For the whole year, I believe you should expect more or less the same thing.

I will now give the floor over to Formigli.

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

(Via interpreter). Christian, we're working with planning as discussed in our business and management plan. P-52 for the end of July to 55 end of September and P-58 end of November. And finally P-61, end of December. This is the timeframe. This is the schedule that our Company is working with.

We are working to achieve it and support the growth of production in the second half of the year. Okay. Thank you very much.

A - Unidentified Speaker

(Via interpreter). Christian, the refineries to maintain the very good processing level (inaudible) in terms of reducing inputs and coming with a reduction of cost of goods sold. So we are making effort to maintain this level of utilization rate. It is quite high, as you said. It is an important challenge to keep it up. But we are working on it.

Q - Christian Audi {BIO 1825501 <GO>}

(Via interpreter). This is Christian again. But in other words, can you improve these very high utilization rates or is the top that you can get?

A - Unidentified Speaker

(Via interpreter). I'm sorry, your question. So I couldn't hear you well. Could you repeat the question?

Q - Christian Audi {BIO 1825501 <GO>}

(Via interpreter). From what I saw in the presentation you were running the refineries at a utilization rate of 98%, correct?

A - Unidentified Speaker

(Via interpreter). Yes.

Q - Christian Audi {BIO 1825501 <GO>}

(Via interpreter). Can you increase this to 100%? Can you get 100%? What kind of improvement is it possible to get? Is it possible to improve this utilization rate even further, or are we at the limit?

A - Unidentified Speaker

(Via interpreter). Well it is always possible to improve anything in the model, in the management process. Like I said, when (inaudible) to increase in the processing of our refineries is related to the complexity of the facility. Our refineries complexity was (inaudible) but recently, given the major investments we made both in generation and asst conversion and generation (inaudible) that in the refineries (inaudible) consideration (inaudible) facilities and the environmental aspects of the operation of our refineries.

Q - Christian Audi {BIO 1825501 <GO>}

(Via interpreter). (inaudible) within the schedule that we have for the second, third and Fourth Quarters of this year, what can you tell us in terms of what you expect? When are we going to have heavier maintenance? In which quarters are we going to have heavier maintenance? In which quarters are we going to have lighter maintenance?

A - Unidentified Speaker

(Via interpreter). The second and Third Quarters should have more small price maintenance operations. In the last quarter, though, we are expecting substantial maintenance of a refinery in Sao Paulo or we are going to have a significant downtime. But our expectation is that the costs of the reduction will be offset by other refineries. (inaudible) was very important. Processing is very much linked to the integration among the refineries. We can link processing from one to another in the same region.

We can transport more intermediate products among them and we are working with those (inaudible) and we are working with that. We are working very close with closer integration between the refineries and the rest. We had a lot of several positive effects when we increased the integration among the refineries, particularly when we talk about intermediate products. When we (inaudible).

Q - Christian Audi {BIO 1825501 <GO>}

(Via interpreter). The reduction of the (work) increased significantly. And this is due to a strong integration, one area complementing the other. And we transferred that via (inaudible) navigation, not using (inaudible) because we're talking about significant volumes here. And the maintenance that you explained, it's now medium-sized maintenance for this second and Third Quarter, how do you then compare with the kind of maintenance that we had in the First Quarter, because in the First Quarter, didn't we also have small and medium maintenance strategies? I'm just trying to compare what we can expect for the second and Third Quarters compared to the First Quarter.

A - Unidentified Speaker

(Via interpreter). Our expectation is that maintenance in the second and Third Quarter will be a little bit better than in the First Quarter.

Q - Christian Audi {BIO 1825501 <GO>}

(Via interpreter). Thank you.

Operator

(Via interpreter). (inaudible) from Progressive would like to ask a question.

Q - Unidentified Participant

(Via interpreter). Good morning, to all. I have a question that I think we should address to officer Formigli. It has to do with the expected recovery curve for the Second Quarter. Evidence that curve, the scheduled maintenance versus (SG&A) increase (inaudible) that this was expected given that we (inaudible) against SG&A.

Well of course, we should be able to perform this process very quickly. I would like to confirm the number of rigs today just for the maintenance that you considered to be optimal, right (inaudible)?

I was (hoping) you could give us a little more color regarding the recovery curve of the second half of the year. In other words, whether we had reached the minimum production. These are the things which I would like to know in my first question.

My second question also has to do with your guy's investment programs. If you could please give us an update on that and tells how it is unfolding and what should we expect? Thank you.

A - Unidentified Speaker

(Via interpreter). Regarding the number of rigs, we have caused the (work slowdown) (inaudible) to develop production and to carry out work orders and to maintain production work, possible stoppages somewhere else, which are included in our signings (inaudible) and assets that's totally under control.

When we talk about scheduled maintenance, obviously, this includes in addition to regular closes it includes scheduled maintenance, scheduled stoppages in the platforms and in the maintenance system. All of that has been considered under our scheduled stoppages. So that in the second half we can have growth.

I will ask about the projected production (inaudible) this quarter. But what is intended. The level of maintenance in the Second Quarter will be in line in keeping with what we have now. You have some different (stoppings). The amount of expected production and average production included in the Second Quarter, production will be in keeping with what we have today.

Now, with respect to the second half of the year is when we expect a serious ramp-up. Of this, (inaudible) and the start-up of production of those units that were incurred during the second half of the year. This is what is going to bring this increase in production.

Today, for example, we have a (inaudible). It is (inaudible) and we are now standing the first (data) volume and so that we can have a starting up over time. And also (inaudible) than individual than (inaudible) voids. And in the (Rio) (inaudible), where we have a number of works that (inaudible) to conclude the interconnection pipe and then we are going to have increase of (inaudible) with the interconnection of the satellite wells. And finally, P-55 and the P-58 with satellite wells. All of these wells all together will help us recover production linking back to a level of 2 million barrels of oil a day. This is an average production and in keeping with what we had last year more or less 3%.

Actually, in talking about the goal from last year, I'll ask (inaudible).

Q - Unidentified Participant

(Via interpreter). Thank you.

A - Unidentified Speaker

(Via interpreter). Now, I would ask Barbassa to talk about further.

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

(Via interpreter). I think we'll ask for information about further doing the divestment program. We are working. And the goal is untouched, is capped. And we cannot disclose any information about the individual status of the CADES. When the negotiations are concluded, we will disclose it and make it public.

Q - Unidentified Participant

(Via interpreter). The goal for this year is 10b, right, Barbassa?

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

(Via interpreter). Yes, 9.9b. But in fact, this divestment program has been designed by Petrobras some time ago. I don't know that it's carried the same name. But in general, I don't know if it's either for market conditions or what have you, we have seen some difficulties, because in general we end up selling assets.

Q - Unidentified Participant

(Via interpreter). Is there any positive reason that would lead us to believe that this year this should be closer to target or maybe, rephrasing it, the goal that you have been reinstated, reinstated at those goals -- is it doing that any different than those equations that you can probably mention to us?

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

(Via interpreter). The only thing that I can tell you in that regard has to do with the systematic work that we are doing internally to that end. Now, in terms of the work, you know that we also began on the other side. But now, regarding Petrobras itself and our systematization and the rigorous follow-up of our deposits, that successful outcome -- conclusion, certainly depends on finding the most suitable buyer that sees some value in the asset, or at least the value that we see.

Otherwise, it will not be materialized. Therefore, it's difficult to say anything for sure. It's certainly something that we do not anticipate at the moment. What we have to do is to work well with that project. That's all we can do about it.

Q - Unidentified Participant

(Via interpreter). All right. Thank you.

Operator

(Via interpreter). Please ask at the most two questions per participant. And questions have to be asked all together so that the officers can answer all together. So now we have (inaudible) from Monte who has the next question.

Q - Unidentified Participant

(Via interpreter). Two very quick questions. First, could you give us an update about the refineries that are being built in the northeast Contergie [ph]?

And secondly, an accounting question. Barbassa, you had a positive result this quarter which was different from the result in the other previous years. Is there any explanation in terms of cost of revenue in the Company? I think that's all I had.

A - Unidentified Speaker

(Via interpreter). (inaudible) will talk about the refineries. No. I think it was similar to (inaudible) and Contergie, was that what you said?

Q - Unidentified Participant

(Via interpreter). What is the status of the project and what is the start-up expectation regarding the other projects?

A - Unidentified Speaker

(Via interpreter). The Tianedge project is moving along at normal speed. Today, I think the refinery is 73% ready and Contergie, 51% ready. Therefore, everything is moving according to schedule. The first train of energy will leave on the 14th -- in 2014. And the other one in May of 2014, both for 15,000 barrels a day. So in total 230,000 barrels per day of refining compared to processing 165,000 barrels, anticipated for April 2015. These two refineries that are under construction are according to schedule and the officers are keeping a close look and monitoring the construction to be able to complete it on time and also the ones in (inaudible) are being analyzed so that we can make them possible.

We want to have them operational and operating with a good profit. Thank you.

(Via interpreter). (inaudible) in terms of the eliminations, the curve between E&P and downstream, E&P sells to downstream. However, if downstream increases its inventory level, this is not sold to a third party. That's why it's not posted in the final results. And that's when we have the elimination of the result of E&P. And that's only verified when we have a third party. So this is as you noted. And as I said before, there was an inventory increase in the First Quarter higher than what we had before, due to the expected seasonal demand for the Second Quarter, stemming from the harvesting and transportation of grains in the country.

So for the Second Quarter, we may expect a return of value on average to be a little bit higher than what we saw in the past. Well I explained to you from the Fourth Quarter of last year to the First Quarter and why that happened. So in terms of (inaudible).

Q - Unidentified Participant

(Via interpreter). Thank you.

Operator

(Via interpreter). We have a question in English. Mr. Frank McGann from Merrill Lynch would like to ask a question.

Q - Frank McGann {BIO 1499014 <GO>}

Two questions. One question, in terms of looking forward with the import trends, with imports having been much lower than expected I think in the First Quarter on the refining product side, I was wondering the trends that you expect over the next two to three quarters I would assume would be to keep those relatively low, more in line with the First Quarter, at least for the Second Quarter. Then as production rises in the second half, perhaps, those numbers should actually improve even more. I was just wondering what your thoughts are in terms of the trends in imported refined product going forward.

Then, just in terms of growth in 2014, this year, you're saying plus or minus 2%. I was wondering if you give some kind of indication in how much relative growth you can see in 2014 versus 2013? Thank you very much.

A - Unidentified Speaker

To answer the question (inaudible). So give us just a moment, please.

Frank, in terms of this year, actually, we have some reported seasonality, especially in the third semester. That was just one of the expectations of the imports. But we would rather (inaudible) we want to stabilize the interest because the level of production, not only the absolute production barrels per day. But the use in the refinery expectation decrease because we were working with other product, other crude oil to supply our refineries. We are changing the use of the production. This is a capital ratio for us. Our expectation is for the average for this year. Okay, Frank?

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you.

A - Unidentified Speaker

That's in 2014, of course, with some new platforms being started and all this capacity we will have more than 50 wells to be connected throughout this year. So we when you add up all this production, production for 2014 will be significantly higher than the level that we have been doing 2012 and 2013. We can adequately specific the (inaudible). But for sure other benefits of this system that have been started in terms of production plant capacity. We will get the benefit from having the introduction next year, not only from construct but also from wholesale.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you. Very helpful.

Operator

(Via interpreter). We have another question in English. Mr. Robert Canfor [ph] would like to ask a question. Please proceed, sir.

Q - Robert Canfor

Hello. I have just a very simple question. Given there was that significant ramp-up in the second half of the year for E&P production volumes, what do you expect for December of 2013 or maybe for the Fourth Quarter as an average production exit rate?

A - Unidentified Speaker

(Via interpreter). (inaudible) will approximately be above $4m of operating because that's the average of the year. But we use the same target of 222m plus or minus 2% as Petrobras announced. I think a little more than that because Petrobras does not disclose projections of future production, okay?

Q - Robert Canfor

Thanks anyway.

Operator

(Via interpreter). Mr. (inaudible) from (inaudible) would like to ask a question. Mr. (inaudible) from Santander would like to ask a question. Please proceed.

Q - Unidentified Participant

Yes, I have one on the pre-salt. You mentioned that pre-salt was producing 300,000 barrels a day. I was wondering, how many wells. And if the wells are performing in line with the projections or better? That's it. Thank you.

A - Unidentified Speaker

Thank you, (technical difficulty).

(Via interpreter). We have a question. It was for the 300,000 barrels of oil per day, how many wells are we working to achieve this kind of production? It's right about 311,000. It had one extra one compared to the 17 existing. So we have 18 producing wells. The average production is above what we have previously estimated in our other projects.

So we've been achieving production levels of around 20,000 barrels, 25,000. And we've been close to 30,000 barrels. But we maintain in our projections for the pre-salt levels of production between 15,000 and 20,000 barrels per day. We're conservative on that and we will continue to be conservative. Until we have more data, we will (inaudible) pilot usage (inaudible) this year. So that we can perhaps eventually consider an upside. At this point we are not considering an upside in our production curve.

And as for a production decline, all of these wells are performing exactly as expected. We have had no production problems. And first of all, the (inaudible) in the pre-salt area, they are not showing any production decline to date. But in terms of pressure, they're performing exactly as in the American model of their (inaudible). Okay?

Q - Unidentified Participant

Thank you.

Operator

(Via interpreter). (inaudible) from Jefferies would like to ask a question.

Q - Unidentified Participant

Yes, hello (technical difficulty). Sorry, there's a lot of echo on the line. Could I ask two questions, please? Firstly, (technical difficulty) rate per barrel seems to have gone up quite strongly compared to last year to around $9 per barrel. Is this the sort of rate we should be looking for going forward?

And secondly, on Group CapEx, it seems quite a long way below on a run rate basis the BRL98 billion you were talking about for the full year. Is this expected? Are we going to see a big build-up in the remaining quarters, or are you looking for lower CapEx now? Thanks very much.

Are you there? Sorry, do you want me to repeat the question? The depreciation rate per barrel in E&P, Brazilian E&P, seems to have gone up very strongly compared to the average of last year. Is this the sort of run rate we should expect going forward?

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

(Via interpreter). The depreciation increased because we added a number of units and also due to abandonment provision. This is a figure that should not increase any further. So if that's what you asked, I don't know whether that answers your question.

Q - Unidentified Participant

Yes. It answers the first one.

A - Unidentified Speaker

(Via interpreter). So adding to what Formigli just said, new platforms are becoming operational. And also, new equipment in the Downstream area. So pieces of equipment that we invested in the last five or six years that are now beginning to produce, giving us more opportunities to produce more diesel oil. And that's one of the products with higher rates of demand in Brazil. So now the equipment begins to be depreciated and this depreciation should continue to happen from now on. So there is no peak of depreciation.

The level of investment -- the assets are operational and productive. Also, have their own depreciation cost throughout its life span. That's why there is no particular depreciation peak at the current moment.

Q - Unidentified Participant

Okay. Thank you.

A - Unidentified Speaker

(Via interpreter). In terms of investment, in dollar terms, we invested 10 billion versus First Quarter. And the total forecast for the year is at approximately $48b. Again, this is in keeping with the plan. Our goal still is $48 billion for the year, or BRL97.7 billion for the year. The activity of the Company is increasing. Therefore, by the end of the year, we will reach that forecasted figure of BRL98b.

Operator

(Via interpreter). Thank you. We now conclude our Q&A session, the Q&A session of Petrobras. And I'll give the floor to CFO, Almir Barbassa for his final remarks. You may proceed.

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

(Via interpreter). Once again, I would like to thank you very much for participating in this webcast, where we talked about our results for the quarter. And all your analyses are greatly appreciated. And I hope to count on you next quarter, when we will be able to post just as good results as these. Thank you very much. And I hope to see you there, then.

Operator

(Via interpreter). Thank you, ladies and gentlemen. The audio of this conference call for replay and slide presentation will be available at Petrobras IR website at www.petrobras.com.br/ri. This concludes today's conference call. Thank you very much for your participation. Please hang up your telephones and have a great day.