

Q3 2005 Earnings Call

Company Participants

- Almir Barbassa, CFO, Investor Relations Director
- Raul De Campos, Investor Relations Executive Manager

Other Participants

- Frank McGann, Analyst
- Marc McCarthy, Analyst
- Pedro Batista, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by and welcome to the Petrobras conference call to discuss the Third Quarter results. (Operator Instructions) As a reminder, this conference is being recorded. Today with us we have Mr. Almir Barbassa, CFO and IR Director and his staff. At this time, I would like to turn the conference over to Mr. Raul de Campos, Investor Relations Executive Manager of Petrobras, who has some additional comments. Please go ahead, Mr. de Campos.

Raul De Campos {BIO 17251399 <GO>}

Good morning, ladies and gentlemen. Welcome to our conference call to discuss the Third Quarter 2005 results. We have a simultaneous Web-cast on the Internet that could be accessed at the site, www.Petrobras.com.br/ri/english. Additionally on the Web-cast registration screen, you may download and print the presentation and download the financial market report. Also, you can send your questions to us by Internet, clicking on the icon question to host at any time during this event.

Before proceeding let me mention that forward-looking statements are being made under the safe harbor act -- Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Petrobras management and on information currently available to the Company. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affected future results of Petrobras and could cause results to differ materially from those expressed in such forward-looking statements.

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 issues related to US GAAP results. The conference call will be conducted by our CFO and Investor Relations Director, Almir Guilherme Barbassa. 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.

Almir Barbassa

Good morning, ladies and gentlemen. It's a pleasure to be here with you and have the opportunity to talk about Petrobras Third Quarter 2005 results. Starting with E&P oil prices, we can see spreads between average sales are up -- average sales price for Petrobras crude oil and Brent declined quarter-to-quarter as demand for low sulfur heavy oil increased.

Next -- the US Gulf refining margins have grown strongly due to demand. Strong demand for medium and light oil products, increases margin for all refiners. Specially for refiners -- with have oil processing capacity. Environmental specification in the USA and Europe, low inventories. And limited refining and conversion capacity strengthened refining margins.

The domestic oil and NGL production increased 13.3% as compared with Third Quarter '04, due to the startup of P-43 and P-48 platforms. Compared with the Second Quarter of '05, production remained at the same level due to the scheduled stoppage of -- in some platforms, especially P-18 and P-20, natural gas compression adjustment in P-48 unit. And a drought in the Amazon River, which limited production in Urucu field. Next.

Imports of diesel and light crude oil was increased during the Third Quarter '05 to adjust offer to the seasonal demand in Brazil. Increasing gasoline exports due to high demand in the US helped, increasing the volume of oil products exports. And decrease in oil export due to the logistic difficulties caused by Gulf of Mexico hurricane has reduced the volume of crude oil export in the quarter. Next please.

Thanks to investments in conversion, Petrobras presented a remarkable 91% domestic refining utilization during the Third Quarter '05, maintaining flat the domestic oil as a % of throughput during the period. The higher refining utilization factor reduced the need for more expensive imports of oil products.

The average realization price in Brazil continued to follow medium and long-term in international price. Trends increasing 9% quarter-to-quarter and 51.6% year-to-year. Next, please.

The most remarkable figure here is the 12% increase on exports year-to-year. During the Third Quarter '05, it was reduced to -- due to the logistic difficulties caused by the hurricanes in Gulf of Mexico. Next, please.

The growth of net revenue to net income are in line with the increase quarter-to-quarter of 9% on price and 3% on total sales. Next, please.

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Changes in net profits -- as opposed to what happened in the Second Quarter of '05, no provisioning of interest on capital in the Third Quarter '05 occurred. And consequently, no tax benefit were recorded. This explain the special increase in tax during the Third Quarter '05. Without this provisioning, net profit would have increased by approximately 34% rather than the 14% actual. Next please.

The main change in the operating profit of E&P quarter-to-quarter was caused by the increase in sales price and costs. Next, please.

The lifting costs increased 19.5% quarter-to-quarter for Petrobras due to the general costs increase for the oil industry, foreign exchange rate effect and adjustments relating to previous periods. Next please.

Quarterly, the result effect by inventories realization at high prices, increase in oil and oil products, imports and the high cost of purchase of oil and oil products. These where the cause of changes in the operating profit of the downstream segment. Next please.

Domestic refining crudes decreased due to the 12% increase in feedstock processed, lower consumption of catalysts and chemical products. Next please.

The contribution of the business segment to the operating profit of Third Quarter '05 versus Second Quarter '05 -- we have here 11% growth in operating profit, mainly due to the higher international price of our exports, increases in volumes of oil export or oil products sold domestically and higher average realization of prices during the period. Eliminations reflect the oil price escalation in the downstream purchases, especially since Second Quarter '05, counterbalanced by inventory realization.

Here we can see the cash breakdown. In the Third Quarter '05 the extra cash balanced Company -- added to its previous cash was invested in assets linked to -- mainly assets linked to the dollar variation. And due to the -- we have most of the cash balance linked to the index -- indexed to the dollar. And this is responsible for the financial expense that is shown in the last two quarters.

In the next slide, we can see the other side of this -- cost, that is the revenue that comes from our larger -- that most -- the largest part of our debt is a dollar debt. So we have reduced from March to September '05 by about 10 billion reais, our total debt. And this is the other side of -- because we are hedged. We use part of our cash balance to hedge the part of our total debt. And having this total debt reduced to 47 billion reais and the net debt to 26 billion reais brought our leverage to 26% at the end of September of '05. There were some reduction or prepayment of debt during the period, what has contributed to the reduction of the net debt as well. Next please.

In the cash flow -- consolidated cash flow statement, we have here an increase of about 12 billion reais in the net net cash from operating activities. And this is reflected in an amount of about 10 billion reais in the net cash generated in the period. So most of the cash from operating was transferred to the net cash generated in the period, what brought our

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balance to 21 billion reais of cash at the end of the period. That's all. Thank you. If you have any questions, we will be ready to answer it.

Questions And Answers

Operator

(Operator Instructions) Frank McGann, Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

Good day. Just two questions. One is just in terms of the production profile over the next 4 to six months -- I was wondering if you could comment on the increases you're expecting in the Fourth Quarter from a number of sources. And the timing for startup for the P-50 and P-34 that you're currently looking at. And then secondly, if you could just comment when you'll make a decision on interest on capital for the Fourth Quarter.

A - Almir Barbassa

Frank, the second question please? Would you repeat?

Q - Frank McGann {BIO 1499014 <GO>}

Yes. For interest on capital, I was wondering when you would be making a decision as to, if you will have interest on capital in the Fourth Quarter and how much it would be. I'm just -- the timing of when you would make that decision.

A - Raul De Campos {BIO 17251399 <GO>}

Hold on a second, Frank.

A - Almir Barbassa

Ok, Frank. Regarding P-50, shall be on-stream by December. Probably until middle of December, shall be on-stream. And P-34, as scheduled, beginning of next year. Regarding interest on capital, we have no decision so far of how much and if we're going to declare more than we have done in June.

Q - Frank McGann {BIO 1499014 <GO>}

Just going back to the production, my understanding is that some of the platforms that have not been producing at full capacity over the last 3 or four months will be moving up their production over the next three months or so. So that the Fourth Quarter production will be somewhat higher than the third. I was wondering if you could comment on how much you think will be added from those units.

A - Almir Barbassa

We have a target to produce 1.7 million barrels average during 2005. Currently, we're producing more than that. We are in the range of 1.75. We expect to reach the average,

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considering that the average of the first nine months were 1.67, we shall improve or increase the total production from now until the end of the year. Adding the capacity of the platform that you mentioned. And reaching -- and including the P-50 that shall start producing before the end of the year.

Q - Frank McGann {BIO 1499014 <GO>}

Thank you.

Operator

(Operator Instructions) Marc McCarthy, Bear Stearns.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Good morning. I have two questions, I tried to do them on the Web-cast. So ignore them. One is related to -- Almir, if you could give us a sense of on the cash flow statement there are two significant items. One references -- let me see here -- supplier variation. And the other one is, other adjustments. These combined represent about half of the free cash flow from the Third Quarter and the nine months. I was hoping you could kind of give us a better sense of what these reference. And then, how you envision the net debt level sort of ending the year, given the fact that your cash flow should be the same or a little bit stronger into the Fourth Quarter. CapEx may have a seasonal uptick. But clearly the deleveraging can continue. And hoping to understand sort of if these other variations and other adjustments may have a huge reversal. That's the first question. The second question relates to more of a housekeeping item. On your royalties table, -- let's see here, what page is it on -- you referenced a domestic oil price of something like \$46, as opposed to the 54 that was reported for all of Brazilian oil. I was hoping to understand what oil price that represents.

A - Almir Barbassa

Ok Marc, let me check with accounting regarding this last question. Regarding the net debt level, we're projecting to reduce it as the cash shall eases, up to the end of the year. So we deleveraging the Company at this point. On a point that we shall be studying of how we will be keeping the leverage at the right level. Because our target is between 25 and 35%. And we're reaching the lower point. The other -- regarding the other questions please, wait a moment.

A - Raul De Campos {BIO 17251399 <GO>}

Marc. Okay, let's begin -- let me began on the last part of your question. The 4698, which is mentioned on page 36, as you can see there, it's clearly stated. It talks of the government stake. Right? That's government participation. That's the A&P referenced price. So that's the price that is used to calculate government participation.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Why would that be different than the price that you're reporting?

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A - Raul De Campos {BIO 17251399 <GO>}

Because the price we report includes -- it's not necessarily the work --transfer price. And it's not necessarily the export price. It's clearly stated on page 26, that is the price which is the referenced price for domestic oil and government take. It's not necessarily the price at which we sell the oil.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Okay.

A - Almir Barbassa

Marc, regarding the suppliers variation and orders, I believe it would be better to follow -- to send you the answer later on, after doing our research here.

Q - Marc Mccarthy {BIO 1542384 <GO>}

That's fine. Thanks, guys.

Operator

Pedro Batista, Pactual

Q - Pedro Batista {BIO 1832281 <GO>}

I have two questions here. The first one, I'm a little bit confused regarding the P-50. I'd like to get a clearer view on when I should expect begin of the production. And it's January or February? And when should this platform reach it's peak of production. The second question regards CapEx levels. So far you have invested 17 billion reais this year. If I'm not wrong, the Company was indicating something around 28, 29 billion reais for the year of 2005. I would like to know if you're going to be revising your 2005 figures, based on what have you guys seen so far. Thanks.

A - Almir Barbassa

Okay, Pedro. The P-50 shall be on-stream on the middle of December this year. And we will reach the peak production by August next year. It will take longer than P-43, P-48 platforms that were installed at the end of -- and beginning of this year -- end last year and beginning of this year. And regarding the investments figure, yes. We have 27, 28 billion reais projected as the investment of the year. And we reach -- so far, we reached so far 17 billion. Historically, the Fourth Quarter of the year is the highest among the other quarters. So we expect in the Fourth Quarter we will be investing more than average of previous ones. But we have to consider as well the foreign exchange rate effect on our budget. When we did project 27, 28 billion reais, we used the exchange rate of 2.7 reais per dollar. And now, we are in 2.2. So when you are see in dollar terms, probably we are much close -- closer to the target than in reais. Okay? But we don't expect to reach the 28 billion reais investment in the year. We shall be a little under this figure -- 10, 15%.

Q - Pedro Batista {BIO 1832281 <GO>}

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Okay, thank you.

Operator

(Operator Instructions)Ladies and gentlemen. there are no further questions at this time. Mr. Barbassa, please proceed with your closing remarks.

A - Almir Barbassa

Okay. Thank you, all for being here. I hope that next quarter we can have as good results that we have now. And hoping to reach good year results of the Company, we remain here. Thanks very much. Bye.

Operator

Thank you. Ladies and gentlemen. your host is making today's conference available for replay starting one hour from now. You may access the IR Web site or this replay by dialing 973-341-3080, lasting through November 21st. That number again is 973-341-3080. At the voice prompt, enter the access code 67-00-765. This conclude Petrobras' conference call for today. Thank you, very much for your participation. You may now disconnect.

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