

Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Operator:

Ladies and gentlemen, thank you for standing by, and welcome to the Petrobras conference call to discuss the 3Q09 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 we have with us Mr. Almir Guilherme Barbassa, CFO and IR 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 afternoon, ladies and gentlemen. Welcome to our conference call to discuss 3Q09 results. We have a simultaneous webcast on the Internet that could be accessed at the site www.petrobras.com.br/ri/english.

Before proceeding, I would like to draw your attention to the slide two. We will 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.

Finally, let me mention that this conference call will discuss Petrobras’s results in accordance with Brazilian GAAP. At this moment we are unable to discuss any issues relating to the U.S. GAAP results.

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

Mr. Barbassa, you may begin.

Almir Guilherme Barbassa:

Thank you for joining our conference call to discuss 3Q results. These results reflect the combination of steadily rising international oil price, higher sales volume, slightly lower price for products sold in Brazil, stable operating costs, and the strengthening of the Real. The provisioning of the settlement related to the special participation tax for Marlim field partially offset our positive result.

Going to the slide three, during the 2Q total oil and gas production was up 4% year over year and flat sequentially. International production increased as a result of higher production in Nigeria, offset by declines in Venezuela and Bolivia.



Conference Call Transcription

Third Quarter 2009 Results

November 17th, 2009

In Brazil we have now reached the milestone of exceeding 2 million barrels of oil production per day for two consecutive months. Year-over-year growth in production of oil in Brazil would have been higher except for the shutting in of 69,000 barrels of oil equivalent daily of gas capacity due to the limited domestic demand.

The next slide is an update of the production units installed in the 1Q of this year. The three units produced around ½ of their capacity during the 3Q, which is consistent with the of the production wells being implemented.

As additional wells are completed, these units will continue to ramp up, offsetting natural decline rates and increasing production. In that result, we continue with activities we have previously announced. Results continue to meet or exceed our expectations.

In Guará, the recent concluded formation test indicated estimated recoverable reserves of 1 billion to 2 billion barrels of oil equivalent and well productivity that could exceed 50,000 barrels per day. The formation test in the Northeast Tupi has confirmed our prior estimate of 5 billion to 8 billion barrels of recoverable oil. The extended well test of Tupi is back on line and we have increased production to 20,000 barrels per day.

Next include new wells in the preparation for the Tupi pilot and new exploratory wells in the BM-S-9, 10 and 11. Our activities will be supported by the arrival of three new rigs that shall arrive in the 1H of next year.

Let me turn now to some key operating data that influenced our quarterly results. In this slide, you will see the average price of Brent increased from US$59 to US$68 per barrel. At the same time, the light-heavy spread decreased from US$10 to US$4 per barrel.

The lower spread increased income for our E&P segment, while reducing downstream earnings. To the extent we process our own heavy crude oil, the spread does not make a difference to our overall earnings. However, because we export 500,000 barrels per day of heavy oil, while importing 400 barrels per day of light oil, the Company's margins are positively impacted by the lower spread.
Lifting costs remain stable, despite the price of Brent increasing by US$25 per barrel during the last two quarters. Lifting costs, excluding production taxes, only increased by US$1. Even this is largely explained by the strengthening of the Real against the USD.

The reduction of gasoline and diesel price in June and the strengthening of the Real reduced our average realization price in Reais during the quarter. Our average sales price in USD increased by 5.4%. Our pricing policy has benefited both the consumer and Petrobras by avoiding the volatility of international markets, achieving parity between the two markets over time.

Brazilian GDP growth bottomed during the 1Q of this year and has rebounded sharply since. The Brazilian market for oil products and natural gas has tracked the performance of the economy with consumption now growing. Diesel is recovering in line with GDP growth, as is the case with many of our other products. Gasoline consumption is lower as a result of increasing consumption with ethanol.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Natural gas sales to the industrial sectors are improving, but this growth has been offset by continued lack of demand for gas for the thermoelectric sector. Higher oil production improvement to our refining system and reduced demand have contributed to a substantial improvement in our trade balance.

As we continue to reduce products imports by increasing our domestic capacity to produce these products, we improved our overall margin. For the 9M year over year we have swung towards substantial net export position and improved our trade surplus by US$3.6 billion during the period.

Before turning to financial results, it is useful to explain top average in inventory costs on our cost of goods sold. During periods of rising prices the average cost of goods sold for the period is below what it would have been if costs were recognized concurrently with the period.

Conversely, during the period of declining price, costs are higher than they otherwise would have been. Essentially when prices are rising it is tailwind results. When prices are declining it becomes a headwind. In this slide, you will see that in the 3Q the benefit from lower costs due to average inventory was R$621 million, while in the 2Q the benefit was R$323 million.

Let us now turn to financial results. Net revenue increased as a result of higher sales volume and higher price for our goods, offset by lower average realization prices in Brazil. Higher costs for imports partially offset by inventory average led to a higher cost of goods sold.

The provisioning for a special participation tax related to Marlim production, higher costs from greater sales volume and the expenses associated with new international operations and charges related to annual salary increase led to higher operating costs. The result was an operating income of 26%.

In a reversal of the prior two quarters, lower operating income was largely offset by positive financial expenses. The lower pace of revaluation of the Real against the USD reduced financial expense for exchange variation related to our net asset position on foreign subsidiaries, while disbursement of the BNDES loan index to USD created a substantial gain and net monetary variation.

The decrease in minority interest expenses from R$1.9 billion to R$928 million is also a result of the Real's slowing appreciation. Also affecting the sequential financial result was the R$533 million improvement in the financial expense from commercial hedges.

Hedging gains or losses are largely offset by higher or lower costs of goods during the period, which in turn decreases or increases the operating income. For the 3Q, operating income was decreased relative to the 2Q because of the positive financial results from the hedge in the 3Q.

Income tax in the 3Q was higher because of higher deduction for interest on capital, greater recuperation of financial credits related to exploration activities and fiscal losses abroad in the 2Q. The net profit for the quarter was R$7.3 billion, a decline of 5.6% from the prior quarter.



Conference Call Transcription

Third Quarter 2009 Results

November 17th, 2009

Higher international price compounded by the decrease in the light-heavy differential contributed positively to our Brazilian Exploration and Production segment's earnings. Higher cost of goods sold were primarily the result of the lifting costs, including production taxes. The R$2.04 billion provisioning of the Marlim special participation tax caused a substantial increase in operational expense and reduced operating income when compared with the 2Q.

Next, please. Operating income for our Brazilian Downstream segment was reduced as the Brazilian realization price approached the international levels. Higher volumes were offset by lower average prices and cost of goods sold was a reflection of decreases in international price, partially offset by the increased benefit from cost averaging.

The absence of programmed maintenance during the quarter reduced unit refining costs and contributed to a utilization rate of 94% during the period. Our Gas & Energy segment generated its second consecutive quarter of positive operating income despite limited thermoelectric generation. The gain was largely a result of greater availability of natural gas and more developed gas infrastructure.

As capacity to deliver gas increases, the segment has more flexibility to capture incremental revenue and profits from power and natural gas sales. The growing supply and the infrastructure have also eliminated the contractual penalties, which adversely impacted earnings in the past.

The improvement in the International segment was due largely to growing production, particularly in Nigeria, offsetting decline in production elsewhere. Higher price and reduced operating costs also contributed to higher operating income.

Our Distribution segment continued to demonstrate the steady results and margins, generating R$620 million in operating income with a retaining market share of 38%. Capital spending increased to R$50.7 billion during the 9M09, a 49% increase from the same period a year earlier, 46% spending was for domestic E&P and the remainder for our integrated operations. Gas & Energy spending nearly doubled as it works to complete the gas infrastructure in Brazil.

During 2009 Petrobras has contracted US$34.8 billion of additional debt to meet the financial needs as required by our business plan. The bulk of this amount raised is long-term funding from the BNDES and the Chinese Development Bank.

The average life of all this financing that has been contracted so far is 10.6 years, what gives the Company a lot of comfort. Additionally, we completed our repayment of a two-year US$6.5 billion commercial bank bridge loan contracted at the beginning of 2009. We had two years to do that, but we were happy to do it during the course of 2009.

We did so by tapping the bond market in October for US$2.5 billion of a 10-year note and US$1.5 billion of a 30-year note. Total debt increased by R$22 billion during the quarter. Virtually all of this increase in debt was held in cash, with a cash balance of R$30 billion on September 30th.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

The relatively small increase in the net debt kept our net debt/capital ratio at 28%, well within our target of 25% to 35%, with the contracting cost for additional long-term obligation. Short-term debt as a percentage of total debt fell to 11%.

Our accumulated operating cash flow during the 9M09 was R$4 billion more than the same period of 2008, despite substantially lower oil prices. Higher capital spending and dividends have led to the expected funding gap for this year, which have been fully covered.

Additionally, we have built up a substantial cash position. These figures do not yet reflect the loan from the Chinese Development Bank. We have also managed to extend the average life of the total debt from 4.2 to 6.4 years, which will extend further when the recent US$4 billion bond issue is factored in.

To conclude the discussion of our financial results, I think it is important to emphasize our commitment to a sound capital structure. We still have much to do not only to achieve the targets in our existing business plan, but to take advantage of new opportunities that are sure to arise as Brazil's economy expands and as we continue to realize Brazil's hydrocarbon potential.

To meet the needed capital requirement, the Executive has proposed a capitalization of Petrobras, as well as the acquisition of the rights to produce up to 5 billion barrels of oil. The bill has passed the special commission within the Lower House in the Congress and it will now be debated before the general assembly of the Lower House. Afterwards it is going to be addressed to the Upper House.

So far, the response to the proposed capitalization position has been very positive from the Congress, from the Brazilian society and from our shareholders. We remain optimistic about its passage and execution next year.

Thank you. With that, I will be happy to answer any questions.

Neil McMahon, Sanford Bernstein:

Hi, thanks for taking my question. I have got two questions really, one is looking at the exploration and appraisal program over the next few quarters, could you go into some detail on what are the large wells we should be looking out for in the next few quarters, and any new drilling tests that are likely to come up beyond the early production scheme? And I have got a follow-up question as well. Thanks.

Almir Guilherme Barbassa:

I will have Molinari, from E&P, to help me in this question. Please, Molinari?

Eduardo Molinari:

On the exploration side we will continue to drill on BMS-9, 10 and 11. Iara received four new drilling rigs in the 1H10 and two orders in the 2H10 to continue the program. And our main target in the pre-salt are those areas I mentioned.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Neil McMahon:

OK. And in terms of well flow rates, from what you have seen so far, are you happy that you think that a sustained rate of around 20,000 barrels a day may be the initial production rate from the pre-salt, from what you have seen so far?

Eduardo Molinari:

Yes. We are producing 20,000 barrels per day in the extended well test of Tupi and we are still limited to our forecast that we are allowed to share. So we are happy so far with this result.

Neil McMahon:

Could you give us an estimate of what you think the potential would be if you were not constrained on gas?

Eduardo Molinari:

This not restricted production. We will have a better idea when we install the pilot system in December 2010, because at that time we will have a gas pipeline to Mexilhão platform. So we will not have this estimate. So we have to wait a little bit until then.

Neil McMahon:

OK. This would be useful for modeling purposes, given your capital raising coming up for purchasing some of the Government's reserves, if we could get a good idea of what the sustained initial flow rate would be in a net production, a full production setting, that is all?

Almir Guilherme Barbassa:

Yeah. We cannot anticipate that, but all the information we have collected so far gives us a very positive indication that the tests we have run in Guará, for example, that was able to produce more than 50,000 barrels per day, and in Tupi the extended well tests were able to get the approval of E&P to go to 20,000 barrels and it responded very well. But how much we can go beyond that, we do not have this information yet.

Neil McMahon:

OK. Thank you.

Marcus Sequeira, Deutsche Bank:

Good morning, everyone. Just two questions, one is on the capitalization. I know this structure is going to be done in two parts, and actually capitalization is the second part, but I was just wondering if you have any conversations with the CVM with regard to this transaction? And the second question is on



natural gas, if you could talk a little bit about natural gas demand plans for the next couple of years, given the fact that today demand is pretty weak and we expect a large increase in gas production; so what are your plans for, let us say, five years from now in terms of commercialization of natural gas? Thank you.

Almir Guilherme Barbassa:

Regarding the capitalization, we have no contact so far. We have all the regulation that CVM has issued and we are committed to follow, of course, all of them, but there is no need we had so far to have the contact with CVM. Regarding the natural gas production future demand value, I will ask my colleague from Gas & Energy to help me.

Maria das Graças Silva Foster:

For us, five years is a quite long period because we do not know for sure, and the prospect of production of natural gas in the new field. But what we expect is that, for example, the demand in the industrial sector will come back from the previous period after the crisis, and we believe that it can go about like the GDP. We also believe that the thermoelectrical generation, the power plants that are gas-fired, they are going to play a much more important role in the power generation in Brazil. So we believe that in the next years, probably some of that generation could be a kind of base load.

We also are looking for new ways to anchor possible growth in supply of natural gas from E&P, so we are looking in some kind of fertilizer plant optimizing, we have two fertilizer plants and we are looking to optimize these two plants so they can grow their consumptions in the short term.

Marcus Sequeira:

Thank you, just one follow-up on electricity, what is your position in this spot market? Because I remember the last quarter one of the reasons why your results were positive was because, if I remember correctly, spot prices were very low, but in this quarter you guys say that spot prices being low is actually bad for Petrobras. So I would just like to understand if, with spot price being low, you could just buy from spot market and not dispatch from your plants? Thanks.

Maria das Graças Silva Foster:

That is quite confusing, because in the same way that the low price in the spot market do an improvement in our commercialization income, they are also a reflection that the thermogeneration plants are not dispatching. So what we tried to say in the comparison of the 2Q and the 3Q is that the low demand in thermogeneration plant is a reflection of the low price in the spot market. The spot market in the last quarter is a kind of minimum price. This is a reflection that there was practical moderation and this impacts our revenues from generation.

But we compensate partly that loss in comparison with the 2Q with the improvement in our margins in the contractual business, because as you know, you have some power selling agreements that we



liquidate that with the spot market. So, what we try to balance is our position day by day with the objective to maximize our results. So, depending the spot market, the price probably would hurt the generational side, but in the commercialization side that is a good position.

Marcus Sequeira:

Thank you very much.

Paul Cheng, Barclays Capital:

Thank you. Hi, guys, wondering if we are looking at in your last year's offshore basin, the equatorial margin, can you tell us what sort of acreage position you have there and any drilling plan for the next 12 to 18 months?

The second question is that I want to see is there any update what is the 2010 CAPEX program, are we still talking about US$35 billion, US$36 billion, or that may have changed? Thank you.

Almir Guilherme Barbassa:

I will have Molinari answer the first question regarding equatorial margin of Brazil exploration, and then I will talk about the CAPEX.

Eduardo Molinari:

Yes. In the equatorial margin, we are going to drill other well in Barreirinhas, in the Barreirinhas area. It is deepwater; we have not found oil so far in that area. We have drilled one well, but we are going back there to evaluate the potential of that area.

Paul Cheng:

When are you going to drill the second well?

Eduardo Molinari:

I think beginning 2010.

Paul Cheng:

And so far in the one well and also the seismic that you guys are looking at, have you seen the trend or the structure, and also then maybe the source of raw uptake fundamentally different than what we have seen in the offshore Ghana trend, or that they have a pretty close similarity?



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Eduardo Molinari:

Sorry, I am not a specialist in that area, not geologist. I do not know.

Paul Cheng:

OK. Can you tell us then what kind of position you have, how many thousand or hundred of thousand acres that you currently have, in terms of the position?

Eduardo Molinari:

On Barreirinhas I do not have this data here, but we can provide that later.

Paul Cheng:

That would be appreciated.

Eduardo Molinari:

OK.

Paul Cheng:

Perhaps if you can just send me an e-mail with the information?

Eduardo Molinari:

Sure.

Almir Guilherme Barbassa:

And regarding the CAPEX, we have not yet released our next year CAPEX. We are working it, hope by January we will have it, maximum. But we have an average of US$35 billion, if you take our business plan as a base. It may change a little bit up or down, depending on the level of activity, but what is expected is that range.

Paul Cheng:

OK. Very good. And can I just ask one quick one, on the Lower House vote, did you mention that they were going to vote, you said that they are in discussion, so do we know when they actually are going to vote?

Almir Guilherme Barbassa:

They are in the process of voting starting today.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Paul Cheng:

OK. “Starting today”, what does that mean? I mean, is it a number of days, or that is a one day...?

Almir Guilherme Barbassa:

No. Of course this is open, and on the agreement and discussions, and we have four bills and the first that is expected to be voted is the one that allows for the creation of the new, state-controlled company.

Paul Cheng:

So they are going to vote one each of the four proposals, one by itself? So, it is not like one overall bill that you just vote saying whether you go all with that or not?

Almir Guilherme Barbassa:

What?

Paul Cheng:

No, I am just trying to understand...

Almir Guilherme Barbassa:

Yeah. Each bill...

Paul Cheng:

Each bill will get a separate vote?

Almir Guilherme Barbassa:

Yes, that is it.

Paul Cheng:

I see. OK. Very good. Thank you.

Christian Audi, Santander:

Thanks. Hi, Barbassa. Two questions, the first one on the topic of flow rates. You mentioned in the case of Tupi and the extended well test that you were able to negotiate with E&P so as to be able to increase the production there a little bit to 20,000 versus the 15,000 barrels from before. Does that mean that between now and December 2010, when you have the pilots starting, that we could see maybe this is



happening again and therefore see the flow rates that you are getting out of the extended well tests actually increase beyond?

Almir Guilherme Barbassa:

Molinari, you have some information on that?

Eduardo Molinari:

The extended well test is limited to the amount of gas. We reduce in other areas the gas barrier in order to be allowed to increase the production to 20,000 barrels per day in the extended well there. But the pilot system will be relevant, because then we will have a gas pipeline to shore, to Mexilhão platform, and we will have no restriction on the gas barrier.

Christian Audi:

Right. And how much cushioning have you left between when the pipeline is expected to be finished next year and the actual beginning of production of the pilot program? Because that is a key part of this, right? If you do not get the pipeline done in time, you may run into similar limitations in terms of how much you can produce at the pilot? So how many months have you left between your expected conclusion of the pipeline and the actual beginning of the production of the pilot program at Tupi, more or less?

Eduardo Molinari:

The gas pipeline will be led by Technip in the 1H10, so we have some months until December. We have some time before the pilot starts.

Christian Audi:

OK. And the second question, Barbassa, related to the rights offering: on the press release, on the CEO statement, you mentioned that given the size of the capitalization and its magnitude and importance, that you have been fine-tuning your corporate governance procedures so as to allow for better transparency. I was just curious, can you mention, are there any specific things that you have done already, when you say fine-tuning your corporate governance, are there any examples or anything you can give us some color on that you have already adjusted to make this an even more transparent process?

Almir Guilherme Barbassa:

According to our internal regulation, we are committed in these cases to sound the minority shareholders, and this is what we are studying how to do. We do not have yet a final decision on the process and which one we are going to use, but we are working, and we hope not too late we will have something for you.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Christian Audi:

OK. And thank you.

Emerson Leite, Credit Suisse:

OK. Thank you, good morning. I have two questions about the pre-salt in the Tupi cluster area, first one on BM-S-11, it seems you have concluded a formation test in Tupi Nordeste with a recent announcement, also there are works taking place in Iracema. I would like to understand whether this formation test would enable the Company to start to work with a higher recoverable volume estimate for the Tupi discovery, or if they only confirm what has been already said? In other words, should we continue to look at 5 billion to 8 billion barrels or maybe closer to 8 billion barrels now or eventually more than 8 billion barrels now, and whether these different prospects, Tupi Nordeste, Tupi, Tupi Sul, Iracema, they are one single area or they are insulated prospects? That is one question.

The second question is about BM-S-9, we had a statement from Repsol over the weekend that Carioca itself is probably over 700 million barrels peak and the whole area could have somewhere between 2 billion and 6 billion barrels. I know you had Guará at 1.1 billion to 2 billion barrels, but from Repsol's statement the rest of the block could still have another 4 billion barrels at least. So, could you comment on these numbers and what is your take on that block as well? Thank you.

Almir Guilherme Barbassa:

Molinari, would you, please?

Eduardo Molinari:

Yes. The result that we have in the BM-S-11 confirms the volume between 5 billion to 8 billion barrels of oil equivalent, as we mentioned in the release that we made after the test. Regarding volumes in Carioca, BM-S-9, we have not evaluated yet and we did not bring numbers to this area so far.

Emerson Leite:

Yes. On BM-S-11, can you elaborate a bit more because the difference from 5 billion to 8 billion barrels, if I am not mistaken, was attributed to different layers in the reservoir. Now with the formation test you probably have more information about the different layers, so does that bring any higher confidence that we are in the upper part of the range, or not yet?

Eduardo Molinari:

No, the results we have confirmed the volume between 5 billion and 8 billion, gave us more confidence that the volume is in this range that we announced.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Emerson Leite:

OK. All right. Thank you.

Gustavo Gattass, BTG:

Hi, guys. I have two quick questions, the first one, just I was looking back at my notes, the 2Q you seemed to indicate that in 20 days we might have some kind of indication from Iara and in about 45 days some kind of indication from Guará. And the Guará press release has come out a long time ago, but we have heard really no update from you guys on Iara. I was wondering if you could give us some kind of indication on that front.

And the second question just with regard to the mapping out of the 5 billion barrels and the wells that are yet to be drilled along with E&P, I just wanted to understand from a step-to-step basis is this something that has to happen before you kick off your capital increase or is it not correlated? Do you need to have the results from the wells before you do that or is it something that you guys do not see as linked to one another?

Almir Guilherme Barbassa:

Molinari?

Eduardo Molinari:

Yes. Regarding Iara, we still have the same volumes between 3 billion to 4 billion barrels of oil equivalent.

Almir Guilherme Barbassa:

Regarding the test that we have been running there?

Eduardo Molinari:

Yes. Regarding the test, it is going. We are finishing the test of Iara, but probably do not change the recoverable volumes there.

Almir Guilherme Barbassa:

We have tested already two layers and we are working the last one, I believe. This is what we have a lot to do there before coming to any conclusion on that.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Gustavo Gattass:

OK. And any indication on the timing of the E&P?

Almir Guilherme Barbassa:

Gattass, we are working with E&P to find the spots where we are going to drill the two wells we are planning to drill for better evaluation of the light; transferring light to produce up to 5 billion barrels of oil, transporting of Brazil to Petrobras. So, we do not have yet the location and the timing we expect to finish in the course of the 1H of next year, when we expect to have the transaction done.

Gustavo Gattass:

But, Barbassa, just so that I understand, is whatever the result you get at the well going to be something that needs to be taken into account before you do the transaction or not?

Almir Guilherme Barbassa:

Yes. The drilling is going to add new information that is going to be taken into consideration, but do not forget that we have the option to reevaluate the oil that is being transferred in the future, so these are not the only information that will be added. These are important information, but not the ones that will complete this test.

Gustavo Gattass:

OK. Thank you.

Sergio Torres, JPMorgan:

Good afternoon, everybody. I have a couple of questions, one is when I look at the ramp up for 2010 production and the three platforms that you still are ramping up, it looks like P-53 and P-51 are on track when I look at the wells connected so far relative to the target. But I am curious to understand what is happening, if anything, in Cidade de Niterói you have not connected any new well since the 1Q, and it looks like the second well you connected there has by far a much lower productivity than your first well? And I will leave it at that with the first question.

Almir Guilherme Barbassa:

Molinari?

Eduardo Molinari:

Yes. Cidade de Niterói, we are going to reach the 100,000 barrels per day in the 2H10. In the 3Q it produced 38,000 barrels per day, but the peak production will be only 2H10.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Sergio Torres:

Yes, I understand that. Thanks for your answer. But can you explain why you have not connected any new well there? Is the productivity of the second well being so dramatically different from the one of the first well, is that a cause of concern for you?

Eduardo Molinari:

No. It is a question of drilling. We need to drill all the wells before we can increase the production in that system. It has to go with the pressure of the reservoir, is a technical issue.

Sergio Torres:

All right. Thank you. And just as my second question, I wanted to clarify your area of comments about the number of rigs you have scheduled for 2010. You mentioned that you are expecting a total of six wells in the 1H and two in the 2H, but was I understanding that you had eight rigs scheduled for 2010, and so these new number of six rigs was a little bit of a surprise to me, unless there has been any delays or reprogramming that I am not aware of.

Eduardo Molinari:

We have four drilling rigs starting in the beginning of 2010, in the 1H, which is one drill base there. We have Cajun and SS Victoria, and it was the mid of 2010 or in the beginning of the 2Q. We have two other drilling rigs starting production, Lone Star, and we have this West Orion from Seadrill. And we have others starting more in the end of 2010, but I do not have here the schedule when they are going to start drilling.

Sergio Torres:

Yes. OK. I guess we can follow up online with the schedule. Thank you, Molinari.

Thomas Atlas, UBS:

Good afternoon, gentlemen. I have two questions on the pre-salt Santos Basin. Firstly, on FPSOs, your guidance today is for the third FPSO to go on Iara; however, some reports suggest that it may instead go to Iracema; could you comment on that?

And the second question I have is on Guará and Iara, regarding gas commercialization, are you going to try back the Mexilhão platform as well? How are you going to commercialize the gas reserves? Thank you.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Eduardo Molinari:

Yes. On the FPSOs question, the first pilot will be Guará in 2013, and the second pilot is not decided yet. The Guará will be installed, then maybe Iara, maybe other area, maybe Iracema, we have not decided yet. And regarding the gas, we have the possibility to tie back to the Tupi Mexilhão gas pipeline that will be available in that area.

Thomas Atlas:

Just a follow-up, maybe, on given you have talked about slower rates on Tupi potentially exceeding well above 20,000 barrels per day at the pilot stage, once gas production comes on line as well. Are you changing your guidance in terms of producer and injector wells that need to be drilled, given the higher flow rates expected? Thank you.

Eduardo Molinari:

I did not quite catch what you said; you mean the injection of...

Thomas Atlas:

Clearly if you can realize higher flow rates per well, then obviously you need fewer producer and injector wells and thereby reducing the CAPEX per barrel quite a bit. So, I was just wondering whether anything has changed on your guidance.

Eduardo Molinari:

Well, regarding the number of wells that will be connected to each platform, the permanent phase will depend on the pilot to see test that we are going to do in the pilot system. So, we have to wait until we have this information to give us a better guidance to the permanent system. Today the pilot system will have five oil producers and three injectors, we will have water injection, gas injection, and we may use alternatively water and gas. In the case of gas, natural gas or fuel to improve the recovery of the platform of the Tupi area.

Thomas Atlas:

Perfect. Thank you very much.

Mark Caruso, Millennium Partners:

Good morning. I just wanted a clarification to one of the answers you gave earlier about the rig schedule, did it change because I believe in New York at Barclays you were taking about nine for 2010 and I just was also trying to figure out if there is an additional rig being added or if you are still on the same schedule?



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Eduardo Molinari:

Yes. I mentioned these platforms that are important for the schedule of 2010. For the drilling rigs we will come up in the end of 2010 and it will not change very much the drilling program of 2010.

Mark Caruso:

Thank you.

Neil McMahon, Sanford Bernstein:

Hi, just a quick follow-up question on your presentation. Can you give us an idea how internal oil demand looks within Brazil in terms of diesel and gasoline demand, and what your expectations are this year and also any expectations on LNG imports into Brazil over the next year? That would be great. Thank you.

Almir Guilherme Barbassa:

Gilberto, would you help us on the diesel and gasoline demand for the remainder of the year?

Gilberto:

Yes. For diesel we have, to give you an idea, we sold on the 1Q 158 barrels a day, on the 2Q 714 barrels a day, on the 3Q 752 barrels a day, and we expect almost the same on the last quarter. This shows that the diesel demand is growing as the new GDP going up. In gasoline we sold 300 barrels a day on the 1Q, 288 on the 2Q, 291 on the 3Q, and we expect to sell a little bit more, 303 barrels a day on the last quarter of this year.

Theodore Helms:

And I think the answer to the question was what we expect or foresee in terms of LNG imports into Brazil next year, is that right, Neil?

Neil McMahon:

Yes, Ted, that would be right.

Gilberto:

We do not see any imports in the 1H10, mostly because we see the reservoirs of water in the hydro generation, and they are full. So we do not expect any imports from LNG in the 1H, but we may contract some just in case.



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Neil McMahon:

Great. Thank you very much.

Emerson Leite, Credit Suisse:

OK, thank you. Just a follow up on the capitalization process, now assuming the project, the draft bill is approved in Congress at some point in the 2Q, I guess you mentioned in other occasions that the idea would be to carry out the capital increase a couple of months after it is approved in Congress.

My question is given the fact that Petrobras is in no need of extra cash at the moment and probably in a year from now you would not be needing cash as well, given your CAPEX program is fully funded, you have R$30 billion in cash, US$10 billion more coming from the Chinese. So, why not wait or use the full 12-month period that the draft bill allows for the deal to be done, and in the meantime gather more information about the wells, more information about the barrels and therefore the economics so you can have a more clear cut transaction for the Company and for minorities? So, why rushing up and doing it next year?

Almir Guilherme Barbassa:

Emerson, as you well know, we have a very large CAPEX program and the world has given us some concern in the last year. So, to be in the safe side in terms of liquidity is very important. We have very good projects, we have a good prospect of growth; why put this challenge or why work in a situation where this can be damaged in some way by the international financial system? So, as we have this in hand, the better is to have all the conditions we need to implement it; this is the first point.

The second point, why to do it as soon as we can, is that acquiring up to 5 billion barrels of oil is not common, is it in the world today? This is a very unique opportunity and situation that presents to an oil company. And the sooner, the better in this case. There are many variables that can change with time. We can, of course, improve the evaluation, but there are other variables in the game also, so for such reasons it is better to do it as soon as we can.

Emerson Leite:

So, Barbassa, if that is the case why do you not then do a global offering together with the process, instead of just making an offer that is restricted to existing shareholders? Why do you not do an open transaction to other investors so you can raise cash with everyone that is really willing to participate in the story and strengthening even further your capital base?



Conference Call Transcription
Third Quarter 2009 Results
November 17th, 2009

Almir Guilherme Barbassa:

First, to privilege the current shareowners, and second, we believe that following this track this way, we will be able to raise all the money we need. So, these are important issues for the Company.

Emerson Leite:

OK. And how much money do you think you need?

Almir Guilherme Barbassa:

The more, the better. But of course, I cannot tell you, but there is the most probable figure that is expected, and this is what we think is enough for the time being.

Emerson Leite:

OK. Thank you, Barbassa.

Operator:

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

Almir Guilherme Barbassa:

OK. Thank you very much for being with us during this release of the results of the 3Q. We consider very good and expect for the next quarter you will be here also and we have good results as well to present to you. 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/ri/english. This concludes Petrobras's conference call for today. Thank you very much for your participation. You may now disconnect.