Q3 2012 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO & IR Officer
- Jose Miranda Formigli, Exploration & Production Officer
- Theodore Helms, Executive Manager IR
- Unidentified Speaker, Unknown

Other Participants

- Auro Rozenbaum, Analyst
- Bruno Montanari, Analyst
- Marcus Sequeira, Analyst
- Paula Kovarsky, Analyst

Presentation

Operator

Original audio stopped in progress; poor quality of archived audio precludes completion of transcript.

Good morning, ladies and gentlemen. and welcome to Petrobras' Third Quarter of 2012 earnings conference call for analysts and investors. We would like to inform you that this call is being recorded and all participants will be in listen-only mode during the Company's conference call. It is being broadcasted with simultaneous interpretation into English. Afterwards, we will start the question-and-answer period, both in Portuguese and in English, when further instructions will be given. (Operator Instructions)

Today with us we have Mr. Almir Guilherme Barbassa, CFO and IRO; Mr. Jose Miranda Formigli, Exploration and Production Officer; Mr. Jose Carlos Cosenza, Downstream Officer; Mr. Jose Alcides Santoro, Gas and Energy Officer of Petrobras; and other executives of the Company. Before we start, Mr. Theodore Helms, Executive Manager for Investor Relations, has some remarks to impart. Mr. Helms, you may proceed.

Theodore Helms {BIO 15433381 <GO>}

(interpreted) Good morning. And we will start another Petrobras conference call with analysts and investors to present the Third Quarter of 2012 results. This call is being translated via the Internet on our website, www.Petrobras.com.br/ir; and it can also be followed via conference call if you dial 55-11-31-27-49; 71; and the password is Petrobras. In order to follow this call in English, you may access our website, www.Petrobras.com.br/ri/en; or if you dial 1-516-300-1066.

Before proceeding I would like to inform that this call is being recorded. And I would like to draw your special attention to slide number 2, with the disclaimer to shareholders and investors. The words believes, expects. And other similar words related to projections and targets are assumptions based on the expectations of the management of Petrobras regarding the future of the Company.

And finally, I would like to inform you that we have already published the quarterly results both in reals and in dollars, both according to International Financial Reporting Standards, IFRS.

Nevertheless, this call today is relative to a discussion of our figures in reals.

Now, I would like to give the floor to our officer, Almir Barbassa, who will be presenting the operating and financial highlights of Petrobras and the main events occurred during this quarter. Afterwards, we will be answering questions that might be asked. Mr. Barbassa?

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Good morning. And thank you for following our conference call, during which we are going to talk about the results of the Third Quarter of 2012. During this period, we had a BRL5.567 billion net income and EBITDA BRL14.375 billion, both substantially higher than the ones that we delivered in the Second Quarter of this year.

Oil production in Brazil was 1.904 million barrels per day, 2% lower than the one produced in Q2 2012. And now we will be talking about the reasons for this drop.

Natural gas, however, had a growing production, growing by 4%. Entering the same period, we installed a new platform, FPSO Cidade de Anchieta, with a production capacity of 100,000 barrels per day and which should be achieved in March 2013, that is to say, about six months later than the startup of the unit. But today it is already producing 43,000 barrels per day (sic-- see slide 3, "42 kbpd" [ph] coming from three wells.

In the period, we had important discoveries in the post-salt as well, more specifically in the Northeast of Brazil, in the Sergipe-Alagoas and Ceara basins.

In refining, we broke a record in the output of oil products, 2.026 million barrels in the quarter, compared to 1.866 million one year ago. This was partially driven by the startup of the recently installed unit; the REPAR coking unit, for instance, started operating in this period.

Petrobras also maintained its participation in the Dow Jones Sustainability Index for the seventh consecutive year.

Now, let's talk about our production of oil and NGL in Brazil. As I have mentioned before, we had a drop in production of 66,000 barrels per day, corresponding to 3% of production.

The main reasons leading to that were the scheduled stoppages, that were longer than expected; and in the case we had a P-52 and P-19 platforms. Quite a lot of this downtime happened especially in September. The total impact of maintenance stoppages in the quarter was of 77,000 barrels per day when compared to the Second Quarter, which was 52,000.

We show you the effect of these scheduled stoppages on production. And there was also a lower efficiency in this period, with downtime and major workovers, which reduced production by 55,000 barrels due to inefficiencies when compared to the previous quarters. The natural decline in production also accounted for minus 57,000 barrels.

But now looking at October, we have a production forecast which is 1.941 million barrels. We are already close to the end of October. So we expect this estimate to materialize. And it tends to continue in an upward trend by the end of the year. And which lead us to be sure that we will be achieving our production target which is of 2.022 million barrels, more or less 2%.

On the next slide, we (technical difficulty)

Operator

Ladies and gentlemen. we must apologize for this interruption. We are going to resume Petrobras presentation. You may proceed.

Theodore Helms {BIO 15433381 <GO>}

(interpreted) Good morning. And we are going to start another call of Petrobras with investors and analysts to discuss the Third Quarter of 2012 results. Today's conference call is being broadcast live over the Internet on our website, www.Petrobras.com.br/ir and can also be followed if you dial the number 55-11-31-27-49; 71; and the password is Petrobras.

If you wish to follow this webcast in English, we will be having simultaneous translation on the Internet. And it can be accessed at www.petrobras.com.br/ri/en or through 1-516-300-1066. Before proceeding I would like to inform you that this call is being recorded. And I would like to draw your special attention to slide number 2 with our disclaimer to shareholders and investors.

Words such as believe, expect. And other similar words related to forecasts and targets are based on the beliefs and assumptions of Petrobras management regarding the future of Petrobras. And finally I would like to mention that we have already released the Third Quarter results both in reals and in dollars, both in accordance with the International Financial Reporting Standards, IFRS. Nevertheless, today's conference call will be discussing Petrobras' results in reals only.

Now I would like to give the floor to Mr. Almir Barbassa, our officer. And he will be talking about the operating and financial highlights of Petrobras during the quarter. And afterwards we will be answering questions that you might have. Almir, you have the floor.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

(interpreted) Good morning, everyone. And thank you for joining us in this conference call related to the Third Quarter of 2012 for Petrobras. During this period, we delivered the net income of BRL5.567 billion. And EBITDA was BRL14.375 billion, both substantially higher than those delivered in the Second Quarter of this year.

Oil production in Brazil was 1.904 million barrels per day, 3% lower than our production in Q2 2012. Now we will be talking about the reasons for this decline. Nevertheless, the production of natural gas grew by 4%.

Also during this period, we installed a new platform, FPSO Cidade de Anchieta, with a production capacity of 100,000 barrels per day. Full production should be achieved in March 2013, around six months after the production startup.

Today, we are already producing 43,000 barrels a day (sic--see slide 3, "42 kbpd" [ph] from three wells. In this period, we also made important discoveries in the post-salt, particularly in the northeast of Brazil in the Sergipe-Alagoas and Ceara basins.

In refining, we broke a record in the output of oil products, 2.026 million barrels in the quarter vis-a-vis 1.866 million one year ago. This was partially driven by the startup of the recently installed unit. The REPAR coking unit, for instance, started operating in this period.

Petrobras also maintained its participation in the Dow Jones Sustainability Index for the seventh consecutive year.

Now let's talk about our oil and NGL production in Brazil. As I mentioned before, in the quarter we saw a drop in production of 66,000 barrels per day, corresponding to 3% of production. The main drivers were the scheduled maintenance stoppages that lasted longer than expected, as was the case in the P-52 and P-19 platforms. And a major part of the downtime happened particularly in September.

The total impact of maintenance stoppages in the quarter was 77,000 barrels per day. And when compared to the Second Quarter which was 52,000, we see the growing effect of scheduled stoppages on production and the result, a lower efficiency in this period, with stoppages and major workovers, which reduced production by 45,000 barrels due to inefficiencies when compared to previous quarters. The natural production decline also accounted for minus 57,000 barrels.

But now if we look at September, we have a production estimate which is 1.941 million barrels. And as we are getting close to the end of October, we expect this forecast to materialize. It tends to -- on an upward curve until the end of the year, which leads us to believe that we will be achieving our production target, which is 2.022 million barrels, or more or less 2%.

On the next slide we analyze domestic prices vis-a-vis international prices. Domestic prices went up at the end of June and beginning of July. We saw price increases both for diesel and gasoline. However, as we can see on this chart, the current deck [ph] shows international prices -- that is to say, the blue line at the top -- shows a marked increase at the beginning of the quarter, expanding this price gap by the end of the quarter.

Also in this period, we saw an increase in gasoline importations, due to the higher demand from the domestic market, which led us to supply the market by means of import. Diesel, on the other hand, had a somewhat lower average than the last quarter on account of new equipment that we now have in our refineries.

Now looking at the lifting cost on the next slide, we see that lifting cost net of the government take vis-a-vis the previous period, or quarter-on-quarter. We can see that there was a growth of 17%. And this were primarily due to personnel expenses coming from the collective bargaining agreements that were signed in September. And which entails a single payment event, resulting from 8 [ph], to make those [ph] in this quarter only.

We also had more workovers to recovery efficiency. And this leads to a greater resource allocation (inaudible) that we recover efficiency. This can be measured in one of the main factors, which is the application of rigs.

We do repair and recovery of our production capacity. And in the Second Quarter, we applied 762 rig days on this activity. And in Q3 942 rig days. All this, added to a lower production, led to an increased average production cost.

Domestic output of oil products went up as I have already mentioned, hitting a record mark in the period. And by upgrading our refining park and the better performance and efficiency, we have been able to increase yield [ph] productions, which is one of the oil products that has an increasing demand particularly in this quarter, in the Third Quarter, as we will see in a moment. With this efficiency we were able to reach a utilization factor of 98% of our refining capacity.

However, our refining cost went up. This was driven from payroll expenses, as I have already mentioned, the collective bargaining agreement. And which is also a partial impact on refining and also scheduled maintenance stoppages which occurred more often in the Third Quarter than in the previous quarter.

Now let's see the oil product sales in Brazil. Our domestic market continues to grow. And in the last 12 months we grew by 6.4%.

This growth was achieved mainly due to the increases of demand for gasoline. Several factors came into play, such as fleet increases and also competition with ethanol, because gasoline partially replaces alcohol.

The demand for diesel also grew by 4%. But on a quarter-on-quarter comparison, we had a 5% increase. There we have seasonality and the effect of the strength of the economy overall. Quarter-over-quarter, the demand for diesel grew by 8% and gasoline 2%.

Our trade balance ended up with a deficit. And the deficit was even greater than the Second Quarter. The gap of imports minus exports amounted to 271,000 barrels per day.

This was driven by a reduction in exports of oil, or better say, more imports of oil to supply the domestic market. Now that our refineries are equipped to better refine the product for which there is a domestic demand, plus a (inaudible) supplied by oil imports and also gasoline, which is imported directly to supply -- to cater to this demand.

On the next slide, we see our operating income. The operating income grew by more than BRL3 billion quarter-over-quarter. It was impacted in a bigger part by price increase and by the sales volume that grew compared to the previous quarter. But the sales volume, as we mentioned, was primarily suppressed by imports. And this brought about higher costs for the segment.

Refining costs also contributed to push the costs up for Petrobras products, both from refining and from E&P. Production costs for these two segments went up. And this brought an upward pressure in the cost of goods sold and therefore partially bringing down our operating income.

In this period, we also saw a lower number of dry wells written off. This was partially offset by the collective bargaining agreement, which entailed an additional cost as well.

Now looking at our net income, we see the effect of the operating income, BRL3.318 billion. And the financial results, which were the main factors coming into play. The currency stability gave us a greater stability after all in the quarter.

Therefore, we didn't have a change in the currency and the exchange variations or cost impacting our debt. With all that, we delivered a net income of BRL5.767 billion.

Now talking about E&P, our operating income also had a slight increase. The price was favorable to us. And the difference between Brent and heavy oil that we produce -- or this gap was reduced in this period.

And we had a lower production, we had lower [ph] revenues. And with a higher production cost. This brought about an increase in the cost of goods sold.

With that. And with a smaller number of dry holes written off in the period, all that took the operating income for the segment to BRL16.380 billion.

And for downstream, we saw a price increase. The price increase was the main reason that led to a reduction in losses, which dropped to BRL8.600 billion.

We sold more but the higher sales were partially offset by the cost increase of imported goods. We also had a higher depreciation because of the new equipment, such as 8ZT [ph] and the REPAR coking unit that started operating recently.

Finally, on this slide we see the Company's debt. Overall, it went up from BRL179 billion to BRL186 billion quarter-over-quarter. But the debt increase was practically all to our cash and cash equivalents, since our net debt remained stable.

This was possible because we negotiated with our pension fund, with which we had BRL5.800 billion worth of federal government bonds. That guaranteed (technical difficulty) actuarial debt at the Company. And it was replaced by an (technical difficulty). We were therefore able to increase our cash equivalents without incurring more debt.

In this period, we also raised (inaudible) EUR2 billion and GBP450 million which are not included in our cash equivalents because they only came in the month of October when we completed our funding process. But this shows quite well the great appetite from investors for Petrobras.

Finally, we (inaudible) show our investments. The investment that you will see on the slide lead us to conclude that by September they seem to confirm the priority identified by our business plan on 2012-2016 business and management plan, to focus on development and oil [ph] production. As you can see, year-on-year we saw an increase from 48% to 52% in investments made in this segment.

And with that, we would like to close our remarks and in case you have questions we will be available to answer them. Thank you very much.

Questions And Answers

Operator

Now we will start our Q&A session starting with the questions in Portuguese and afterwards post questions in English. This presentation is being webcast with a simultaneous interpretation into English. So we ask participants when asking their questions, could you please speak clearly and slowly? Please only two questions per participant. And all questions must be asked so that the officers may answer them. (Operator Instructions)

Bruno Montanari, Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

(interpreted) Good morning, to all. Thank you for this conference call. I have some questions about production.

In the Roncador we had a marked reduction in production. What led to longer stoppages? Was it a problem in P-52?

And the number for October, is this considered a completely normal life [ph] for production in the field of Roncador?

My second question is about the S-curve [ph] presented in the business and management plan. I would like to understand that the oil projects for 2013, if they have the same timeline. Particularly are you stepping [ph] (inaudible) and the one in the northeast, the ones that will have an operational startup in the beginning of the year. Thank you.

A - Theodore Helms {BIO 15433381 <GO>}

(interpreted) Formigli will answer the two questions about E&P. Officer Formigli, please?

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

(interpreted) Good morning, Bruno. As for P-52, we completed the scheduled maintenance stoppage in September and at the beginning of October. We will no longer suffer any effects on this production.

What happened there? Both in P-52 and in P-19, the longer [ph] stoppages were linked to weather conditions.

We had however, a workover in two units. For these workovers we required a maximum wind and wave conditions. And those conditions were not there in September. And that is why we had to prolong the stoppages in these two units a few days longer than we had initially forecast.

That led to an additional impact coming from scheduled maintenance stoppages. This is why the September production contributed more, because of the stoppages of these two units but these productions have been resumed. There are no problems in the platforms or in the wells.

Moving on to your second question, CapEx [ph]. (inaudible) These two projects continue 100% on target.

We expect good performance in the shipyards, where we are doing the integration in (inaudible). There is no indication of delays in the units. And this approved [ph] unit in terms of the wells (inaudible) to connect for first oil.

Everything is under control. The projects for oil production in 2013 are fully on target.

Q - Bruno Montanari {BIO 15389931 <GO>}

Perfect. Thank you very much.

Operator

Marcus Sequeira, Deutsche Bank.

Q - Marcus Sequeira {BIO 4622700 <GO>}

(interpreted) Good morning, to all. Thank you for the call. My two questions are related that there was an increase of other operating expenses in the quarter, a strong increase compared to the same quarter of last year and quarter-on-quarter. In fact, is (inaudible)? And if not, could you perhaps identify the main factors that contributed to this increase?

The second question has to do with refining. With all the interest of the Company to increase output, excuse me (inaudible) the refineries are getting to almost 100% of their capacity. My question has to do with downstream and logistics for distribution, transportation. And storage.

With an increased demand, if the demand continues to grow, is there any bottleneck that we should expect for the distribution and transportation of fuel in the country? Thank you.

A - Theodore Helms {BIO 15433381 <GO>}

(interpreted) Marcus [ph], thank you for the question. We will have one of our officers answering the first question and then we will -- be regarding your second question.

A - Unidentified Speaker

(interpreted) Indeed we are increasing the output of our refineries. They are reaching a very high level of production.

They don't all head [ph] for the downstream refinery. Our output in imported goods are injecting to [ph] the distribution points. In other words, availability to the market and distribution components, both in volume and in quality [ph], everything is perfectly satisfied.

We might have some difficulties looking forward, if in fact inventory, future inventories outside the refineries. So supply of imported goods (inaudible) develop [ph] product and production is compatible with market demand. And we are perfectly supplying the market demand even at this moment and if the pickup in demand should continue in the last quarter of the year.

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

(interpreted) Marcus, this is Almir Guilherme for your second question regarding other operating expenses. These are not recurring items.

At least, the main factors are recurring, which is the payment resulting from the collective bargaining agreement with our workers which we signed in the Third Quarter of 2012 and which was also paid in the Third Quarter. This is a nonrecurring item and is the main factor to be highlighted accounting for this marked increase in operating expenses. Thank you.

Operator

Paula Kovarsky, Itau BBA.

Q - Paula Kovarsky {BIO 15363001 <GO>}

(interpreted) Good morning, to all. I have two questions going [ph]. First, going back to the discussion related to production, literally I continue finding it very difficult to understand the increase of workovers in the wells and the increase of maintenance stoppages (inaudible) efficient [ph] levels that we see [ph] in production.

I would like to better understand how much of that increase in workovers cost is normal, repurchase [ph] perhaps, catching up with a period where there was a more focus on increasing production in Campos.

I have [ph] to think workovers are mainly [ph], perhaps that is why we saw a more rapid depletion now. How much of that [ph] is for catch-up? What would be the additional cost for you to effectively recover this production decline in Campos?

We are trying to understand for how long this investment will have to continue so high. And when we should see some effective improvement in the Campos production.

And I am being very specific in terms of depletion, because I understand that maintenance is (inaudible). But in terms of the calculation, what is the cost increase versus your expectations perhaps last year? And when can we see effectively an increased mark [ph] in that aspect? That's my first question.

My second question has to do with the collective bargaining agreement. I thought [ph] that expenses is actually recurring, right, because your manpower and payroll costs will be higher? Could you perhaps quay it [ph]? How much is bonus and how much is an increased payroll for the next quarters?

I agree nobody [ph] understands this comparison year-on-year. Because it was in the First Quarter that that payment happened, yet you have an increase year-on-year. But you said this is recurring. (technical difficulty) please explain this effect better.

And a quick follow-up, if you can comment, Barbassa. Why is it that we had such a big variation in suppliers in this quarter?

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

(interpreted) All right. You asked you asked two questions., right? Okay, let's try to answer the first one, related to production and cost of recovery. We'd like to ask Officer Formigli first to answer your question; and then I will try to answer the other.

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

(interpreted) This is Formigli. Good morning. With regards to a production decline, as you know, a production is a combination of the potential multiplied by efficiency. And with that we get to an oil production.

Basically when there is a production decline, it is clear [ph]. Either because we are not able to recover oil or because it is due to higher inefficiency, higher than we had before.

So what drove the decline? The decline that we have seen is a couple of things. And for Petrobras as a whole. Let's think about Petrobras as a whole, because a decline of 10% to 11% -- that decline is perfectly aligned with the best practices, corporate best practices.

With the characteristics that we have, we should look at what is considered an adequate number, a decline would be 14%. Our number for the quarter (inaudible) is around 11%.

Si there is a decline. This has been partially offset by a number of actions in new wells. I'm not talking about [ph] new wells in new systems. I am talking about supplementary development, where we put more managed production in a certain field, total drilling or through the (inaudible) project. Where we look for deeper water over here [ph], particularly in the field [ph].

The production of all of these wells that we announced at the Parkadira [ph] project, that makes it [ph] 100,000 barrels per day. But that is after the so-called well decline.

There is no way that we can avoid well decline. But if perhaps you identify all reserves that exist, even actually inject water. And this is what we have done to try to offset that decline.

Okay. Okay, So I talked about decline. Decline is under control.

I will now talk about the other part of the equation, efficiency. We all know that and we make it very clear -- we made it very clear in the Second Quarter -- that we have an inefficiency issue associated to both platform, (inaudible) and royalty [ph].

On the operational units, you owe (inaudible). But in order to stand [ph] up an operating efficiency improvement program, which is already getting results, has been not adopted [ph]program to date has led to be a producing (technical difficulty) between 50,700 [ph] barrels less. So we are already reaping a benefit from this. And we estimate an even greater benefit close to 25,000, 24,000 barrels per day on average in this year resulting from this production from the efficiency improvement program in these new (inaudible).

So you might ask -- okay, if the efficiency is improving, how come production declined in September?

Well the reason for that was that in addition to scheduled maintenance outages that we mentioned -- and they were scheduled -- they lasted longer than initially estimated because of weather conditions. But it was also in this case -- in the operating unit Rio de Janeiro there were one time out [ph] for problems associated to the (inaudible) to P-52. And once in a while problems linked to well (inaudible) in P-57.

The P-52 problems have all been solved. The P-57 problems, more than half of the well coupling [ph] resolved in terms of submersible equipment. And we have the rigs to solve those problems.

To conclude, in the UOBC, operating unit in the Campos Basin, we are improving. You have the results of that improvement. And you asked about costs, to give you an idea.

In practice [ph] in the operating costs, we invested almost $400 million there, $396 million to be exact. And we had a return of $350 million.

So you might be thinking, you are spending more. But in the pro aft [ph], the efficiency equipment program, it is [ph] a high-yield program. We are intending to invest the BRL46 [ph] billion in operating costs by 2016 and another BRL 1 billion in investments until [ph] 2016.

(inaudible) We trimmed [ph] the (inaudible) presents [ph] from $1.635 billion. This is all dollars, by the way. I forgot to say which currency I was referring to in NPV.

So invested, as I said, $396 million and we are having a return slightly above $351 million. So we are able to prove the benefits that we are going to derive by investing in these wells.

To supplement the (inaudible) efficiency, we are satisfied completing the operating efficiency improvement program for the UO Rio de Janeiro. You might wonder why.

In (inaudible) the UO, the operating unit, (technical difficulty) at Rio de Janeiro in terms of the price [ph]. Unfortunately, in one to two years we might face a situation similar to that of the Campos basin. The UO Rio de Janeiro handles higher production partly from the Campos basin.

So we continue to detail specific efficiency improvement program for it. On November 19, we are going to internally launch this program in Petrobras.

What is the expected event? In November 19, we will inform all the investments and expected results so that we will not face the problems that we are facing in Campos.

Is it going to be as big as? Certainly not. In the UO-RJ, Rio de Janeiro, it is a lot smaller than the UO Campos Basin.

But we need to have a firm structured program of action focused both on plants, particularly on plants. And a little bit less on the wells. (inaudible) thought [ph] we will be facing an issue similar to that of the Campos Basin. And we do not want that.

So I think I talked about decline. I talked about efficiencies. And later on maybe if there is time we can talk about the operating cost optimization program for the Company as a whole. Thank you very much.

A - Unidentified Speaker

(interpreted) All right, to continue with your question in terms of the costs linked to the collective bargaining agreement for the workforce, in that recurring piece 16% to 20% of that cost is recurring. 80% of that cost will be seen only in this quarter.

That will be the breakdown of some [ph] of the increase. It is calculated in this way.

As for the account suppliers, if we go back to the chart that shows our trade balance, you will see that there was an increase in our imports. And in the chart of the prices it is actually better, because you see how fast prices grew and imports grew between July and September. We see how gasoline imports grew on that period. And there was also increase in the imports of oil in this quarter.

This is linked to a higher currency value, that leads to a debt with suppliers, which is also higher. Thank you.

Operator

Bruno Varella, Bradesco.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

(interpreted) Good morning. I'm Auro, not Bruno. I have two questions to Formigli. The first one has to do with a decline. I think you mentioned Campos; if not, I would like him to mention Campos. Overall, what is the decline and how do you calculate it?

A - Theodore Helms {BIO 15433381 <GO>}

(interpreted) We can't hear you Bruno. Auro? Oh, it's Auro, okay.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

(interpreted) Were you able to hear my question?

A - Theodore Helms {BIO 15433381 <GO>}

(interpreted) If you could repeat your question, Auro, we would appreciate it.

Q - Auro Rozenbaum {BIO 1702415 <GO>}

(interpreted) I have two questions for Formigli. The first one is regarding production decline. He talks about decline. But I am not sure he was referring to Campos. If not, I would like to use Campos as an example. I would like to know what is the decline you are using and how you calculate this decline.

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

(interpreted) Auro, can you hear me? Good morning, Auro. I will explain how we calculate the decline.

Decline is calculated field by field. That is the first basic point.

Obviously we have an average decline. And we informed that average decline was 11% for all fields. The decline potential is calculated field by field.

Every field has its own characteristics. There are fields where we have -- I am going to concentrate on the major fields, okay? So there are fields where we have an average decline of let's say 10%.

Today, we have a 10% decline in mining. How is this calculated? There is a potential as to reservoir for all of the wells that you have drilled and in encased. Considering that are no restrictions in terms of what Christmas tree, in terms of subsea equipment. And related to platforms, in terms of runoff of production.

So given these things, it depends on our operating actions is 100% available. What would give us the potential for that field? So you compare year on year what is that potential, or what that potential is so when I have a 10% decline.

If you ask -- do you do anything to offset that decline? The answer is yes, because over time -- the potential of a year ago is partially recovered, or offset by new wells that are added.

(inaudible) development in Petrobras. How did we do that? In managing the reservoir.

I am going to repeat something that I mentioned in the previous answer. You are managing your action in terms of pressure in water arrival. Most of our offshore projects we have to inject a lot of water. And this is among the best practices of the industry in managing this water, if we don't inject water that decline is going to be very accelerated. Because in the reservoir there is a separation between oil and gas. And you can't [ph] have your brutal [ph] decrease in the volume of oil produced. (technical difficulty)