Q1 2011 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO & IRO
- Arlindo Moreira, General Manager of Planning
- Eduardo Molinari, Exploration and Production Coordinator
- Theodore Helms, Director IR
- Unidentified Speaker, Analyst

Other Participants

- Allen Good, Analyst
- Denis Parisien, Analyst
- Emerson Leite, Analyst
- Fernando Vale, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Marcus Sequeira, Analyst
- Paul Cheng, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Petrobras conference call to discuss the First Quarter 2011 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. (Operator Instructions)

Today with us, we have Mr. Almir Guilherme Barbassa, Petrobras' 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 {BIO 15433381 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our conference call to discuss First Quarter 2011 results. We have a simultaneous webcast on the Internet that can be accessed at the site www.petrobras.com.br/ri/english.

Before proceeding, I'd like to draw your attention the slide 2. We may make forward-looking statements which are identified by use of the words will, expect. And similar, that are based on the beliefs and assumptions of Petrobras management and our information currently available to the Company.

Finally, let me mention that this conference call will discuss Petrobras' results prepared in accordance with the International Financial Reporting Standards and Brazilian legislation. At this moment, we are unable to discuss any issues relating to US GAAP results.

The conference call will be conducted by our CFO, Mr. Almir Guilherme 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.

Mr. Barbassa, you may begin.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Thank you for joining our conference call to discuss First Quarter results.

The First Quarter is notable for the consistent progress we made throughout the Company. Net income for the quarter was a record. Our activity in the Santos pre-salt is ramping up very rapid. So far, it is here we have already drilled 40% of all the wells we drilled in the prior four years.

We made significant discoveries in the pre-salt in Santos and Campos basins. We started new extended oil tests in the pre-salt of Santos. We connected the final link from our offshore gas facilities into our now completed gas infrastructure.

Our refining system operated at 9% of capacity, refining record amounts of domestic oil into diesel, gasoline and jet fuel. We completed a USD6 billion bond offering, reaffirming our access to the debt capital markets to supplement our internally generated funds.

Next, please.

Sequential and the year-over-year results for the First Quarter were influenced by higher production, rising international oil price, stable product prices in Brazil. And by strengthening real. Year-over-year, quarterly operating income was up 8%, while net income up by 42%. Sequentially, quarterly operating income was up 16%. And net income up 4%.

Next, please.

Year-over-year, production was up 3% globally. And 4% in Brazil. Oil production in Brazil was 2.044 million barrels per day, up 3% from a year ago. As expected, First Quarter production was below our 2011 world target of 2.1 million barrels per day, due to the higher scheduled maintenance. We concentrate to getting maintenance into (inaudible), due to lower demand for production of our associated gas, natural gas, in the First Quarter. We remain on schedule to reach our target of 2.1 million barrels per day of oil in Brazil for 2011.

Natural gas production was up 8% versus -- from last year production. Capacity will expand by approximately 20 million cubic meters per day this year, with the startup of the Mexilhao field. And the Lula Pilot. Actual production growth will ultimately depend on demand for natural gas in Brazil, particularly from the Pemelet [ph] generation.

Our international production increased 3%, primarily from Nigeria. This year, we expect the Cascade and Chinook in the Gulf of Mexico to begin producing, contribution to production growth.

Next. In the pre-salt, we continued to accelerate our activities. During the quarter, we finalized two contracts to charter FPSO for Guara-Norte and Cernambi; announced additional discovery in Carioca and Parati; drilled eight new wells, bringing to 28 the number of wells in the pre-salt (inaudible); began an extended well test in Lula Nordeste. And reinitiated an extended well test in Guara; and finally, revised our -- the master plan for the Santos pre-salt.

Next, please.

Similar to the Petrobras business plan, we have a long-term master plan for the pre-salt, based on our appraisal and testing work, as well as refine the logistics planning. The plan for the pre-salt was recently updated. That pushed out the pre-salt CapEx plan that corresponds to Petrobras is incorporated into our consolidated business plan. And will be more fully disclosed when we present our updated business plan. But I can highlight some of the conclusions from the rate of the provision [ph] of the pre-salt plan.

Since our initial cost projection in 2008, which were based on a limited number of tests, estimates of the capital required to develop the fields have been reduced by 45%, corresponding to the net present value of this oil when compared with -- to the original projection, has increased by 52%.

Next, please.

A large reason for the reduction in capital costs is our reduction of -- assuming greater productivity, is the result of assuming greater productivity for (inaudible) well. Based on our experience with extended well tests. And also to reduce time to drill and complete a well.

The results of the extended well tests that we have conduced [ph] so far have some especially (inaudible) our knowledge. And we reaffirm our optimism, steady and consistent production, with no indication of decline during the test. Good reservoir behavior, excellent lateral communication of the reservoir, no flow assurance issues.

Excellent productivity limited only by the restriction on gas flaring. We have increased our production of well productivity by some 20% since the first pre-salt master plan.

Next, please.

Wells, well costs, responsible for more than 50% of the development costs. The number of wells and the time to drill them is critical to project returns. As you can see, the time to drill from the initial wells to the -- to those drilled in 2010 have been reduced, on an average, by one third.

Next. The run-up in the international price of oil during the last six months is obviously an important part in our results. In the last two quarters, the price of Brent has increased by near 30% -- USD30 a barrel, sorry. And almost US20 just in the First Quarter alone.

The increase in the light (inaudible) means that our own crude increased by less than that, or USD22 during the last six months.

Due to the -- our pricing policy of minimizing the volatility of international markets for the Brazilian markets, the increasing international price was a cooling [ph] effect reflected in the domestic markets, domestic price.

During the First Quarter of 2011, the average realization price of all our products sold was USD98.30 per barrel, versus a Gulf Coast average of USD108.35 for the same basket of products. The is the First Quarter since the Third Quarter of 2008 when Gulf Coast refinery [ph] gained price were higher than those in Brazil. We continue to monitor price closely. And remain committed to international parity in the medium/long run.

Lifting costs, expressed in reales, lifting costs before government take increased by BRL1.7 per barrel during the First Quarter, as compared with the Fourth Quarter of 2010, or approximately USD1.00 per barrel. The increase of lifting costs was due to a combination of unusual factors -- higher costs associated with the additional system installed in the Fourth Quarter of 2010, (inaudible), Uruguata [ph] and Baiul [ph] at (inaudible) in (inaudible), that are (inaudible) ramping up. Extraordinary high maintenance during the period, due to the unusual high number of (inaudible) stoppage, as well as greater well interventions.

Our systems in the Campos Basin are maturing, which will require additional maintenance that are reflected in lifting costs. Due to additional maintenance requirement, we expect that for 2011, lifting costs will average around BRL1.00 more than the average of BRL17.5 for 2010.

Production taxes also rose by nearly USD5.00 per barrel as a result of higher value of our oil, which is based on international benchmarks.

Next, please.

Brazilian GDP growth, which has contributed to higher real income, is reflected in higher product sales. For the last two years, demand for petroleum derivatives in Brazil has equaled or exceeded the GDP growth. Of note is the growth in jet fuel, up 18% year-over-year as growing income and a stronger real has stimulated traveling. Gasoline consumption was up substantially during the quarter as higher ethanol price caused switch to gasoline by the jet fuel fleet.

Natural gas consumption for non-thermoelectric use is continuing to grow, up by 8% year-over-year. Total natural gas demand declined from the prior quarter, as the rainy season typically reduces demand for thermoelectric power.

Next, please.

In the First Quarter of 2011, the results from our expansion of (inaudible) plant and the (inaudible) coker. And modernization (inaudible). Due to these investments. And the absence of preventative maintenance in the quarter, crude oil processed at our Brazilian refinery increased by 114,000 barrels per day from one year ago, with throughput of domestic crude oil growing by even more. And now, representing 82% of the oil process. literally, all of international throughput was produced at diesel, jet fuel and gasoline that Brazil currently imports to this demand.

Turning to financial results, revenue for the First Quarter were up slightly from the prior quarter. Of seasonal reduction demand volumes sold was more than offset by higher price. Cost of goods sold was added by the impact of inventory average. Expense declined during this quarter due to lower (inaudible) costs of 5%, what means BRL200 million. And lower exploration expense of BRL425 million.

Other result of these factors, operating income increased 16% when compared with the Fourth Quarter, while EBITDA of BRL16.1 billion was 10% higher. Next.

(inaudible) net income, there were no significant change to the net financial results from the Fourth Quarter of 2010, with the exception of income tax expenses, which increased as a result of higher operating income and lower deduction for interest on capital.

As a consequence of higher operating income. But especially offset by higher income taxes, net income increased by 4% from the prior quarter.

Next, exploration production. Operating income for E&P in Brazil increases by 19% as a result of higher prices, partially offsetting the benefit of higher price where the lower sales volume (inaudible) is smaller than the lift. And the higher lifting costs, particularly those associated with production taxes.

A higher result based [ph] from improved returns booked at the end of 2010, lowered the unit depletion costs by approximately BRL1.00 per (inaudible). The reduction in other expenses were largely as a result of lower exploration and (inaudible) expenses.

Downstream, the Downstream segment experienced an operating loss of BRL494 million during the First Quarter versus operating income of BRL1.5 million [ph] in the prior quarter.

Downstream revenues increased due to higher exports, export price. And a higher price for domestic product that tracked international prices on a per weekly basis. Revenues from higher prices were partially offset by lower volumes. Cost of goods sold increased as a result of higher price for the crude oil fixed (inaudible) products, which increased faster than the price sold in Brazil.

The impact of these higher costs on the operating result was reduced by the impact on inventory average [ph]. Next.

Gas & Energy, International and Distribution, they have each experience improving operating performance during the quarter. Together, these three segments contributed with BRL2.207 billion of operating income, or 18% of the total operating income as compared with BRL1.478 billion in the Fourth Quarter, or 14% of operating income. The Gas & Power segment continued to benefit from the completion of its infrastructure. And the flexibility it has created to generate income under a range of (inaudible) conditions.

International operation benefit largely from higher oil prices. Our Distribution subsidiary benefited from higher margin, virtually offset by lower volumes. Next.

Capital spending total BRL16 billion during the First Quarter of 2011, a decline of 10% when compared with the First Quarter of last year. Capital expenditure by Brazilian Exploration & production went down because of reduced exploration spending for the quarter. Downstream spending grew by 11% as investment for upgrade regulatory standing and logistics is peaking, while spending on the (inaudible). And finally (inaudible) are ramping up.

In the First Quarter, while the upgrades accounting for 37% of investments, while expansion, 33%. And logistics and infrastructure, another 30%.

Gas & Power investment declined as the gas infrastructure reached completion. Our International segment also was reduced our capital spending remaining -- remains (inaudible) on integrated operations in Brazil.

Next, please, capital structure. We continue to have a very comfortable position with respect to both liquidity and the leverage. We ended the quarter with a net debt to net capital of 17%. And a net debt to EBITDA of 1 time. Cash and equivalents, including government securities, matured by both 90 days, were BRL63 billion as of March 33. Cash flow during the quarter was supplemented by a USD6 billion bond offering.

With that review, we'll now be happy to answer any questions. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. (Operator Instructions)

Our first question is from Frank McGann, Bank of America Merrill Lynch. Please go ahead, sir.

Q - Frank McGann {BIO 1499014 <GO>}

Hello. Good afternoon. Just a question on the refining side -- two questions. One, in terms of the incremental production of diesel and gasoline that you did see in the First Quarter, based on continuing investments in upgrading projects, I was just wondering what your expectations are for increased production, further production in -- for the rest of this year. And in 2012, that might enable better overall earnings in the segment.

Then secondly, import needs in the First Quarter were clearly very strong. And not a positive factor. I was just wondering how you were seeing overall demand right now relative to your own production and how you see imports as you go through the rest of this year, particularly in the Second Quarter.

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

Okay, Frank. I have Lindo to help out in these two answers.

A - Arlindo Moreira

Hi. We -- in fact, we had this good results with -- especially with cokers and quality program that is essentially adding hydro (inaudible) capacity to improve the quality of diesel and gasoline results. A better diesel use, we will have in 2012, with another coker that will be implemented in (inaudible) refinery. And mostly after then, we will face the challenge of providing the Brazilian market with better quality diesel and gasoline (inaudible).

So what we will -- we will have, then, is that the -- what we see -- the way we see the Brazilian market today, the demand will keep increasing. And we will have to still employ a lot of diesel for jets to supply the market. And until we extend refinery capacity, then we will have the first new refinery being implemented by 2013.

So up to then, they will have a hard time importing a significant -- relevant volumes to supply demand, despite our own production.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

The next question is from Emerson Leite from Credit Suisse. Please go ahead.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. Good morning. Thank you. I have a question on the PLANSAL slide -- I think it's number 7. I'm trying to understand, what was the improvement in net present value ex the effect of the transfer of rights. I'm trying -- you know, the slide shows the PLANSAL areas under concession with net present value 152% of the initial PLANSAL. And some 20% above of last year's PLANSAL. Does that NPV assessment include or not the transfer of rights?

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

(inaudible) --

A - Eduardo Molinari {BIO 21023582 <GO>}

Actually, what we see is that -- on the investment side, what the charts tried to tell, is that we can see a reduction of 45% on the CapEx program, especially for the license areas. And if we add the transfer of rights, then we would come back to the initial level of investment of 100%.

And on the net present value side, we are saying that only for the license areas, the NPV grew roughly 50%, especially because of reduction in the well program. And some optimizations in the FPSOs and top side as well.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. So only for the areas under concession, that's what it (multiple speakers) --

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes. The NPV is only for the areas under concession.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. So now, since this NPV is probably 20% or so higher than last year's NPV. And comparing 152% versus 118%, have you already estimated how much more you will have to pay back to the government for the 5 billion barrels that you acquired last year under assumptions that were not as positive as the ones that you now have in your hands?

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

Well Emerson, (inaudible) -- sorry

We have (inaudible) right (inaudible) last year. So on the data we have, it's too far now when you compare with the ones you have here, the vast position you have here, to 2010. So 2010 was the moment of an acquisition. So we don't have this calculation. This is going to happen at the end of the appraisal period of each area, individually. They are not going to happen all together. But we'll have (inaudible) by each one according to the appraisal is concluded.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay, Almir. So let me see if I understand. What you're saying is that the valuation of the rights transfer areas already takes into account all these improvements that you recently announced that were able to drive lower CapEx? So there is no incremental improvement from the assumptions that were made relative -- in the exercise of the rights transfer?

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

We did not do an exercise. On comparing what were the results of 2010 that is presented here that we present a reduction of CapEx of 45%, we did figures. We had, when we did the upgrade [ph] of (inaudible). So we don't have the answer for you, Emerson, sorry.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. So my second question is on the -- on last week's announcement that the Board of Petrobras did not approve the plan, the strategic plan review. And asked for incremental studies. You know, the local press reported that the Board instructed the management to lower the total amount of investment. So I would like to see -- to confirm if that reading is correct, or if it's not, what was asked to -- for you to do.

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

Emerson, this is not the case. We had many demands from the Board to reexamine, to do a sensitive analysis. One of -- few of them includes CapEx reduction. But is not one question draft in the sense that it is important. [ph] There weren't any, as we said, we had to do many sensitive analyses to present them. So they will take that decision.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay. Thank you very much.

Operator

The next question is from Paul Cheng, Barclays Capital. Please go ahead.

Q - Paul Cheng {BIO 1494607 <GO>}

Hi. Good afternoon. Almir, in the First Quarter spending, when we -- that's much lower than your budget for 2011. And if you're going to meet the budget, you need to spend about BRL25 billion, BRL26 billion. I mean, will this (inaudible), is it possible for the Company to spend in such a high run rate? Should we assume that -- in the past, you always underspend your budget. So we assume that this year, you're going to underspend maybe more money in the 15%, (inaudible) in the past maybe 5% to 10% underspend?

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

Oh, I tend to agree with you that we are not going to increase so much the next quarters, our CapEx in the next three quarters. But I cannot get the conclusion that is going to be 15% underinvested at the end of the year. I can agree, we are not (inaudible), big probability not to do 100%. How less than that, we have to wait for a little bit more time.

Q - Paul Cheng {BIO 1494607 <GO>}

And the second question is that in the CapEx for the (inaudible) short [ph] project, you jumped by 45%, very impressive number, from the 2008 level. Do you have a breakdown by function that where's the saving come from? You said such as now, the reduced (inaudible) time that contribute 5%, 10%. I mean, any kind of a -- maybe a further elaboration, where the saving, or by function line?

A - Eduardo Molinari {BIO 21023582 <GO>}

Okay, Paul, roughly 50% of the saving comes from well activity, both by reduction of the number of wells. And also by the fact that we are drilling wells faster than we did before.

The other 50% has to be assumed as being directed to the top side facilities. And especially because now that we have more information on what we'll have to do for each platform, for each field, perhaps I won't need the amount of flexibility that I was building up into the project, because now I know much more precisely what I'll need.

So when I'm optimizing my top side, when I'm reducing the amount of wells and reducing the time I take to drill those wells, I would say that this is where this reduction comes from, I would say 50% from the wells. And 50% from other parts of the project.

Q - Paul Cheng {BIO 1494607 <GO>}

The gross saving must be even higher than that, because the cost has go up. So -- I mean, that like all the inflation that you probably is reducing or saving, more like in the 60% or 70%. Is that a fair estimate? Because I think inflation, probably over the last two or three year, has been in the 15% plus a year for you guys.

A - Eduardo Molinari {BIO 21023582 <GO>}

Okay, we haven't incorporated any of those information to our analysis. You see it's more like what I told you. The wells reduction, both in terms of numbers and drilling time. And optimizing the top side, we haven't changed anything in our planning base since we got into a lowering inflation or equipment becoming cheaper and still everything. It's not the case so far.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. Thank you.

Operator

The next question is from Denis Parisien, Deutsche Bank. Please go ahead.

Q - Denis Parisien {BIO 20333702 <GO>}

Hi, thanks very much for the call, ladies and gentlemen. I'm wondering about your financing plans for the rest of the year, after having executing the jumbo USD6 billion, what markets do you intend to cap next. And will you come back to a dollar market this year or not? If you can give us any kind of color on your financing plans for the rest of the year, I'd appreciate it very much. Thank you.

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

We are always working with different alternatives for financing the Company. As I showed you, we have a very high liquidity at the moment. But this does not mean that we will be out of the market. We will be looking, not go back to the dollar market. Indeed, as we did (inaudible), we did well. And that (inaudible) for the year, (inaudible) the currency, as well as in the (inaudible) international brand [ph], where we have a very good source, important source for the Company. We may raise more and for longer -- the (inaudible) bank, like DMDS [ph] that is important supplier of (inaudible) in Brazil.

So we are -- we are always looking for opportunity. And I repeat (inaudible), we may approach the market.

Q - Denis Parisien {BIO 20333702 <GO>}

Any thoughts on liability management, taking out some old inefficient notes in exchange for some new, lower costs notes? There's a lot of other companies in Latin America, especially Brazil, have been executing.

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

We are not -- we had, maybe all the companies had a different situation than Petrobras. Total costs did not move as much as some of the Brazilian companies that are doing the liability management.

We have done that in the past. And always, when we see an opportunity, we do. But this is not the case for the time being.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks very much.

Operator

The next question is from Marcus Sequeira, Deutsche Bank. Please go ahead.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Yes. Good afternoon. Two questions, one related to the domestic oil production for this year, if you guys -- how you guys think of your guidance for the -- average for the year of

2.1 barrels a day, if you guys -- do you expect to see a more maintenance shutdowns, shutdown in the upcoming months?

And second question is with regards to Comperj. Barbassa, you said the Comperj, the project is going ahead. I heard in the -- I saw in the local press some time ago that you guys could use natural gas as the main feedstock of this plant instead of heavy oil. I just would like to hear from you guys if that is really the case.

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

(inaudible)?

A - Eduardo Molinari {BIO 21023582 <GO>}

2.1 million barrels a day is a good number. We stick to that. And we're going to deliver.

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

Arlindo, (inaudible)?

A - Arlindo Moreira

Okay. Could you please repeat your question about Comperj?

Q - Marcus Sequeira {BIO 4622700 <GO>}

Yes. I assumed -- I saw in the local press some time ago that instead of using heavy oil in the Comperj, you guys could use natural gas as a main feedstock. I just would like to hear your comments, if that's really the case.

A - Arlindo Moreira

Well Comperj has one impact refining part in the petrochemical complex associated with it. The refinery, the distillery [ph] refinery using heavy oil. What is being stated today by Petrobras, it's being evaluated, is that there is an alternative of instead of using flat [ph] as the feedstock for the petrochemical production, using your natural gas. And that's under evaluation.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Well you guys advance on that study, or something is preliminary? So something that's probably in this upcoming CapEx program would not be still reflected in the program?

A - Arlindo Moreira

They're still studying. And we cannot anticipate business plan presentation -- information that will be presented in the future, the near future.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Okay. Thank you very much.

Operator

Your next question is from Allen Good, Morningstar. Please go ahead.

Q - Allen Good {BIO 16212285 <GO>}

Good morning. I wonder if you could address the potential need or (inaudible) for the future rigs, given the lower CapEx demands. And how that may translate into the needed or the built, 21 rigs you planned on building in Brazil.

A - Eduardo Molinari {BIO 21023582 <GO>}

Actually. So far, we don't see a reduction on the (inaudible) necessity for us, you see. We have an entire transfer of rights area to appraise and to develop. E&P believes that we'll still need all that portfolio of rigs. And of course, this can change in the future. But it's mainly related to my exploratory success. And the last years, we have been very, very fortunate to find lots of oil.

And in summary, from now on, I don't see us lowering our demand for rigs on a 10 year period.

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

And that, I would like to add that in the 21 rigs were anticipated as necessary into 2008. And last year, we added to the pre-salt all the 5 billion barrels to be produced. This will bring a lot of new needs.

So even if we were to use the rig in each (inaudible) smaller, shorter time, in the -- we have much more to do.

Q - Allen Good {BIO 16212285 <GO>}

Do you still have confidence that the 21 rigs you're planning to build in Brazil can still be built there and delivered on time?

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

Yes. This is the assumption we are working. We are -- we give timing for the shipyards to get prepared and delivered, the first one. Then they have not one to be built. They have a number of them, in case of the first bidding was giving us seven rigs. So this seven rigs allowed them to invest what they need to do, or to do what they need to do to increase their productivity. And delivering on time.

Q - Allen Good {BIO 16212285 <GO>}

Okay. Thank you.

Operator

The next question is from Gustavo Gattass, BTG. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, guys. I had two quick questions. The first one, on the business plan, Barbassa, is there any internal estimate from you guys for how long it might take to run the sensitivities and effectively get back to the Board? And ultimately, in the event that you have to go with something that is smaller than what the management initially proposed last week, is there enough flexibility in the investments that you guys have on outside of E&P, which I assume is pretty much locked up for a long period, to cut back on something? Or is that going to be something impossible? That would be the first question.

The second question is a very quick one, on the natural gas price discussion [ph] from the ANP that we had on the other call. I just wanted to understand, as you reduce your E&P price, is that something that the ANP also does for the calculation of royalties, or are the royalties calculated on a separate pricing mechanism? That's it.

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

Gustavo, we are working hard on the demands of the Board. We hope to have all the answers in the shortest period of time. But I cannot tell you how long it's going to take.

For sure, all the Company is working to get the answers (inaudible). And the CapEx on E&P.

A - Eduardo Molinari {BIO 21023582 <GO>}

You're pretty right, when you say that E&P CapEx is pretty much locked up for the period. And the general management of the planning area of E&P is conducting all those sensitivity analyses. But when you say that we are locked up for quite some time, I'd say two or three years, you're quite right.

And on the royalty side that you have asked, not necessarily our internal prices are the same that ANP uses for taxation purposes, you see? But the good news is that -- I think that they disclosed their website, what price they are using. But they're not necessarily the same that we use internally.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you, guys.

Operator

The next question is from Fernando Vale from Citi. Please go ahead.

Q - Fernando Vale {BIO 3303435 <GO>}

Hi. Good morning, everyone. Just had a quick question on the revenues from the Fourth Quarter from exports that were still in transit. And they were supposed to be recognized on the First Quarter. I just wanted to understand how much of that actually made it into this quarter's revenues.

And if I could ask a second question, on the (inaudible) project, when should you start producing oil from that project? Thank you.

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

Ed, for the record [ph], could you please (multiple speakers)?

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes. We have a limitation on that project, because of -- well, we have a delay on the environmental license for the gas pipeline. But we expect that still this semester, we'll be able to normalize the production there on the Urugua field. And then the Tambau oil field will also be starting yet this year.

I'm quite sure that in this semester, we'll be able to normalize the situation of the Urugua field.

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

The first part of -- could you repeat the question, please?

Q - Fernando Vale {BIO 3303435 <GO>}

Sure. Last quarter, you said there was some revenues -- I believe due to exports that were still in transit that weren't recognized. You sold. But they were still in transit. So you didn't recognize that revenue on the Fourth Quarter. And part of those sales were going to be recognized on this quarter. So I just wanted to know how much of the revenues from this quarter were actually sales from last quarter that were recognized now.

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes. The fact, it's not big, because you have to consider the (inaudible) now and apply that in our books in the Second Quarter. I think the impact there was BRL20 million or BRL30 million in our revenue.

Q - Fernando Vale {BIO 3303435 <GO>}

Okay. Great, thank you very much.

Operator

Next question is from Frank McGann, Bank of America Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

Yes, just to follow up on something. The rigs that you mentioned that will be in place by year-end 2011, I was under the impression that it would be 2013. And I was just wondering, are the other two just pushed into 2012? Then secondly, in terms of gas prices. And I unfortunately got cut off for a second from the call. But I don't think this was asked. What drove the decline, really, in the quarter?

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

Regarding the number of rigs, (multiple speakers) --

A - Eduardo Molinari {BIO 21023582 <GO>}

What we have seen is that we'll have -- those two have slipped, one for 2012 and one for 2013. On the decline side, that's a tough question. I would have to get back to you on that. What we have seen (inaudible) since then was 9.5%. I would have to get back to you on that. I don't have the precise figure now.

Q - Frank McGann {BIO 1499014 <GO>}

No, no, I meant the decline in the gas price in the quarter, the realized gas price. What was the -- I know part of it was international prices were a little bit weaker. But if you could just provide a little bit more commentary on that?

A - Unidentified Speaker

Oh, okay. The internal transfer price [ph] between E&P and Gas & Power consider a covenant [ph] related to international price, Henry Hub price (inaudible). So as Henry Hub has come down. So the internal adjusted price follows. Okay?

Q - Frank McGann {BIO 1499014 <GO>}

Okay. And there were no other factors that drove that? That was the only thing?

A - Unidentified Speaker

Yes. It's basically that. You consider also, another part in the calculation of the price, that is partly related to this infrastructure, that E&P gives a count together (inaudible) related to the gas pipeline that we have (inaudible). But so -- but it's not the most important part.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Okay. Thank you very much.

Operator

Thank you. Ladies and gentlemen. this concludes the question and answer session. Mr. Barbassa, please proceed with your closing remarks.

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

Thank you, all for being with us. And (inaudible) of our results. And hope you be here in the next quarter having good results as we have this moment. 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 the Petrobras conference call for today. Thank you very much for your participation. You may now disconnect.