

Conference Call Transcription
Fourth Quarter and the Fiscal Year 2011 Results
February 14th, 2011

Operator:

Ladies and gentlemen, thank you for standing by, and welcome to the Petrobras conference call to discuss the 4Q11 results. At this time, all lines are in a listen-only mode. Later there will be a question and answer session and instructions will be given at that time. Should you require assistance during the call, please press *0. As a reminder, this conference is being recorded.

Today with us we have Mr. Almir Guilherme Barbassa, Petrobras's CFO and Investor Relations Officer, and his staff. At this time, I would like to turn the conference over to Mr. Theodore Helms, Investor Relations Executive Manager of Petrobras, who has some additional comments. Please go ahead, Mr. Helms.

Theodore Helms:

Good morning, ladies and gentlemen. Welcome to our conference call to discuss 4Q11 and yearend results. We have a simultaneous webcast on the Internet that can be accessed at the site www.petrobras.com.br/ir.

Before proceeding, I would like to draw your attention to the slide number two. We may make forward-looking statements which are identified by the use of the words 'will', 'expect' and similar that are based on the beliefs and assumptions of Petrobras management and on information currently available to the Company.

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

Almir, please begin.

Almir Barbassa:

Good morning or good afternoon everyone. Thank you for being with us in one more conference on our results of 2011 and the 4Q11.

Starting with the highlights of the Company, we can read in the spots, in the numbers and figures, we have here what is the performance of the Company. We keep growing our reserves. We have a reserve replacement ratio of 148%, keeping our higher, long life of production 18, 19 years, increasing the production of oil in Brazil. In total, the oil equivalent and mainly gas, we have increased by 18% mainly from Brazil because we finished the construction of some important pipeline that allowed for delivering this gas to the market.

Pre-salt is contributing heavily to the increase of production. Our share of the production in the pre-salt today is 133,000 barrels per day, not including our partners here. With the partners we reach production near 200,000. And we have some new platforms and units that will come to production during 2012, including the new pilot on



the Sapinhoá. Sapinhoá is the new name given to the field of Guará. Where we used to say Guará Area, now we have Sapinhoá. That was declared as commercially viable with proved reserves of 2.1 billion barrels of oil.

We keep selling more and more to the Brazilian market. That is growing and presented a 9% increase on 2011 over 2010. And in 2010 we had an increase of about 10% in average, so two exceptional years for the market. And our investment is kept in the range of R$70 billion, which allows for the growth of the Company as projected. In USD, this is near US$45 billion, which means R$224 billion as programmed for the five-year plan.

Next, looking at the proven reserves, we can see that Petrobras is essentially a Brazilian company and with a large share of reserves in deep and ultradeep waters. We are growing the proven reserves in Brazil. In the last 20 years, we had reserve replacement higher than 100%, which means every year we were adding some new proved reserves to our total proved reserves, keeping our reserve production ratio of 19 years.

Next, the exploratory activity has been very successful in Petrobras, with a success index higher than 50%, adding new fields as shown in the pre-salt and post-salt in Brazil. And this is contributing to add potential new reserves of cost lower than US$2. In 2011, the average was US$1.55, US$1.56 per barrel of new oil found. We are expecting 2012 to present around US$2.

And we are increasing our expenditures in exploration, increasing from R$9 billion to R$10 billion dedicated to exploratory activities. We are increasing the number of wells we are going to do offshore, from 47 in 2011 to 66 in 2012, and this is a reflection of the availability of new rigs as we are going to discuss in more detail in the next slides.

The production in Brazil increased substantially in the last quarter, and you can see that the main contribution came from stoppages. The volume we lost in the 3Q on stoppages, programmed and unprogrammed, was 79,000 barrels per day, and in the 4Q it reduced to 24,000. This is important. And there are new wells that were connected from the Varredura project discoveries that in the greenfield of areas that are producing, and connecting wells to the existing platforms. We were able to add new production of more than 40,000 barrels per day during the year.

But at the end of the year, we were expecting to complete 16 wells to increase production, but we were able to do only 9; the other 7 will come on stream during the 1H of this year. Four of them have been already completed in production. So, we expect the planned and unplanned maintenance to be reduced from the 67,000 we lost in average 2011 to a lower range. Mainly the unplanned that were in the level of 33,000 barrels per day we lost from production in 2011, and we expect not to happen in 2012. The wells I just commented have affected production as well, the wells that were to be completed but not entered into production only this year.

In gas and energy, there is the inauguration of an important pipeline that allows for the production of Mexilhão, Uruguá, and Lula, with the increase of domestic produced gas to be sold in Brazil and the reduction of flared gas as well.



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The production for 2012 is expected to receive the largest contribution from P-56. That will have an additional average production for the year in the range of 90,000 barrels per day. The second largest will come from P-57. That will contribute to an additional production of 70,000 barrels per day. There is the Lula pilot, that has had its production increased at the end of 2011 and the average of 2012 will be higher. And there is another well that is to be connected to the pilot as well, and new platforms that will come as well as new wells from the Varredura. We expect to have at least five production wells to be connected with the existing platforms, increasing by more than 30,000 barrels per day, the average production of the year.

The contribution of Santos Basin pre-salt and the accomplishment of the year. As we can see, the production of Lula's pilot, that reached 65,000 barrels per day at the end of the year, and there is still another well to be connected. The declaration of commerciality of Sapinhoá field, our extraordinary number of new wells drilled in the region when compared with the existing wells. We drilled 17 right up until end of 2010, we had 20 wells drilled in the region. So this gain reflects the number of rigs available.

And important to say is that the dark areas shown in the slides are the areas that we acquired from *cessão onerosa*, the transfer of rights of 5 billion barrels. In this area, we have drilled the second well in the Franco area, and it proved to be as productive, as good as the first one. And we are projecting to have a first extended well test in that area before the end of this year. And this gives the information about the growing and the work we are doing to reach production that we are expecting for 2015. To do that, we have already acquired hull to be transformed in FPSOs to produce in the area.

Campos Basin pre-salt is contributing already with 81,000 barrels per day, and there is expected additional production of more than 30,000 that will come from new wells to be connected to existing platforms. And another nine exploratory wells shall be built. We hope to keep our success as we had so far in discovering new opportunities to increase production in the area.

The number of rigs we have today is plus the ones we are going to receive during the year. We will complete 34 rigs able to drill up to 3,000 meters of water depth, and this gives us the equipment we need to perform our projected program. To receive new rigs after 2015, we just announced a bid where we agreed to hire another 26 rigs with the seven we had acquired last year.

We completed 33 rigs and they were all contracted under an international price scenario, very competitive with international standards.

In the costs of E&P, we can show here how the performance of the different costs has been in the last years. When you see lifting costs, on the left-hand side, there is the absolute price or the absolute cost, or distribution of the price of a barrel to different shares that it contributes. The cost of lifting has increased from 17% to 21% from 2009 to 2011. But looking at the relative share of this cost to the price, we see that there was a reduction from 17% of the price of a barrel to 13% in 2011, while at the same time the contribution to the net income has increased from 25% to 33%. So, of course there are many impacts inside of this value in terms of costs that follow the price of oil, but we have been able to keep our exploratory costs, D&E and others, even reducing from 23% to



16% in the same period. So, it shows how more productive and how more profitable has been the E&P production.

The next slide shows that, on the left-hand side, the spread between the price we sell our oil, heavier than Brent compared with Brent. The spread in the range of US$6 to US$10 remains as such. On the right-hand side we have an impact of the depreciation of the Real mainly in the 4Q, increasing when translated to Reais, the international price of oil products, increased the differential between the price we are selling, although we have increased the prices in the domestic market in November. But the impact of the exchange rate was bigger.

Next, domestic refining and sales. We are working hard to produce more and more, mainly of diesel and gasoline, but we are using more our refining capacity, reaching 92% of the refining capacity. But although we have increased our production, the market has increased faster than that, so we need to import more to supply the consumption in Brazil until we have the new refineries that shall enter in production by 2013 and 2014.

In the downstream, as I have mentioned, we added more products to our processing capacity, reaching our utilization factor to 92% and increasing the production, but we inaugurated as well during the year of 2011 14 new units to improve the quality of product as required by regulation in Brazil. And we have many orders to be inaugurated as well as increasing the complexity of our existing refineries and becoming more prepared or better prepared to process the oil produced in Brazil.

Only in 2011 we have increased our processed oil in Brazil that were supplied by oil produced in Brazil by 50,000 barrels per day, and this is the best way to sell the production we have. We have no transportation costs on it. And for the year, the main projects we have in the downstream are the two new refineries that, as I said, are going to come on stream next year and in 2014.

Next, gas and power. We supply the market with the same amount, but the origin of the gas is different from the previous year, mainly because of inauguration of the pipelines being built and allowed for more production, of domestic production. And the growth of oil production we have more associated gas available as well. In terms of demand, we have less on the thermoelectric area because of the rainy season in Brazil that has been very good, but the industry has increased the demand and mainly the industry and the use we have for gas in our own activities.

So, these make the same volume with different mix of demand as well as in the supply side. For next year we are looking for more balanced CAPEX distributed among different areas on the segment where we are going to build a new power generation plant, a new fertilizer plant, a new LNG terminal, and a natural gas processing unit to face the increased production from Campos and from the pre-salt.

Now we come to operating income. When we see 2011 operating income compared with 2010, we see that we had a higher sale volume and increase in our sale production because of the volume and because of the price we sold the oil products in the year. But the cost of goods sold has increased as well and there are many factors here. We had a larger volume of imported oil and at the moment where we had in the domestic market a lower price when compared with international but higher than the previous year, and we paid the production of the oil in



Brazil. We paid more Government take because of the increase of international oil price from one year to the other, as well as extraordinary costs we have with the increase of expenses in the dry wells during the year.

When we see the net income, we see that adjusting for operating income we have the financial results for the main reason that caused a reduction on the year-to-year comparison. And this was because in 2011 there was depreciation of the Real while in 2010 there was an appreciation. So, these movements, when applied to the debt we have denominated in USD, brings this adjustment to our net income but has no cash effect.

We are going to make a comparison here between the 3Q and the 4Q in terms of operating income. And as said, we sold more with higher price in the 4Q, but the costs, as already explained, have a bigger impact in this quarter mainly because of the average of the exchange rate applied to the 4Q compared with the one prevailing in the 3Q. We are going to discuss this in more detail ahead.

And we had a special participation tax due to the production growth as well that has increased. And there are a few important wells that are contributing more to the production and are being charged with a higher tax rate, which increases the cost of production. And there were also the dry holes and the impairment that has occurred at the end of the year. That does not refer exactly all of it to the 4Q but the whole year sometimes, but it is causing here the reduction of the 4Q results.

Next we have net income, and adjusting for the operating income we just analyzed, we have here a big result from financial results. In the 3Q, we had a big impact on our results because of the depreciation of the Real that has occurred at the end of the 3Q, mainly at the second half of September, and this now is adjusted to make this comparison. Equity income, we had an increase in the participation we have in different companies, and taxes is another point that has caused a reduction in the results.

But there is a contribution here for an adjustment that was done in Nigeria, where we used to pay taxes and not including as tax paid, but we were taking out of the production the oil that corresponds to the tax. Now, we are taking the oil as ours, as is the most common procedure, and having the tax paid as cost of the Company. But in terms of net income there is no impact, but there is an increase in the 4Q in terms of what we are showing as expense. And the minority interest is the other side of the financial results. That is not part of Petrobras but from the other shareholders on the controlled subsidiaries.

Trying to give a contribution to better understand the factors that caused some deviation from what market was expecting in terms of results and what we have presented, I do not mean that this is where the Real or the items that caused that effect, but we did that just on the purpose of trying to bring some light to that difference. And the first item here is the average exchange rate affecting the costs on the 4Q.

What does this mean? It means that we have many costs in terms of operating costs, in terms of Government take, in terms of product imported. All of this, when the transaction was done referred to USD, was affected during the quarter by more than 10% in the difference of the average exchange rate that prevailed in the 3Q and the 4Q, while the exchange rate at the end of these quarters were moved to just 1%. When compared at the end



of September and the end of December, exchange rate was about the same, but the average moved more than 10%. And this sometimes cannot be seen easily in all impact it has.

We did our best estimate here for operating and EBITDA in the range of R$2.6 billion of difference between the two quarters. The participation of imported goods in the sales we did, that has increased from 28% to 32%, is another fact. The increase of sales was mainly supplied by imports, and this has increased the cost of goods sold. Our best estimate here is more than R$1 billion also.

Inventories we formed abroad. What is this? One of the first informations that comes to the market is the information of Brazil exports. Every product that leaves the boundary of Brazil is a sale for Brazil, is an export, but this is not the case of Petrobras that sometimes has a larger and more expanded boundary. So, when we have a subsidiary in other countries to where we are exporting our oil or oil products, and it is still ours in terms of consolidation; the goods did not leave the Company. It remains in our balance sheet.

So, when looking at Brazil exports, you may have a missed or wrong information giving an extra expectation on the sales generation that will produce more operating income and EBITDA as well as net income. That in fact did not happen because all that product went to inventories.

There is another item here; this is related to accounting procedure. We are now adopting in Brazil, starting from the 4Q but applying to the whole year of 2011, a new procedure to consolidate results on the joint controlled companies. We are now using the same procedure as is in the U.S. GAAP procedure. We are just taking the results of the joint controlled company by the financial results, the share of the Company in the results the Company presents, the equivalence of equity.

Dry hole costs is another item that happened to be higher in the 4Q than the average, and this is the results of procedure. At the end of the year you do a complete review on the wells that have been drilled under appraisal and valuation, if there is discovery or not, and then we decide to bring those costs to the balance sheet results. So, there is an increase in terms of average that could be expected, as well as impairment. We have ramped at the end of the year and it caused another R$700 million of extra cost.

And what we call here extemporaneous depreciation is a depreciation that was due to other quarters but was located here because the assets were not properly allocated in due time but the assets started operating. They started operating before the 4Q and were not under depreciation process. So, it was incorporated as a production asset at the end of the year, and this caused some extra depreciation costs at the 4Q. So, this is just a tentative to contribute, to explain what these possible factors are that caused deviation from what was expected.

Looking at the E&P results, we had an increased in the sales in terms of revenue contribution from price and from volume. We had a higher production in the 4Q. And the main counter-effect on that was the effect on average costs in the cost of goods sold. And the reason here was the average exchange rate that caused us more costs when paid in USD, translated into more Reais, and as well as the price of crude oil in Brazil.



Although if you take the Brent price internationally, it fell from the 3Q to the 4Q but when translated into Reais with a higher exchange rate you have a higher price and the Government take is paid based on this information. And there are the dry holes, wells, operating expenses that have increased due to the salaries increase and other factors. So, in average we have almost leveled results for the quarters.

Next shows the results of downstream, and here we have a higher impact on the average costs, mainly because of the imported goods. And although we have an increase in sales and price, this was not enough to compensate for the extra costs. And this brought the results to an even lower result in the 4Q when compared with the 3Q.

We have here the investments and the 2012 investments in the range of R$87 billion. But with the split among different segments in Petrobras keep growing in the proportion of E&P, as our business plan shows, we are going to increase along the next years the participation of E&P in the budget of the Company. But we keep the downstreams that is investing in building new refineries, as well as improving the quality of products and getting prepared for higher and bigger markets we are supplying only just in Brazil.

We have our capital structure that has increased somewhat our leverage in the 3Q and the 4Q, but this is highly due to the exchange rate that has depreciated the Real and increased the volume of debt when denominated in Reais. But the important point here is the high liquidity we keep in the Company at the end of the year, with more than R$50 billion available, and we just initiated a very successful transaction, issuing US$7 billion of bonds to international markets very successfully when we had a demand of about US$25 billion, which shows the health of the Company and helping to keep the high liquidity to face our projects and our programs we have ahead.

With that we finish the presentation, and we are prepared to answer the questions you may have. Thank you very much.

Frank McGann, Bank of America:

OK. Good morning, everyone. Just two questions; one on the tax rate. I know you touched on it briefly when you were going through the 4Q numbers, but it was quite high and I was wondering if maybe you could give a little bit more detail. Was there anything special that caused that to be high? And what kind of an average tax rate would you expect going forward from here if perhaps the deconsolidation of some subsidiaries has changed that in some way?

And then in terms of importation, obviously a major factor, and it has been a growing factor over the last couple of years and likely to continue to be a factor. What are you seeing in the 1Q versus the 4Q? And what are your expectations in terms of the effects of importation on profitability in 2012 versus both the 4Q and the full year 2011?

Almir Barbassa:

Good morning, Frank. In terms of tax rate the main reason here is what I said regarding Nigeria. The contributions to the government in Nigeria were given in oil. So the oil produced, we are taking a part of it and giving to



development as contribution. But from the beginning of 2011, and we did this correction in the 4Q, we reviewed that procedure and we adopted a more common procedure in the area where we take the oil as ours and we sell and we give the proceeds to the government. And this does not affect our net income, but it does affect our revenues as well as tax paid, so there is really a high increase in that moment because of that reason.

We are estimating that this was about R$700 million in the total tax expenses of R$1.5 billion. And maybe the consolidation has some impact as well because now we are taking only our share in the net income that is added to the equity of our subsidiaries. But we did not calculate how much this was. Taking into consideration that the operational income for that deconsolidation was about R$700 million, yes, there might be some impact as well, but much lower level than the case of Nigeria.

Frank McGann:

OK. Which should continue, and we could assume that would be spread out over a year as opposed to just one quarter in the future, so that the main effect would be spreading it out versus the absolute amount.

Almir Barbassa:

Frank, if I fully understood you, this is going to continue for the next quarters. We are going to incorporate as income that will affect our operational income, EBITDA, and then adjusting to the tax at the end of the balance sheet building. No impact on the net income, with an increase somewhat in the other items. What in certain level you compensate part of the reduction caused by the deconsolidation that has an impact in the other direction.

Regarding the import of the 4Q11 and the 1Q12, I will ask Marçal, from Downstream, if he has some comments on that.

André Marçal:

OK. Good afternoon. First of all, talking about sales, we expect to have in 2012 the sales on the domestic market a little bit higher than we had in 2011. Of course, we are going to increase a little bit the production, but the level of goods that we are going to import in 2012, I mean talking about the average of 2012, it is going to be very close to the average that we had in 2011. I cannot tell you right now about the quarter, but talking about year versus year it is going to be around the same level. Is it OK?

Frank McGann:

Yes, that is perfect. Thank you very much.

Emerson Leite, Credit Suisse:

Thank you. Good morning, everyone. I have two questions, and maybe if there is time a third one. The first one is related to this overall pressure in costs. Obviously we are seeing cost pressures from different sources. We had an



important increase in labor costs by the end of last year given the wage negotiations, and service costs or contracted services are also going up meaningfully. My question is, what is the view of cost inflation in services? In your direct employees we kind of know what were the increases. But from elsewhere in the supply chain, what is your perceived cost inflation there, and any hopes that this could diminish going forward? That would be the first question, Almir.

The second question is related to this recent contract for the conversion of four FPSO holes for the rights transfer areas. I understand that the winning bid was for a lump sum of US$1.7 billion. And I wanted to better understand the scope of this contract, as it seems to be for the conversion of four holes and it seems to be a pretty high number on a per-hole basis. Just to make a comparison, the Company is paying US$3.5 billion for the construction of eight holes, and the conversion of half of those holes is almost half of that contract. So, the number really comes way too high. So, I wanted to understand what is the scope there, what else is being provided that we might not be seeing at the surface?

And finally, if there is time, I would like to see what is the Company's official opinion whether the current level of refined product prices is adequate or not for the current level of profitability. We had some comments yesterday from the incoming CEO, but I do not know whether the press had the comments in the right context or not. So I wanted to get the official message whether prices are adequate or not at the current time. Thank you very much.

Almir Barbassa:

Emerson, starting from the pressure on costs, this is not new. When you look at labor, services, and other, we are seeing cost increase since the oil price started growing. What I have shown you is that the average lifting cost, which is a very important cost, the average in relative terms has been lower than it used to be. Of course, we have every year one adjustment on salaries. We are growing, we have more employees working for the Company, but we do not have this on a day-to-day basis. We have long-term contracts, and they are adjusted every year by inflation.

So, we are reflecting the cost of inflation, but what has impacted us more was the exchange rate. Exchange rate is another price that moves dramatically sometimes in the short term. And this reaches all our costs, although in the long run we are perfectly hedged with that, taking into consideration the price of oil denominated in USD, and that we follow in the long run. So, this is what I can tell you, I do not see as a problem. This is what is happening for some time already.

Regarding the cost of conversion, really I do not have the figures. I cannot help you at this moment, but I am going to see if I can give you an answer on that, mainly comparing the conversion costs of these four rules that we will be using in the transfer of rights and the eight ones that are being built for the other fields.

And regarding refined product price, Marçal, do you have any information on that, please, additionally to the one you have given already?



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André Marçal:

Well, I guess it is just that which I said; I do not have any additional information right now.

Almir Barbassa:

But let me add something here. The question was if prices were up at a fair level or not. I can tell you that taking into consideration the price policy of the Company, yes, the Company keeps generating high EBITDA, is being able to keep the liquidity of the Company, and we are in line with our long-term plan. So, I do not see even if you look at the moment and take a picture at the moment, yes, you may have a different view in the very short period of time, but on the long run it is all in line with our projections.

Emerson Leite:

Almir, thank you. Just a follow-up on the first question, about labor costs. On the service contracts that you have, you mentioned they have clauses for readjustments on a yearly basis. Most of them are inflation pegged only, so you do not have cost pass-through? For instance, if labor is going up for your suppliers of services on the day to day, your indirect employees, the inflation that you are seeing from indirect employees is actually inflation based only? Is it like even less than 10% or so that your employees got? Is that what you meant by yearly annual increases?

Almir Barbassa:

Yes, we have the index adjustments, not cost related transferred to us from other sources. And depending on the contract, there is more than one index that is tied to the adjustment of price. Even for index on costs of construction of the oil industry in other countries where we used to supply, or the supplier used to source the goods. So, it is not only one index; there are many methods, they are all indexes.

Emerson Leite:

OK. Thank you. I will then wait for the follow-up on the conversion costs. Thank you very much.

Gustavo Gattass, BTG:

Hello guys. I just had a couple of questions on your slide 20, coming back to the point that you mentioned about going from the 3Q to the 4Q. Some of that I just wanted to understand a little bit better. The first question that I had, Almir, had to do with CPC 19 and the comments there. Because when we initially did the math on your filings, looking at the restated amounts for the 3Q, the impression we had was that you effectively had an impact of about R$100 million or so per quarter on your operational results and not really something very big.



I just wanted to understand, is that something that changes or did change a lot between 1Q, 2Q, and 3Q and then 4Q in such a way that the 4Q number is a lot bigger? I just really want to understand how that number was calculated, because I am a little bit puzzled by it. So, that is actually the first question.

And effectively, the second question, just with regard to the inventory build in, I would say, abroad, my question here is, I was doing the math and just assuming that this inventory is E&P inventory so that it is crude that you effectively sold, it would imply something like 10 million barrels of oil that effectively were outside of Brazil but not yet booked.

So, there are two things that I wanted to just understand on that number. The first one is, when you report your export numbers in your press release, are you reporting a number that is consistent with the sales or are you reporting a number that basically is the amount that left Brazil, whether or not it was sold? So that is the first part.

And the second part is when you calculate the R$738 million, is it calculated as a delta of what was in transit in the 3Q relative to what was in transit in the 4Q? Because I would assume that you have oil in transit at all times and not only in the 4Q11.

Those are the two questions. Sorry for being nitty-gritty, but I am still trying to understand the results. That is all.

Almir Barbassa:

OK, Emerson. I will have Alves, from our accounting department.

Gustavo Gattass:

OK. Just before we go there, Emerson again, please no. It is a lapse but it is actually the sixth time now, but that is OK.

Almir Barbassa:

Sorry. But Gustavo Gattass, let us have Alves help us in this answer. Thank you.

Alves:

Hi, Gustavo. The effect of the changes related to CPC 19 was almost R$700 million for all the years that we adjusted in the 4Q. For the 1Q, 2Q, and 3Q, the effect is almost we estimated I think like R$200 million per quarter in terms of operational results. In our financial report, we restated the 4Q of last year and the 3Q without the effects, but the average per quarter was almost R$200 million.



Gustavo Gattass:

Alves, just so that I understand, when you are saying this, is if I had looked at your numbers and said, "OK, this is the reported full year number" and subtracted what you had reported before for the 9M, you would have an effect of R$738 million, but the numbers that we actually saw in the press release do not have that big an adjustment; that is what I understood from what you said. Just wanted to confirm it. Is that it?

Alves:

Yes, you are right.

Gustavo Gattass:

OK. Thanks.

Felipe Santos, JPMorgan:

Hi, Barbassa. I guess you had another question from Gustavo before.

Almir Barbassa:

Gustavo, *é só para nos lembrar que...* Sorry. I am missing a lot of things. I do not know what is happening today.

Gustavo Gattass:

No, Almir. Just remind you, the second question was on the inventory build outside of Brazil. I just wanted to check if that is the delta on the inventory build calculation or if that is just the number for the quarter. Again, I would assume that you are always building inventory outside of Brazil and not fully exporting. So, that is the question there.

Almir Barbassa:

Can you help us, please?

Carlos Henrique Moura:

Hi, Gustavo. This effect of the R$700 million is recognizing the stock abroad and do not book as revenue, and this is impacting the 4Q. And then the 1Q, about our operations, we book in our revenue in the 1Q12.



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Almir Barbassa:

But this 4Q presented an inventory higher than the 3Q by R$700 million. Is this the...?

Carlos Henrique Moura:

Recognizing the inventory and based on our operation, we will recognize that as revenue in the 1Q12.

Gustavo Gattass:

OK. Thank you, guys. So, later on I will follow up just with how you book the volumes, but we can do that later. The financial numbers were more important. Thanks, guys.

Felipe dos Santos, JPMorgan:

Hi, Barbassa. Just one quick question: in the call in Portuguese, you mentioned that the long-term oil that you are using now is US$75 per barrel; before you had US$85 per barrel. First, I would just want to confirm this.

And second, would this new forecast change your long-term CAPEX? How are you going to do this, or was it just for the calculation of new impairment? Thank you.

Almir Barbassa:

Yes. In fact, we have reduced from US$80 to US$75. This is a reduction on projected oil price by the period beyond 2016 that has an impact on our impairment calculation at the end of last year. But we have no impact in our CAPEX because we have as average cost for the Company below US$40 a barrel. So, the impact we had was only marginal to the fields that were in phase of secondary recovery, marginal fields, not the main ones, that is a help in terms of cost and return.

Felipe dos Santos:

OK, great. Thank you.

Christian Audi, Santander:

Thanks. Hi, Barbassa. A few questions related to costs. First one, in the past when you disclosed lifting and refining costs in your press release you used to show the impact that FX had caused or how much of the change quarter over quarter was due to the FX. And I did not see it this time around. So could you provide us, for example, the lifting costs quarter over quarter, this decrease how much of it was related to FX versus actual operational development?



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André Marçal:

Hi, Christian. I can give you the numbers for comparing year over year. The ones for quarter over quarter, I would have to come back to you on that. But year-over-year comparison, the exchange rate effect was US$0.45.

Christian Audi:

US$0.45. And on the refining, I know that is mostly Real based, but is there any FX issue there as well or no? From the refining costs for that?

Almir Barbassa:

Marçal, do you have this information?

André Marçal:

Yeah. Comparing quarter to quarter on the refining cost, the effect was US$0.02 on the difference that we had on the 3Q to the 4Q. Just that.

Christian Audi:

OK. And the other thing that I was confused, Barbassa, was in the last conference call when we talked about these two important costs, lifting and refining, the sense that I got was that it would be difficult for these costs to go down, at least in the short term, yet we did see a drop in both of them. So going forward, how should we read that? Do you see the beginning of the year space for these costs to fall more, or was this a one-time event that we should not put into our expectations for lifting and refining costs in 2012 to be substantially lower than 2011? Could you provide us some color in terms of how you are looking at those two, please?

Almir Barbassa:

We do not expect in the long run to have a reduction on costs because of inflation, because of oil prices, because of this pressure that mounts on the oil industry. Of course, there are moments where we have more impact than others, when you compare quarter to quarter, for example. If we are installing new equipments mainly in the production area, where you have all the team prepared to produce the top production of a platform and all the fixed costs of the platform will be there regardless of the volume it is producing. So, this sometimes contributes to having a higher cost in a moment or another.

In average, we are reducing the cost when compared with price, and this is what I think is very important for the Company, looking at the costs regarding prices. The price is a pressure of course to the cost and we have other sources of cost as well. But increasing productivity, becoming more efficient in our operation in downstream, increasing our average utilization of the refineries and all that is contributing to, if not reducing, at least keeping price of costs increasing.



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Christian Audi:

OK, thanks. And the last question is in the past you had released production guidance for the coming year in this 4Q results. So, how come you were not able to do that this time around in terms of the production target for 2012?

Almir Barbassa:

We are better appraising what will be the conditions and how far we can see with more certainty. But it is not going to take too much, I believe, to release a new figure for this year.

Christian Audi:

OK. Thank you.

Denis Parisien, Deutsche Bank:

Hi, thanks for taking my question. I was not able to see your bond road show, so I was wondering if you could give a little bit of clarity on your financing plans for 2012. Are you going to do as last year only the one multi-tranche jumbo in the USD market and seek financing in other markets this year as last year? If not, what would we expect in the USD market going forward? And if so, or in either case what would we expect in other markets this year? Thanks.

Almir Barbassa:

We have not changed our financial policy fundraising. We keep looking for the best opportunities for the Company in terms of tenor and costs. And in terms of the USD market, we have been saying for some years already what is our policy very clearly, and we have said this year again that we have no plan to come back to that market along the year again. And the other markets we will be looking at and seeing if there is opportunity to access or not. And we have enough liquidity to maintain the Company operating. We are generating income cash by the operation of the Company in volumes that give us the comfort to keep maintaining our CAPEX and our financial policy as announced.

Denis Parisien:

Thanks very much for that. Did you also give any CAPEX guidance for this year and whether or not you expect to execute closer to the guidance?



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Almir Barbassa:

Our guidance is R$87.5 million more than we had done last year. We will be trying to deliver that, but of course, being a company the size of Petrobras, we are a lot dependent on the performance of many different suppliers, not only in Brazil but abroad. Our drill ships, for example, the 15 we are going to receive this year, part of them was expected in former years and they were built in other countries, so just to say that we depend heavily on suppliers. We do our best to keep all under control, but sometimes it is not possible to achieve, and so we are aiming to reach the target. Although to fulfill US$224 billion in five years, we do not need to reach CAPEX of R$87 million this year; 10% lower would be enough.

Denis Parisien:

Great. Thanks very much.

Pedro Medeiros, Citigroup:

Hi, guys. I think most of my questions towards the results have been already cleared. I just have two other questions, one more related to strategy and the other to the refining bid. The first one, Barbassa, I would like to understand how the progress of the divestment program announced last year is? We can see that during the 4Q there was an asset sale on the international E&P front from Africa, but the numbers that the Company had been guiding for were materially bigger than what this initial asset represented.

Can you comment a little bit more about how this plan is evolving through this year? There had been talks about potentially selling international refineries as well. What can we expect to see for the year on that front?

Almir Barbassa:

Yes, this is a new program for Petrobras. As you may know, following the history of Petrobras, we built, we grew organically. We are not a company that does too much acquisitions and very few divestments too. So, we are working on this process and getting prepared. First, we are working on identifying the assets we are going to sell, although we had done a first exercise before announcing the volume. We did count much more than we announced. We were conservative in expressing the numbers because not all comes to be true at the end. So, we are now doing a more specific design on the strategy, on the asset to start bringing them to the market.

We have done very small ones, as you said, in Africa, but it is not material. We have to bring assets with higher value. And we hope by the 1H of this year we will have the opportunity to present a few of them. But there is one already being announced that is the Japanese refinery we hold, we have today. But in terms of E&P, domestic and international, it will take a few times more, some time more. But you are going to see some news in the 1H of this year.



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Pedro Medeiros:

OK. Just as a follow-up, I recall that on the last plan you were estimating a divestment that would total from US$13 billion to US$15 billion. And out of that metric or that estimate, the amount of asset sales itself was close to US$5 billion, whereas nearly US$10 billion were supposed to come from working capital improvements. From what I heard now, you think that this estimate of US$13 billion to US$15 billion would increase, and specifically on the US$5 billion, do you expect that the bulk of this comes to the market in the 1H of this year or in 2012 at all? Or is it just a small percentage of it still?

Almir Barbassa:

Just to place the figure more in line with what we have announced, we announced US$13.6 billion of divestment and working capital, about half and half in the two projects. We are already working in the working capital, and we have achieved some gains already in the divestments. I believe a very considerable amount of what has been announced shall be in the market in the 1H of this year, yes.

Pedro Medeiros:

OK. Thank you. And my second question is on the refining side. I think the Company had been expecting for a confirmation from PDVSA about its interest or its true participation on the Northeast refinery, and there had been some investment contingencies aligned with that decision or not. I think the latest that I heard is that PDVSA can still confirm its participation in the start-up of the unit. But will there be any changes to the project or to the overall budget assigned to the Northeast refinery since we do not have this confirmation yet? And will the unit be able to process the Venezuelan crude that is a little heavier than the average in Brazil?

Almir Barbassa:

No. We did not start the unit that we will be processing the oil from Venezuela. And this is going probably to be one of the moments to take the final decision either to be a partner or not. But so far we did not start that construction.

Pedro Medeiros:

OK. And just one final question, if I may, are you guys able to sell what was the contribution to your reserves for 2011 coming from Sapinhoá and if there were any contributions coming from the Varredura project at this point?

Almir Barbassa:

Yes. I am going to have my colleagues from E&P to help me in this answer.



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Petrobras:

From everything we have found so far from a ring-fence exploration that occurred after the Varredura project, today we have roughly 350 billion barrels of oil equivalent in our proven reserves. And the contribution of Sapinhoá was not the biggest share in the pre-salt reserve booking for 2011. It was roughly 200 million barrels. The biggest contribution came from a revision in the Lula area of proven reserves.

Robert Kessler, Tudor Pickering and Holt:

Good morning. I wanted to see if I could get you to give some perspective on the downstream as you look forward to 2012. Clearly had a big loss on a full year basis for 2011, almost US$6 billion. And I recognize there is always a lag effect on pricing, although crude prices were relatively stable. I know as you suggested the exchange rate of fluctuations influenced the loss in the quarter towards the back part of the year. But if you were to stabilize the crude price and the exchange rate, what would your expectations be for downstream profitability for 2012?

Almir Barbassa:

The best we can say regarding that is the stability. Of course, the 4Q impacted mainly by the exchange rate, we have a high difference when compared with the previous quarter. But in a normal scenario of exchange rate and the international price, we do not expect to move from the average we have in the year. Not different than that.

Robert Kessler:

If I understand correctly, ethanol was priced higher than what you were supplying petrol-based gasoline for in the quarter, and yet you are increasing your market share, effectively buying product off the international market at a net negative gross margin. So that is the question, why supply the domestic market, undercut the locally grown price and do so at a loss on the top line? Did I understand the dynamics there correctly? And why are you embarking on that near-term strategy?

Almir Barbassa:

I believe that the reason was the flexibility of ethanol producers. They can move their production from ethanol to sugar. And there was some impact on sugar price internationally, moving them to do that change and reducing the supply of ethanol to the market. This, associated with the fact that we have increase in the domestic market, an average of 9% taking all the oil products, it really makes a big difference.

Of course gasoline on that participation has increased 24%, in part due to this fact that we have a crop production reduction, ethanol production this year due to the reduction in the crop of sugarcane. But there was also some different mix on ethanol and sugar produced in the Country. So, that is what leads to a higher import of gasoline to Brazil.



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Operator:

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

Almir Barbassa:

Thank you very much for being with us, and I hope to see or to talk to you in the next quarter with good results maybe than we are presenting. All is improving. Thank you very much.

Operator:

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

This concludes Petrobras' conference call for today. Thank you very much for your participation. You may now disconnect.

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