Q4 2003 Earnings Call

Company Participants

- Jose Sergio Gabrielli, CEO and IR Director
- Raoul Alberto De Campos, IR Executive Manager
- William Reilly

Other Participants

- Carlos De Leon, Analyst
- Christian Oddy, Analyst
- Emerson Laity, Analyst
- Frank Mcgann, Analyst
- Katie Blacklock, Analyst
- Mark Mccarthy, Analyst
- Paco Miranda, Analyst

Presentation

Operator

Welcome to the Petrobras Conference Call to discuss the Q4 Results.

Today with us at Petrobras Head Office we have Mr. Jose Sergio Gabrielli Chief Executive Office and Investor Relations Director and his staff. At this time, I would like to turn the conference over to Mr. Raoul Alberto de Campos Investor Relations Executive Manager of Petrobras who has some additional comments.

Please go ahead Mr. Raoul.

Raoul Alberto De Campos

Good morning, ladies and gentlemen. Welcome to our conference call to discuss the Q4 and full-year 2003 results. We have a simultaneous webcast on the internet that can be accessed at the site www.petrobras.com/br/ir/english. Additionally on the webcast registration screen you may download and print the presentation and download the financial market report.

Before proceeding let me mention that the forward-looking statements are being made under the safe harbor of the Securities Legislation Reform Act of 1996. Actual performance could differ materially from those anticipated in any forward-looking comments or as the result of macro economic conditions, market risks and other factors.

Finally, let me mention that this conference call will discuss Petrobras' results prepared in accordance with Brazilian GAAP. At this moment we are unable to discuss any questions related to US GAAP results.

The conference call will be conducted by our CFO and Investor Relations Director Mr. Jose Sergio Gabrielli de Azevedo. He will comment on the Company's operating and financial highlights and the main events during this quarter. Afterwards he will be available to answer any questions you may have. Mr. Gabrielli please begin.

Jose Sergio Gabrielli {BIO 5474235 <GO>}

Good morning, everybody. I will start on slide number 1 where we are trying to show some of the pricing policy that we used in 2003.

As you can see in the first graph on the slide the green line shows the average Brent price during 2002 and 2003. The blue line represents the Brazilian average realization price in Reals translated into dollars according to the Brazilian exchange rate. The red line is (inaudible) that's trying to show the combination of the US average prices for oil products weighted by the volumes sold in Brazil.

This graph shows that in the Q3 2003 and Q4 2003 we kept a stable relationship between our prices and the (inaudible) mix.

In the First Quarter we had some difference, we could not follow the international increase in prices during the War period when we had a very high peak in the price of oil. But we kept during the year a stable relationship with our oil prices in line with international prices.

On the second part of the slide we show the difference between the quarterly average exchange rate and the end of the period exchange rates. This is important because part of our operations are in Reals and part of our debt in some of stock levels are measured in dollars.

The difference between the average and the end of year rate will cause some change in the results.

To compare for example the average rate in 2003 with the average exchange rate of 2002 we have a 5% depreciation of the Brazilian Real. However, when you compare the end of the period exchange rate at the end of 2002 and the end of 2003 we have an appreciation of 18% of Real.

Comparing the end of period rates we had appreciation of the Real and comparing average rates we have depreciation of Reals.

The average rates applied to (inaudible) variables and end of the period rate applied to stock variables.

Comparing the year with the Fourth Quarter in relation to both quarters, we see that during the average 2002 in relation to 2003 we have a 5% depreciation. However in relation to the last quarter of 2003 in relation to Q3 2003 we have a small appreciation of the Real.

The next slide number 2 tries to show the behavior of the production and sales in the Brazilian market in the (national) productions. In the upper graph of the slide we can see that the First Quarter of '03 we had a reduction in our domestic sales volume as a result of the adjustment of the Brazilian economy and as a result of the higher national prices and domestic prices. After the First Quarter of '03 on until Q4 '03 we have an increase in our domestic sales volume. We have increased our production and comparing Q1 to the Q4 we had in the Q4 1.763 million barrels a day of sales, compared to 1.657 million barrels in Q1 2003.

The green line shows our domestic production. We have an increase in the production for the First Quarter of '03. We had some problems, stock issues and maintenance stock (inaudible) during the year that kept our production stable with a small reduction in the last quarter of the year.

In the bottom part of this slide you can see the impact of the consolidation of various (inaudible) actually but the (inaudible) is our numbers in the Second Quarter of 2003.

Slide number three tries to reconcile the difference between the net income that we had in 2002 and the net income in 2003. In 2002 we had R$8.098 billion of net income that increased to R$17.795 billion at the end of 2003. Our main cause for this increase in profit is the increase in our net operating revenues.

Net operating revenues that increased as a result of the increase in production, we had a 12% increase in production from one year to another year. 4% increase in Brazilian production and most of our increase in production comes from the corporation (inaudible) in our numbers.

We have an increase of around 100,000 barrels a day of sales, total sales of the Company. About 4% of our total sales in volumes, regardless of the reduction of our domestic sales.

(inaudible) that's important to explain the net operating revenues is the increase in the Brent price, the increase of our average realization price. We had a 16% increase in the Brent price, that's impacted the oil products and our average realization price was (inaudible) 48% increase in average realization price.

We also had in 2003 as I mentioned an average depreciation of the Real and an increase in production. We had also an increase in our cost of goods sold, 34% increase in the Government participation in Brazil as a result of 3% increase in our production. The total value of Government participation increased.

We had an inclusion of new commercial fields that were included in participation in Brazil (inaudible).

We had also an increase in the value of our imports regardless of the reduction in the volume of imports we have increased in the value that we pay for our imports as a result of higher pricing.

We had an increase in our lifting costs. The explanation of this is the cost of goods sold.

The first thing that is important to my mind is that we had, as I mentioned, gains from the foreign exchange FX corrections. We have in our stock variable (inaudible) our debt. We have again gains as a result at the end of the period, we have had gains of 18% in the appreciation of Reals at the end of the period.

Also important to highlight that we had R$2.857 billion of increase in our extraordinary items, on the impact of our net income.

The next slide, number 4 shows the impact of these extraordinary items into our net operating revenues.

Our net income was R$17.795 billion but we had as an extraordinary items our contractual losses and contingencies with Energy Businesses R$2.123b. Adjustment to market value of gas turbines R$330m. Contractual loss with the oil pipeline in Ecuador with OCP Transport Services R$293m, Liquidation effect of the exchange of hedge in EM of R$198 million and the net provision related to social security notifications in relation to third parties that supply (work force) to the Company R$160m.

We had a provision for financial exposure in our Therm o-plants / Ship or Pay of R$171m. Our net present value of the provision for the abandonment of wells now according to the accounting procedures that we started in January 2003.

(inaudible) that our net income without extraordinary items would be R$20.6 billion in relation to R$70.7b.

It is worth highlighting that we had a savings on our tax payments due to the provision that we made for interest on loan capital that reduced our tax expenditures.

Slide number 5 shows the relationship between our net income in Q3 '03 and Q4 '03. We had a reduction of our net income from R$5.361 billion to R$3.021b. This reduction can be explained by a reduction in oil production. We had a reduction of around 2%, a little bit more than 2% of our production from 2068 million barrels a day to 2023 million barrels.

Also we had as an important variable that explains the increase in our net revenues, a reduction on the net operating costs on the cost of goods sold. This reduction of the cost of goods sold is mainly due to a 6% fall in the Government participation, which corresponds to 17% of the cost of goods sold and due to 2% decrease in the oil production as a result of (inaudible) from September to November '03. Also, as a result of decrease in expenses related to the restructuring projects.

We also had (inaudible) from the FX correction. We had, as I mentioned before a small appreciation of Reals in Q4 2003.

It is important to highlight also that during Q4 2003 we had a very large concentration of extraordinary items, as you can see in slide number 6. As I mentioned most of our extraordinary line items were a provision in Q4 2003 with contractual losses and contingencies with Energy Businesses of R$1.415b.

Our contractual loss with OCP transport services in Ecuador of R$293m, in such a way that our net income in Q4 2003 rather than (inaudible) without the extraordinary items would be R$4.729b.

Slide number 7 shows the behavior of our lifting costs and our refining costs. It is important to highlight the importance of the impact of the achieved rate in our numbers.

On the lifting costs, as you can see during the second, third and Fourth Quarters of '02 we had a reduction in our lifting costs. One explanation for that is the large depreciation of the Reals that we had in '02.

A large part of our own inventory costs and lifting costs is Real denominated. When we had a depreciation to the Real, we had a reduction of the correspondent dollar denominated unit lifting costs.

At the end of 2003, in the year of 2003, we had the opposite. During the year of 2003 we had the appreciation of Reals and as we had appreciation of Reals and we have a large part of our lifting costs in Reals we had an increase in the dollar denominated lifting costs. But not only that, if we (get to) the foreign exchange effect on the lifting costs, we would have pretty much stable lifting costs comparing 2003 with 2002.

Our lifting costs without the foreign exchange impact would be $3.05 per barrel in 2003 compared to our lifting costs of $3 per barrel in 2002. The real number, however is R$3.98 at the end of Q4 2003 but with the impact of Q4 2003 there is a result of a reduction in the production, as I mentioned, we had a reduction of 2.6% of our production reduction.

We had a great expenditure in material and technical services in maintenance services that were important not only because the Company uses more maintenance and had more stoppages than we had planned, but also because we have a heating market that is very active right now as a result of the international change in the oil industry.

We also had in Q4 2003 the impact of the wage increase and the increase on the labor force that we had during the year 2002. Also, as I mentioned we had the depreciation of the Reals and the reduction of production.

On the refining all those impacts accumulated in Q4 2003. In Q4 2003 we had some extraordinary increases in wage costs as a result of the payment of some wage payments related to the past liabilities that we had with the labor force, that are not recurrent payments. Also we had a reduction of our refining throughput, we had a reduction in Q4 2003 but we are catching up in 2004.

Actually we announced yesterday that we had a (inaudible) in our daily production of 1.8 million barrels a day of refining correction, refining throughput.

Slide number 8 highlights some of our segment results. The E&P production changes, we have a reduction in our net operating revenue. The decrease in revenue was due to a decrease in production and, as I mentioned, this production was partially offset by an increase in oil exports. We had an average price increase to (3.5%).

We had a reduction in the oil costs of goods sold, mainly due to the lower production, this is the total amount of the cost of the goods sold, and it is not the inventory cost of the goods sold. As a result of the reduction in production and the increase in the Government participation collection and lower costs related to restructuring projects.

We had an increase in exploration expenses due to the write-off of (oil) wells. (inaudible) the commercial wells. As you can see also, our operating profit is increasing in Q4 2003.

Downstream we also had a reduction in our operating costs. The reduction in our operating costs is a result of a reduction of our net income. The decrease was due to a 14% decrease in oil (inaudible) exports, lower margins during Q3 2003.

The inventory refining costs increased to 43% as I mentioned before as a whole, however the cost of goods sold decreased in comparison with the Third Quarter due to the lower sales in domestic marketing and to export, mainly exports.

Slide number 10, Gas and Energy Changes shows that in spite of 2% decrease in the natural gas sale volume the net revenue increased due to the consolidation process of two former plants controlled in conjunction with Petrobras Iberdrola, (inaudible) and an attainment of (inaudible) energy sales contracts in spite of the retraction of the market.

We have also as I mentioned, losses with the Energy business provision mostly in Q4 2003 which makes our gross profit into a net negative operating profit.

Looking at our distribution segment we can see that we had an increase in operating revenue, a small increase in the cost of goods sold, which (would) change in the gross profit and our operating profit was reduced because we had an increase in (inaudible) projects in distributional relationships. (inaudible) power distributor, DI distributor and the market.

In our international segment on slide 12 you can see that the contractual loss with OCP in Ecuador was mainly responsible for the reduction on our operating targets. We had lots of other factors, we had an increase in our operating revenue, a small increase in costs of goods change and we had also an increase in exploration expenses.

Slide number 13 shows the capital structure. It shows the reduction in our leverage ratios, our net debt and net cap ratio went down from (inaudible) in 2002 to 41% in 2003 and a small increase from 15% to 17% of the short term debt on total debt.

On the right hand side of the slide you can see that our net debt went down 13% compared to December '02. The reduction in our debt is mainly explained by the increase in our cash and cash equivalent of 110% from R$11.8 billion to R$24.9 billion in December 2003.

Our CAPEX went up 19% in 2003 when we compare our CAPEX in 2002 without the acquisition of the control of (inaudible) of R$4.442b.

Slide 14 as requested by some analysts, we are trying to reconcile the numbers that we publish in our (inaudible) balance in 2002 with the new adjustment that we made on our debt numbers now in 2003. Trying to put closer to the chart the numbers in Brazilian GAAP and the US GAAP.

We are adjusting the numbers of our debt in Brazilian GAAP to considerably undertaking in consortiums. The adjustment of the financial transaction contracted by the SEC are still not earmarked for the specific investment projects in such a way that we can make numbers in Brazilian GAAP more comparable with the US GAAP in relation to the debt numbers.

Page 15, the sources and uses table on which we are trying to show how we move our cash balance from R$11.8 billion to R$24.9b, where we can show that most of this change comes from net cash generated by our operational activities. We generate by our normal activities R$26.5 billion to use R$17.2 billion CAPEX, R$1.1 billion other investments and we used R$4.8 billion to finance activities including amortizations. Leaving us with a cash balance of R$24.953 billion at the end of 2003.

Slide 16 shows the same conciliation during the Q3 2003 in relation to Q4 2003. Where we can also show that we had a net cash flow; a positive cash flow from our operation activities that we produce more than we need for CAPEX and we increased our cash balance from R$20.9 billion to R$24.95b.

On page 17 we have tried to show you the evolution of our net debt. Where we can also show that a reduction on the net debt jumps R$35.87 billion to R$34.684 billion as a result of increase in our cash balance. Of a cash increase of R$3.97 billion in spite of the fact that we have increased our gross debt by R$2.167b.

The last slide shows the value added by the company, which is around R$81 billion where growth is value added. We can show this from '02 to '03 the share of Governmental entities increased from 61% to 65%, but the largest increase was in our shareholders' part.

Our shareholders' part in our value added increase from 11% in 2002 to 23% 2003. The main explanation for this change in the share of the shareholders and the share of Governmental entities is the reduction of the part of the financial institutions and suppliers (inaudible), the financial expenditure that we had last year that was responsible for 6% of the value added compared to 23% in 2002.

We are now open for the Q and A section. Thank you.

Questions And Answers

Operator

Our first question is coming from Carlos De Leon of Deutsche Bank.

Q - Carlos De Leon {BIO 21527222 <GO>}

I just have two questions. I wonder if you could update us on the PDT oil pipeline market run for the Compass Basin. How big is the risk of a delay considering the initial opposition to the project by the state of Rio de Janeiro? If indeed there are delays of one to three or more months, what are the potential financial implications for the company?

My second question regards the Santos based discovery in the second half of last year. I wonder if you could just update us on this particular discovery, indicating the possible size of cash reserve certifications, and then of the timing of any reserve bookings that may come from here, and also the timing of any commercial production from this book. Thank you.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Well, the PDT is a pipeline structure to increase our production from Compass Basin to the market. We are going to increase our production anyway. However, we think the Petrobras position right now is that the best way to transport this production is to use the pipeline, the PDT system.

However, we have a position from the government of Rio de Janeiro, and we have established that in order to fulfill our schedule, our time schedule, we have to make a final decision by the month of March, because we are already in the process of building the P52 platform, and we are also in the bidding process of different plants that are ongoing ways. If we don't have a decision of the best alternative for transportation for the production, we have to find a new alternative for that.

We can transport the new production by pipelines, or by ship. We think that the best way to do this is by the pipeline. If we cannot have a final decision by next month, then we have to decide other alternatives.

On the cash position, I'm going to pass to the people from the ENP that can give a more detailed explanation.

A - William Reilly {BIO 18789623 <GO>}

It's William Reilly speaking. We made a discovery within the Compass Basin last year, and we have (inaudible) oil field. It is a field of natural gas and (inaudible) in the Compass Basin, which is located in the state of San Paolo. We took 520 million barrels of oil equivalent in 2003.

Q - Carlos De Leon {BIO 21527222 <GO>}

That's fine, thanks very much.

Operator

Thank you. Our next question is coming from Frank McGann of Merrill Lynch.

Q - Frank Mcgann {BIO 1499014 <GO>}

Hi, I just have a question in terms of costs and lifting costs, specifically. What are your expectations for 2004 as you get back to normal production patterns? How quickly do you think those costs can come down, and what do you think they will average in 2004, and what are your longer term targets are at this point?

Also, related to that, what are your production expectations over the next couple of quarters and for the first year? Should we see a rapid return to the levels of production that you had a couple of quarters back?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Well, for 2004, in our strategic plan, we have for 2004 we are not expecting a very fast recovery of production. We have a flat production curve for 2004. Our best projection is that our main production system will come into production at the end of 2004, and most of our increasing capacity will turn into 2005 and 2006. We are expecting flat production in 2004.

However, in our listing costs we think that we can reduce our lifting costs because the outcome of the costs that we have increased in 2003, was generally explained by the unplanned stoppages, and some extraordinary items in the labor costs, and also as a result of the exchange rate valuations that we are not expecting for 2004.

Q - Frank Mcgann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

Thank you. Our next question is coming from Mark McCarthy at Bear Stearns.

Q - Mark Mccarthy {BIO 5634411 <GO>}

I have two or three questions, just following up on some of the things you've already talked about. First of all, can you express the cash and energy CAPEX increase for the Fourth Quarter, of about R$300m, why it came in one shot, and what the anticipation is looking forward?

Then, maybe you could just spend a little time and just address the entire CAPEX related topic for 2004. How much cash are you getting approved within the government? How much cash do you actually expect to spend? How much cash will go through the Petrobras balance sheet versus the consortium financing? Let's kind of just get these numbers clarified.

The third thing is related to lifting costs. You just answered Frank's question, but you didn't actually highlight. I mean labor costs are going up. Unplanned stoppages means that they will probably happen again, and the currency is due to remain stable from here, but not necessarily depreciate, so why does the cost number come down in 2004, and can you address this related to your R$2.80 target for 2007?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

The cash energy CAPEX, we continue to follow the direction we're taking on our strategic plan, but we are not going to increase the commitment in new ventures in the energy sector.

We are finishing the commitments that we had, that's the reason why we have based CAPEX in 2003, and also, we are trying to adjust some of the loss that we have, with the owners and the partners of the merchant companies that have contracts with us. This may have some impact on our CAPEX, but only to minimize losses that we hadn't provisioned for the future.

In relation to our total CAPEX, within Congress we have approved an (investment) budget of R$28b. This was prepared in August of last year, considering an exchange rate of R$3.25 per dollar, and this is an authorization from the Congress for the system to invest.

We are in the process of defining our investment plan in the company. This investment plan is related to the strategic plan, but we are going to release it to the market by the end of the Third Quarter, probably the beginning of the Second Quarter 2004.

I hope that I can give you the exact numbers for you then.

On (inaudible) you mentioned increasing labor costs. We have partly increased labor costs but it's extraordinary, it's not the wish that continues to be every month. It's on a (inaudible) form of our (inaudible) of work in the past. We have repayments for increasing the prolification of the rank of the labor forces according to our labor plan, and the business was once made, but it's not a recurring expense.

When we have a planned stoppage, we think that we can minimize the costs of the maintenance. When we have an unplanned stoppage, then our costs are going up. We hope that we can minimize the unplanned stoppages in 2004.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay, so just to follow up, you're now envisaging the strategic plans to be released, when? The end of the Second Quarter?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

No, the end of the First Quarter, the beginning of the Second Quarter.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay, so we're still on the April timeframe?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay. Great. Thanks, Sergio.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Thank you, Mark.

Operator

Thank you. And as a reminder, that is 1 followed by 4 on your touchtone telephone to ask a question.

Our next question is coming from Katie Blacklock of Staines River Capital. Your line is live?

Q - Katie Blacklock {BIO 17145068 <GO>}

Hello, I just wanted to ask again on the CAPEX front, was 2003 light in terms of CAPEX versus your strategic plan, and should we then expect some of that CAPEX to be loaded into 2004?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes, our strategic plan for 2003 was around $7b. We had an actual investment of $6.2b, and considered the average exchange rate result. It was a little bit below but not big. It was far from what we had in (inaudible).

For 2004, we think that we can keep in line with our strategic plan which we allowed for 2004 something around $7b, $7.5 billion of investment.

Q - Katie Blacklock {BIO 17145068 <GO>}

Okay, so that $6.2b, that includes the CAPEX on the SPCs? Is that right?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes.

Q - Katie Blacklock {BIO 17145068 <GO>}

Okay. Can you just tell me how much that was in total in 2003?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes, let me check the numbers, I think I have it here, in slide number 13. It was R$21.089b.

Q - Katie Blacklock {BIO 17145068 <GO>}

Sorry, it was the CAPEX for the SPCs in 2003.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

R$26.04b. R$18.485 billion was our CAPEX in total Reals.

Q - Katie Blacklock {BIO 17145068 <GO>}

Okay. Thank you.

Operator

Thank you. We have a follow up question coming from Mark McCarthy of Bear Stearns.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Just one follow up. There's been a proposal, I suppose, by (inaudible) to reconsider the P51 plan, building it all locally except with a more revised timeframe. I wanted to see if in fact this is a real alternative. I wanted to see your impressions about how things are going with regard to the ICMS issue with the state of Rio. Obviously this new pipeline issue is just a continuation of that, but in light of the longer-term production targets for P51 and 52, and to see if this is a consideration as it seems like more of a six month delay. What are your thoughts?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Well, P52 is underway, there's no pull out in the (inaudible) schedule. The P51 is a little bit delayed. We are discussing different alternatives right now. There is a possibility of an ICMS discount if the holes built in Brazil, in Rio de Janeiro, and we have discussion with (inaudible) and other suppliers. We don't have a final decision yet.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay, at this point, though, we should consider the project at least delayed until -

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes, we don't have a clear schedule right now. I cannot answer your question on how long it will be delayed, the P51 project, but it is delayed up to now.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay. Great.

Operator

Thank you. Our next question is coming from Emerson Laity of Credit Suisse First Boston.

Q - Emerson Laity

I have a follow up on the CAPEX question. First, for the year 2003, the total CAPEX that you had was roughly R$18.5 billion plus another R$2 billion on SPC, so almost R$21b. The average exchange rate was below $3.00, so total CAPEX for you in dollars was almost $7b. You mentioned $6.2b, so I would like to see if there is any mismatch here?

Also, still on this topic, when you mentioned the R$28 billion approval within the Congress, is that under a $3.25 exchange rate we are talking about $8.6b. I understand, and correct me if I'm wrong, that the budget approved within the Congress is related to the CAPEX for only the Brazilian Petrobras companies, meaning that international CAPEX is not included in that figure. So could you provide some clarification on that please?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes, first, the number $6.2 billion and the $7 billion is the difference between the average exchange rate and the current exchange rate. That has fallen we had an appreciation of Reals due in 2003 during the year and that's the reason why you have this difference between the $6.2 billion and the $7b. But these numbers are considered in Brazilian GAAP. Those numbers are going to be very clear when we leave the US GAAP numbers, but we don't have them right now.

The second thing is on our CAPEX, from the Brazilian Congress. I don't remember the number from last year, but usually when you have the Brazilian Congress budget for annual investment, it's called OEI in Brazil. This is for the (inaudible) system which allows also for some capital contributions.

It is increasing our participating in our (inaudible) which is included in our OAI budget in order to sum up our international investments.

Q - Emerson Laity

Should something close to $7.5 million for CAPEX as opposed to the potential R$28 billion number?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Can you repeat this please. I cannot hear you.

Q - Emerson Laity

So we should assume that the CAPEX including all the investments, including SDC and including international CAPEX will not be beyond $7 million to $7.5 million as you mentioned before?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

We are in the middle of the process of definition of our strategic plan. I can not assure you of that, because we don't have the final numbers of our investment plan.

Q - Emerson Laity

Any comments on potential acquisitions on the LPG second (inaudible) and also on petrochemicals that eventually are not yet considered in the overall CAPEX numbers?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

On the LPG in Brazil?

Q - Emerson Laity

Yes. There is a little more (inaudible) that you are in talks with ENI to buy in AGIP for an undisclosed amount, but could reach $500 million or so?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Well, Petrobras has always considered all the possibilities and business opportunities and we have considered different alternatives for increasing our presence in the LPG sector in Brazil. One possibility is to acquisition other possibilities too.

In relation to your other question where you mention petrochemicals. Petrochemicals also in the past is the decision of our strategic plan for the petrochemicals. It is clear that we are going to change our presence in the petrochemical site. We haven't decided yet how we are going to do this. We hope that by the end of the (inaudible) definition of our strategic plan, then we can reduce our plants.

Q - Emerson Laity

Just one final question, Sergio. Petrobras here when you are considering Argentina, has historically held conference calls with analysts to provide good information and Petrobras has always traded as a very transparent company. For this quarter they did not hold a conference call for analysts and I understand that the reason for that was an orientation from their controlling group which is Petrogas Brazil. What is the reason behind that?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Petrogas (inaudible) conference call out there. After this one, they will hold their own.

Q - Emerson Laity

That was not yet disclosed to the market or was it already?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

It should be disclosed. I don't know if it is already or not. I don't know. I cannot answer that precisely to you, but it is disclosed to the market. It is going to be out there.

Q - Emerson Laity

Okay. Thank you, very much.

Operator

Thank you. Our next question is coming from Paco Miranda(ph.) of Citigroup.

Q - Paco Miranda

I think you were quoted by a newspaper a few weeks ago saying that Petrobras could issue debt by somewhere between $2 billion and $3 billion this year. Is that something that you can comment on?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

What I said was that in our strategic plan for 2007, we are considering the possibilities to raise between $2 billion and $2.5 billion per year through debt. However, if you consider that we have a very large cash balance right now, we can change this. But we are considering that we have other objectives rather than only to finance our investments. We need and we want to increase the duration of our debt to reduce costs and increase the plant and the maturity of that profile in such a way that we are open to different possibilities to (inaudible) debt to operations that can reduce our costs and increase the maturity.

Q - Paco Miranda

Okay. You are talking about structures or sections of this net debt?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Could you repeat please? We have some problem with the sound.

Q - Paco Miranda

I am asking if you are talking about structure deals or things that will allow you to issue investment grade debt.

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

The possibility of the investment grades is not depending only on Petrobras. But we think that we have the numbers to be invested in the company. We have the financial results that can be comparable to other investment grade companies. However, we think that this rating process depends on other variables, mainly the valuation of the zip(ph.) code of the company. But as you can see, if you look at our yield curve, we have a reduction of our yield. We have an increase in the region of our debt. We have a reduction we are trading below the (inaudible) Brazilian 7 curve and we are (inaudible) spread between our debt and US Treasury.

Q - Paco Miranda

Okay. Thank you.

Operator

Thank you. As a final reminder, if you do have a question, please press the numbers '1' followed by '4' on your touchtone telephone.

We do have a question coming from Christian Oddy of Morgan Stanley.

Q - Christian Oddy

A clarification on a question, with respect of production. Did you say at the beginning of your comments that the production growth for 2004 is 0%? Is that the official guidance that you are giving for 2004 production growth?

Secondly, can you talk about you said a bit about lifting costs, can you talk about refining costs, what are the expectations and the main drivers behind those expectations please?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

We have a different product cycle underway. P43, P48, P50, P31 and SPSO (inaudible) South which should yield 30,000 barrels per day but it is coming into production in 2005.

150,000 P43, 160,000 P48, 108,000 P50, 100,000 in SPSO and 50,000 in P31. (inaudible).

The (inaudible) we hope that P43 and P48 is on schedule right now on the new schedule that we arranged with the supplier. But the best production has only to be increased at the end of 2004. (inaudible). We can't give you the numbers of (inaudible).

We probably will have at the end of 2004 an increase in the production of 3% in relation to the end of 2004.

Operator

Thank you. At this time we have no further questions. Are there any closing comments?

A - Jose Sergio Gabrielli {BIO 5474235 <GO>}

Yes. I would like to emphasize that we have released to the market yesterday, that we have increased our production and refining systems to put us in black at 1.8 million barrels a day, which is a recovery from the First Quarter of 2003 and we hope that we are going to continue in this line in using the Brazilian product through our refining system.

We would also like to thank you all and to say that the results and the numbers are available now on our website and also our investor relations people are available for further questions. Thank you, very much.