FY 2015 Earnings Call

Company Participants

- Almir Barbassa, CFO & IRO
- Jose Gabrielli, CEO
- Theodore Helms, Director

Other Participants

- Christian Audi, Analyst
- Fernando Vale, Analyst
- Gustavo Gattass, Analyst
- Igor Norezeti, Analyst
- Subhojit Daripa, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Petrobras Conference Call to present the 2011-15 Business Plan. 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) As a reminder this conference is being recorded.

Today we will with us, Mr. Jose Sergio Gabrielli, Petrobras CEO; Mr. Almir Guilherme Barbassa, Petrobras CFO and Investors Relations Officer and his staff. At this time, I would like to turn the conference over to Mr. Theodore Helms, Investors 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 present the 2011 to '15 Business Plan. We have a simultaneous webcast on the Internet that could be accessed at the site www.petrobras.com.br/ri/english.

Before proceeding, I'd like to draw your attention to 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 on information currently available to the Company.

The conference call will be conducted by our CEO, Mr. Jose Sergio Gabrielli and our CFO, Mr. Almir Guilherme Barbassa. Mr. Gabrielli, please begin.

Jose Gabrielli

Good morning. Well I would begin with slide number 3, please. Well we show that taking into consideration the last five years, the discoveries in the last five years, worldwide discoveries, the discoveries in the deep waters of Brazil were then one-third of (technical difficulty) the Company to add new production for deep waters [ph]. Then it's going to be the most important, responsible for the new barrels that are going to be added to production from now on from discoveries, because the other new barrels would come from improving recovery factors in the current discoveries.

With these, I would highlight that we are going to be very important in the addition of production that would come about to the market in the next five years. And our main challenge is that we are going to double our fluid reserves by 2020, keeping discovery cost around $2 per barrel of oil equivalent. This means that we -- notwithstanding the fact that we are going to be in deeper waters. But with challenges in technologies we are going to keep the discoveries at the current cost.

Next, please. Not only we are going to be very important in the supply of new oil. But Brazil also is a very important consumer of oil. Our average growth rate of consumption of oil products is above the international -- the worldwide average. It's above the OECD average; it's above the US growth rate. And below China and India. But we are projecting from now to 2015, a very steep rate of growth of our consumption of oil products in Brazil. We are projecting two different scenarios between 4.5% a year and 5.3% a year growth in the consumption of oil products, ethanol and biodiesel, which means that we are taking into consideration the complete cycle of -- also cycle engines and diesel engines in the Brazilian markets.

This means that we are going to be beyond 4 million barrels of oil equivalent of consumption by 2020 and more than 3 million barrels of consumption per day of oil products by 2015.

Next, please. In order to fulfill the development of the new discovery and to meet the demand of our international and our domestic market, we have an investment plan of $224 billion -- page 29 -- $224.7 billion from 2011 to 2015. If we compare with the $224 billion of the '10-'14, we have as an average global numbers that are very similar. However, we have important change in the structure of this business plan.

First, I would like to highlight that we increase our investment in exploration and production. We increased from 53% of our total CapEx to 57% the investment in upstream. And not only we increased our investment in upstream. But we especially increased the investment in the pre-salt area that we have discovered. The new discoveries are increasing, receiving bigger numbers of investment comparing to the previous plan.

We are allocating $22.8 billion in exploration, which means that we are going to continue our prospective for growth from organic growth coming from the discoveries that we are very successful into, which reduce our investment in refining, transportation and commercialization. The supply business of the Company is reducing investment from 33% -- 31%. We also adjust some investment in the gas and energy, reducing from 8% to 6% in the total investment.

If you take into consideration the reales's effect, which -- if you take into consideration the reales, the value of most investments in reales, in Brazilian currency, the same $224 billion and both plans they have a very big difference in reales. Because the first plan, 2010 to 2014, was BRL419.7 billion and now we have an investment of BRL388.9 billion, because the real was appreciated in this few years giving a difference in dollar of $8.6 billion comparing the two plans.

We also excluded from the previous plan $10.8 billion of project that were all completed either -- they are postponed because they lost priority in the ranking among the different projects. We maintained in this portfolio of 2010 to '14, $213.2 billion. The breakdown in domestic currency and international currency for the disbursement was 63% in domestic currency and 37% in foreign currency in the first plan.

In the second plan, given the fact that we have appreciation of the real, the part in the foreign currency increased from 37% to 40%, reducing slightly the disbursement in reales from $141 billion to $134 billion -- billion reales -- billion dollars equivalent in reales. We maintain from the project that were in the 2010 and 2014 period -- in the period 2011 to 2015, we maintain $192.6 billion in the project. And we added $32.1 billion of the new project.

As you can see, change in schedule, business model and the scope, have a moment of around $30 billion in the changed different plan.

Next, please. Some of the important change; we increased the assignment of E&P downstream investment, adding $8.7 billion for the upstream business. We include for the first time the choice of rights that we acquired from Brazilian environment last year. We are including here $12.4 billion for the inclusion of the total of rights investment. We have new pre-salt units in Lubak [ph]. We have new -- or creating infrastructure for increasing capacity to profit the pre-salt areas. We have new discoveries and research and development.

We excluded and revised and postponed projects. Some of them because we have a successful exploratory results. And we have contingent wells to drill and contingent investment to do. And as we had not good result in the first information, we are canceling or discontinuing part of those projects.

We also have a revision of some production and development projects that are not as -- that are not that productive as other projects that are in the portfolio.

In the supply segment, including petrochemicals, we have reductions in $4.3 billion. We add new unit for lubricants (inaudible). We add new projects for logistics of oil. And we also canceled industry projects, because we have already made the best investment in the petrochemical. And we have very clear reduction in the investment, in quality, because most of the projects are maturing and coming on final stage during this period.

As we are going to show later on, we have a reduction investment because we are going to put in operation 26 new units of hydro treatment and increasing quality, reducing sulfur emissions -- sulfur content in our diesel and gasoline. We also have a postponement of the beginning of production of premiums at one with refinery, because we evaluated that we cannot begin production before 2016.

In Gas & Energy, we have also a reduction of 4.6. The most important thing is the postponement of projects of the Floating LNG projects that we are -- was postponed outside of the range of 2016 plan, because we think that we can transport the gas pipeline using the gas pipelines that are already projected for the Sergipe [ph] Basin. And we can also recover part of anything that can come from the pipeline transportation of gas to the converged project in Rio de Janeiro.

We also have reduced some of the gas fired thermo-electric plant. We take out the postponement -- we excluded the thermo-electric plant from the 2010 auction that we didn't get. And also we have excluded some pipelines and compression units in the network of pipelines that we have.

Next, one. We have also a very much mature development of the project right now in this plant. As you can see here, we have 34% of the project, 275 projects in the plan, were approved before 2009. In 2010 we approved 23% of that, which means that more than 50% -- 57% of the projects were approved before the beginning of the plan.

2011, we plan to approve 18% of the portfolio. In 2012, 15%, in such a way that in 2013 and 2014, we are going to approve in the current version of the portfolio a 10% of the projects that are in the plan, which means that we have a very much mature, much more elaborate plan right now.

Next one, please. This slide is trying to focus the idea that, as we move on to increase the investments in upstream, we are not reducing the idea that integration is good for the Company. We believe, as you can see in the graph of last 10 years, that comparing the oil companies worldwide, the integrated companies are better than the pure upstream companies or the downstream companies.

As you can see, all the integrated have a higher return on cost of employees, much higher or a long cycle compared to the up-streamers and the refiners -- pure up-streamers and pure refiners, which means that we believe that it is greatly important and we are going to continue to invest in downstream and in gas and energy.

In order to analyze the funding needs, I would ask our CFO Director, Almir Barbassa, to talk to you. Thank you.

Almir Barbassa

Okay. Good afternoon. Looking at this plan we took in the range of price projections, we can read from the market, from different providers, of future price for oil -- that is in the light blue area. We took the dark blue area as our range for price projections for financial purpose only. So we are working between $8 and $95 from range '12 on. And for this year, we have worked with the average of 110.

Then next, please. We used the many variables to calculate our cash flow and see what would be the resource that the Company could provide for financing these business plan. But there are two great assumptions I would like to call your attention that we took to elaborate this plan, that is the no new capitalization. So we are not looking for the possibility of having new capitalization in the future.

We are increasing and growing the Company, investing heavily. But the projects in 3, 4, five years, they come on-stream and start producing cash flow. So we'll be receiving these proceeds and then we will be able to pay for all the investments of the Company with the cash flow. Means we anticipate that by the late of 2020 we will be able to produce the cash flow internally we need for further development.

And there is the investment -- there is maintenance. This is another basic assumption we are going to keep in the Company and is involved in the projection of these plans. So to build our cash flow, we took all these variables that are listed here. For the price point exchange, we worked with 1.7, 3.2 scenarios of $8 and $95. The Brazilian market growth -- we are expecting a very high growth for the Brazilian market. That is the most important market for us where we add more value and have larger margins.

The international policy of price -- this is the pricing policy we are ready to fit. Oil production or export and the -- oil products, export and the import, this is according to the need of our refineries and the market is requiring. The investment that is here.

And we introduced the divestment and business restructuring of new process for the plan, where we are anticipating we are going to do full revision of our portfolio as usual in the market and disposing off the units we don't see much value for the Company. But there might be value for the market.

And using more productively the capital, the working capital of the Company, looking for opportunities to reduce our working capital by substituting direct capital by guarantees and so on. And the balance will be supplied by funds raised through debt issuance.

Next, please. Then here we have a balance of how we are going to manage to finance this plan. A total demand of about 255, 256 billion, depends on the scenario, that is additional of 224.7 plus debt amortization that is going to mature in the period of the next five years. And the sources are either $125 billion or $148.9 billion. Depending on the scenario, we are taking prices that shall be complemented by cash raised on debt issuance, that is between $67 billion and $91 billion, taking into consideration that we have about $31 billion of amortization. The new money in the days [ph] of $80 a barrel will be about $60 billion for a five year's term. We see the result feasible.

And we are going to use about $26 billion that we have available in cash today. And in the course of the period, we shall use it. And another $13.6 billion that shall be produced by the divestment and the restructuring, as I said.

Next, please. Going to the exploration and production, the segment of E&Ps is assigned about 57% of this business, $127.5 billion. And we are aiming -- the strategy is to keep increasing our production and our gas and oil reserves. And to do that, we are addressing 55% [ph] of our CapEx to develop -- to development of our opportunities.

For the next five years, we are building and installing 19 very large production projects that will add 2.3 million barrels per day of new capacity. And in that period we are going to build more than 1,000 new wells in exploration, about 40%. And production, 60%. What that means, a very large number of new wells to add capacity and to add new reserves, as exploration and exploratory expenditure is going to deduct.

And we expect that what we have in here, the pre-salt. The pre-salt is the most productive. And the larger fields we have to be developed. And they are expected to produce about 40% -- 40.5% of the total oil and gas produced in Brazil by 2020. But it's not only that. The E&P is working in many opportunities -- we are going to detail later on -- in opportunities to increase productivity and to make -- to produce larger margins for the Company by using new technologies -- basins like that we'll specify in greater depth. This is going to be an important source of value to the Company provided by E&P.

The next slide shows the total investment in Brazil. In Brazil it's about 53% of the total investment of the Company, that is $117.7 billion. The larger stake here goes to post-salt. But look at the right picture -- right hand side picture in the lower part of the slide, we have -- the larger portion of development investments will go to pre-Salt. That is the most productive area of the Company, as I said.

But we keep doing explorations and we are going to dedicate about $4 billion per year in explorations, keep increasing the opportunities for growth of the Company in the future. And we added to this plan the transferring of rights, where we added $12.4 billion on the total. So we are increasing the pre-salt investments from the previous plan that was $33 billion to $53 billion in this one. And this is going to help increasing the production of the Company as projected.

The next one shows our projections of production, close to 4 million barrels per day in 2015. That will be reached in Brazil through the addition of 19 larger production systems. And that as I said, adds a capacity 2.3 million barrels per day of new production capacity. This will increase the total production from what we expected this year 2,772,000 barrels per day to 3,993,000 in 2015.

Then for the period of '16 to '20, we have another 35 new systems [ph]. And that will lead the Company to produce the 6.4 million barrels per day in 2020, being the larger portion of this growth coming from the pre-salt and from the transferring of rights that added here 845,000 barrels per day on 2020.

Next, please. Then we show the experience and the history of Petrobras in this slide. Looking back to 1980 to 2010, we have an average increase over this 30 year of 10%. And of course we did not have the same 10% increase rate every year. But we have this average. And what happened to get this average was the coming on-stream of new large fields, mainly in the Campos Basin in this case, as we are showing here. And now we are just entering in the new horizon where we have the pre-salt as the production booster of the Company for the near future. Next decade will be largely influenced by the production of the pre-salt, that is the more productive wells we are having at this moment.

Next, please. We have then for 2015 a very feasible target, because we are basing our projection in real situation, where we see we have under construction or in bidding process for very platform that are forecasted here. What did each block, each one -- and we have 19, as I said, to be installed up to 2015? And we are not adding to the 2.3 million barrels per day of new capacity. The extended well tests, that is shown in the bottom area of the graph, there is about four in average per year. And each one will produce about 12,000-15,000 barrels per day. That is limited by the gas player [ph]. We are allowed to --.

So next one. We are giving you now a new information, is the capacity and the history of the empire we have during the 6, seven years. And this depends a lot on the availability of drilling rigs. As you can see below the graph, the slide, we are adding new rigs in the last years. We increased from 2008 to 2010 from 3 to 15 the number of rigs that are able to drill in waters deeper than 2000 meters. And we are going to add only this year another 10 and another 13 next year. So the number of rig growth brings the opportunity for Petrobras to reach the total production for each platform in a shorter period of time, adding productivity to the Company.

And next, please. We can see the benefits we are obtaining by getting more information from the pre-salt. And what we did in 2006 and 2007, if we think 100% the time we spent to drill one of the five wells we drilled at that time as average, then we build in 2010 with 66%. So there is a sizeable reduction in time. And of course, there is a reduction in costs.

And the results we obtained from the extended well tests, they are indicating very good performance of the reservoir. Constant production with the production we are producing in the extended well test. But it has a restriction for gas flaring, as I said. But there is a good behavior of the reservoir. There is no lateral communication. What it means the reservoir is expect to produce very well.

And the number of extended well test will be kept. And some years, even increased. What will be adding more and more information. So we expect to improve in terms of cost of CapEx and performance of these reservoir increasing their productivity of the wells.

The next shows the benefit. We brought from this better knowledge we are acquiring. What we were expecting to stand 100 in 2008, we can see to date it's able to be done with 55%. This leads to an increase in the NPV of the assets. What would produce 100% then, in 2008, now is able to produce a 152%. And this is gain we are adding to our project with better knowledge of the area.

In the next slide we show you the return expected in the E&P projects. As you can see, we work with three curves [ph]. But the need -- the one is one we are taking as the expected scenario. So what shows that, up $8 a barrel, that is the most of conservative price we are working, is expected to get returns near 25%. And this reflects $95 per barrel.

We'll leave you to conclude close to 30% of return on the projects of E&P. And these can even be better if we take in the future the consideration of the gains we are adding, what productivity and better knowledge.

But the next one shows how the E&P net income correlates with oil price. There is a very good correlation. And that shows -- the right side of the graph shows how we compare with other peers. And one reason we feel to have this better return when our peers -- is our portfolio. We produce much more oil. In average, we produce 86% of oil, only 14% of gas. This is an important reason. And our projects are mainly very large fuels we are developing.

And the next one shows another source of value we are looking at in the E&P area is the project Varredura. Is what we can say? Is looking in more detail in the area of production. Sometime maybe in Campos basin, as shows the graph. We have already discovered more than 2.2 billion barrels in reservoir that is not far from the locations where we have platforms in production with idle capacity. So we can increase the production in there or at least maintain the production. With these new wells we will be connecting and using the subsea pumping units that has been kept -- is rather working, that is shown in the next slide.

We can connect these new wells even if they are 20 or 30 kilometers far from the production unit. And we can increase or maintain the production level of that unit that has been deployed and has this ideal capacity. And here we show many, many different subsea pumping, gas and liquid subsea separation; oil, water, subsea separation; raw water injection.

They are either all tested or read [ph] and is working, like in the case of the two first one -- the two first ones. And the other one shall be in prototype test before the end of this year. There is only the last one that is expected for 2015, that is the subsea electrical transmission distribution. This is going to add a lot of value to the portfolio of Petrobras.

Next one, please. We have here the projection of units, strategic units and the equipments that we depend to increase our production. And we are working sophistication. We are looking for 2020 where we can order now and give the producer time for planning and increasing their capacity. And there is a long time we need to produce what we need.

The next one. Business -- transfer of rights. We had four years to do the exploratory stage and then we negotiate --- renegotiate the price we pay. We are working to do that as soon as possible. We need to do seven exploratory wells in the course of this exploration stage; one contingent exploratory well, it may become eight wells; one extended well test -- we can order two if necessary -- and 3D seismic.

We have, for example, where we have about 60% of the volume. We are programming to start the well, the first well, this year; the second half of this year. The 3D seismic shall be concluded by the end of the year. So then will come the interpretation and the extended well test. So we expect before four years to be prepared for the negotiation of Franco. Then --

Operator

Pardon me, this is the operator. We have a got -- lost the speaker. We will be joining them momentarily. Please hang on the line. Thank you.

Almir Barbassa

It's okay?

Theodore Helms {BIO 15433381 <GO>}

It's okay.

Almir Barbassa

Sorry for the technical problem we had with the connection from Brazil. I don't know what had happened. But let's go on.

So we were speaking of the transfer of rights, where we expect to have the first production units come on-stream on the 2015 and we are programming to have four of them on production by the end of 2016. Then we'll see what will be the new technologies to be used for the production, the next production increase.

Then next, please. As we finish exploration stage, we go for field by field into negotiation of the new value to be made finally separate with the government. Then, to do that, we have to have technical report using the same international consulting, engineering that we were used in the first stage. Then the assumption of prices as taking -- and we have a formula to see what price -- what are the prices.

They are not the spot price. But the future price, 18 months ahead. And the production curve will be adjusted according to the new information collected during the exploratory stage. Then we are going to adjust for cost assumption and building the cash flow. We'll be discounting today moment of [ph] 2010 -- back to 2010 -- at 8.83%. So we'll have the new value. And depending on the final value, if it is higher, Petrobras paid the difference to the Brazilian government. And it can be paid in cash or if we decide we can adjust the volume to be produced accordingly. If the value is lower than we have set, then we have to receive from the federal government the difference.

Next, please. Looking at the development of the local industry, what are the benefits we are seeing? Having the suppliers in Brazil we may have more competitiveness, more awareness to supply the Company. So we see here a number of very big companies investing in capacity of production in Brazil. And we hope this capacity will help us. It will help developing our future project -- production platforms can be produced today in Brazil.

We have experience. They will succeed in producing with international prices or even better in the cost and schedule and time. And we have at this moment 14 into construction; 6 platforms and 8 holes [ph] at the source.

And we just finished the contract of seven rigs that are going to be built in Brazil. And they showed that the price were even better than international ones. Giving time for the construction, we expect to have the increase -- we need to increase the production as we are working.

Now, I pass to the CEO, Mr. Gabrielli.

Jose Gabrielli

Well in refining, transportation, commercialization -- in petrochemicals, we are bringing that $74.4 billion into petrochemicals.

Next, please. There are very important things that we should mention. I'm going to talk a little bit later on the Brazilian market, the importance of the Brazilian market for us. But on the downstream capacity, we are going to increase our capacity by 395,000 barrels per day between 2011 to 2016. And 1 million barrels a day between '16 and '20.

The completion of the process of modernization of our downstream segment is -- basically the last refinery that we did was 1980, from 1980, whenever we had the production of the 180,000 barrels a day and the refining capacity of 1.4 million barrels a day and a market of around 1 million barrels a day.

We did invest in new refinery. But we have to invest a lot in revamping the refineries and adding new units for heavy treatment and modernizing the processing. And we could improve our capacity of processing from 1.4 to 1.8, around 1.8 million barrels a day in our refineries.

And this cycle of investment is coming to an end. In the period 2011 to 2015, we are going to finish the cycles of modernization investment in our refineries.

We also -- we have a very important logistics challenge and challenge for commercialization, because we are going to move our production in a very high figures, as we saw in the presentation on our screen. We need to increase our capacity of exports and then the logistics for as far as -- and transportation of oil and other products in very large volumes that we're planning to increase. And also, we have our strategy for expansion of petrochemicals and biopolymers.

The next slide shows that we had 60% of the $7.6 billion for refining investments for new investments in refineries. We are expanding new refineries and this will take 50% of our investments in the supply segment. Fifty -- the other 50% are going to be used in servicing the local markets, which means to finish the modernization process, the conversion unit to improve the capacity to process the heavy oil and producing light distillates. And the hydro treatment that are necessary to reduce the sulfur content of our diesel and gasoline.

Also, we have a very important, as I mentioned, fleet expansion, that we need to increase the number of vessels and modernize our vessels. And we also have to improve our logistics in pipelines, especially that we can handle the bigger volumes that we are going to be producing in the next few years.

Next, please. I'm going to call your attention to the importance of the Brazilian market. Petrobras is a very large company in refining in Brazil. We have pretty much all of the 100% of refining capacity in the country. We provide most of the oil products to the hundreds of different distributors. In the market for retailing we have 33% of market share; 62% of the market share belongs to other companies.

The second one is a big international company associated with a Brazilian company. But the fact is that the Brazilian economy is growing too fast. And the growth of the Brazilian economy reflects in the very large increase in the demand of oil products. As you can see, we reached our capacity of production. And the result of that is increase of the trade deficit that we have, because we have a net import situation that increased from a 118,000 barrels a day in 2006 to 328,000 barrels a day in 2011.

This means that if we don't do anything in terms of increasing capacity of refining in Brazil, our situation in 2020 is going to move from the 5% total demand, net import as a total demand part, which means that the imports in relation to the sales in Brazil, were as far as now 5% [ph] of (inaudible) sales. But if you don't that, the investment in refining, this goes to 40% by 2020, which is not sustainable for a company to have a prevailing position as we have in the Brazilian market. This is a very clear idea to why we need to increase our investments in downstream and increasing the capacity for production of downstream in Brazil.

Next, please. As you can see, we have a very clear movement to continue with -- return please, yes. We have a very clear idea of what's happening right now. If you look at 2011, we have 2.1 million barrels a day of oil and natural gas liquids production in Brazil. We have a throughput capacity of 1.8 million barrels a day. And we have consumption in Brazil, around 2.2 million barrels a day in 2011.

We are going to increase our production from now to 2015, from 2.1 million barrels a day to 3.07 million barrels a day by 2015. Our refining capacity is going to be increased by the beginning of the distillation unit or the first -- the production of the Abreu e Lima Refinery in Pernambuco to 130,000 barrels a day. And Comperj, which is in Rio De Janeiro, 155,000 barrels a day. One in 2011, the other one in 2013.

With this additional capacity, we're going to increase our throughput capacity from 1.8 million barrels a day to 2.2 million barrels a day. However, the market is going to be even bigger, because we're going to be between 2.5 and 2.6 million barrels a day of consumption of oil products by 2015.

From '15 to '20 -- we planned in '16 to begin the Premium I first train in '17. The second -- the Premium II first train in '18. The second train in Rio de Janeiro, 165,000 barrels a day in '16 and in'17. And '19, the second train in Premium I.

This means that our throughput capacity is going to increase from 2.2 million barrels a day to 3.2 million barrels a day. But our production of volume also is going to be even bigger with 4.9 million barrels a day. And the consumption in Brazil is going to be beyond 3 million barrels a day, between 3 million and 3.3 million barrels a day of consumption of oil products in Brazil, which means that we are adding capacity mostly for providing oil products to the Brazilian market.

At the beginning, the two refineries, the premium refineries, were thought, were planned, were designed to meet the international markets. But now, given the size of the growth of the Brazilian market, we are dedicating those refineries to providing supply of oil products to Brazilian markets, to the domestic market.

We're going to skip to the next one. Yes. This is a very clear idea. If you take the south and the southeast regions in Brazil that are the most developed regions in Brazil, we can see that we have a pretty much balance between capacity of -- refining capacity and demand of oil, with a small surplus of 82,000 barrels a day.

Now, if you look at the regions that are outside of the south and southeast regions, which means the central west, the northeastern and north region, we have a scarcity. The demand is 763,000 barrels a day and the supply, the capacity, is 299,000. We have a deficit of 464,000 barrels a day outside of the south and southeastern part of Brazil, which means that we need to develop capacity mostly outside of the south and southeast of Brazil.

If you look at our projection for 2015, we are going to keep pretty much in the same situation in the south and southeast of Brazil, moving from a surplus of 82,000 barrels a day to a deficit of minus 23,000 barrels a day, given the beginning of production of the Comperj, the Rio de Janeiro refinery. But in the central west, northeastern and northern part of Brazil, we're going to still have a very big deficit in the relation between demand and capacity. Even though we are going to increase capacity from 299 to 555, the consumption is going to increase even more than that, because Brazilian economy -- Brazilian growth is bigger outside of the southeastern part -- south and southeastern part of Brazil.

Next please. If you look and compare the existing refineries with the new refineries, they are going to have a complete output mix, a completely different output mix. The middle distillates of today represent 43% of output that we have -- this in 2020. The light distillates at 36%. And other products, the heavy oil and heavy products at 21% in 2020.

The new refineries in 2020 they're going to have a completely different mix of products; 65% is going to be medium distillates, which means that we optimize and we are building new refineries that may need to produce diesel and jet fuel. But light distillates are going to be reduced, because we are increasing the capacity of medium distillates. And the heavy, the heaviness, the bottom of the barrel is going to be reduced from 21% to 15%. The output mix that we have in the new refineries is much more value-added -- value adding outputs than comparing with the old refineries, which means that we expect to have more returns on our investment, the new refineries comparing than the old refineries.

Next, please. But we are also in a very, very strong movement to reduce costs. So the design of the Premium I and Premium II refineries, we have a design competition process right now. And the design competition was trying to get the lowest final cost. And the UOP, which is a USA engineering company, was chosen. And it's a very, very big company with a very large experience in downstream projects.

And we hope that the new project is going to be more simplified, more standardized and more less custom made as we have before, which means that we are going to have -- the redundant systems are going to be the unnecessary redundant systems. We are now just going to have additional redundant systems. We are going to have more shelf type of products. We are going to have more standardized type of products than we have before.

And we also, as we are designing the new refineries, the modules, that are bigger than the old refineries, we hope that we have -- we can expect a very -- some reduction in costs as a result of economies of scale. And we are going to be very, very stringent into the technical specifications, especially that we're going to have pretty much standardized types of products in our refineries.

As you can see on the right hand side of the slide, if you move the scale and if you get a new refinery, we have reduced the costs, the downstream costs, per barrel produced.

Then next one. This slide shows that -- the big effort that we had to reduce the sulfur level of our diesel and the sulfur level of our gasoline. In the usual case we are reducing from now to -- from 2006 to 2020, 15% a year of total aggregated growth rate, which means that it's a very big effort to implement hydro treatments that are enabled to hydro de-sulfurize our products.

As you can see on the left hand side of the slide, we have a reduction, projected reduction of the investments in those new units because they are maturing, not because we are reducing investment in them. We are going to open new -- 26 new units in our refineries from now to 2015, which means that we are completing the cycle of modernization and the quality of our products in these next few years.

This slide tries to show from 2006 to now the relationship between the average price of oil products sold in Brazil and average price of oil products sold in the US, in US dollars. As you can see, we have a very -- the same pattern of both lines, however, we have a difference in each short run period. But sometimes we have the Brazilian market price above the international market and sometimes we have those prices below the international market. But on the average, in the long run, we keep a stable relationship, a stable link between the domestic price and the international price of oil products in such a way that, given the fact that Brazilian market is an open market, we cannot provide complete isolation of the Brazilian price to the international price.

Next, please. For the natural gas and energy and fertilizers, we have an investment plan of $13.2 billion.

Next, please. We have finished also a 5% investment. We've finished a cycle for construction of the networks of pipelines and the logistics for transportation of natural gas. We are now moving from those investments in infrastructure to deliver gas to a situation that we need to improve and to increase the flexibility of the use of the gas.

We are going to have -- the most important investment in this new cycle is the construction of capacity of production of urea, ammonia and methanol and other gas chemical products. We are moving more and more into investments to the chemical transformation of the natural gas.

Business trends, flexibility, in the sense that we can store the gas in the form of molecules -- transform the molecules both of ammonia and urea and all the fertilizers. And at the same time, improve the capacity to use the gas for the for the thermal power [ph] plants that are in intermittent demand, considering the Brazilian power generation situation.

The second thing that's very important that, as we finish these networks, the grid, the national grid of pipelines, we can offer and we can increase the delivery response. We can increase the (inaudible) to the distributors, the local distributor companies that are belonging to the states in Brazil. We have -- until very recently, we have participation, share participation in several of those distribution, local distributor's companies. But we are outside of Sao Paulo. We enter in Sao Paulo and now we have spread the distribution of the natural gas market, the biggest natural gas market in Brazil that is in the state Sao Paulo.

In relation to the LNG, we are operating two regasification systems. We are going to add another additional third regasification plant in the state of Bahia. And we are not -- we are postponing the decision on the floating LNG plant, because we thought that given the network of pipelines that we plan to build in the Santos basin, we can get better results using the pipeline in comparison to the floating LNG during this period of time of the (inaudible) plant.

Next one. These are only to show graphically what I have mentioned, that the investment in the cycle of construction of the pipeline is a yellow -- for the color close to yellow in the left-hand side of the graph. And now we are moving more towards the brownish colors in the right hand side the upper most northeastern part of the graph.

And the next one shows some of the numbers. We are going to be self-sufficient in ammonium production by 2015 after the completion of our three plants that we have in this plan. And we are going to reducing by half the demand of (inaudible) by 2016 -- by 2020 given that's the increase in our plants.

Next. Looking at the natural gas supply and demand, we have -- we are projecting a very important growth in the domestic market the natural gas supply -- natural gas supply. We are going to increase our supply form 65 million cubic meters per day to 102 million cubic meters per day by 2020.

The regasification terminals, we are going to increase our capacity, building a new regasification plant in Bahia. And increasing the capacity of processing natural gas in the Guanabara Bay in such a way that we are going to increase from the 21 million cubic meters per day to 41 million cubic meters per day of capacity of delivering gas, natural gas, liquid natural gas to the market.

And we are keeping the Bolivian [ph] supply, given the contracts that we have, 24 million cubic meters per day, a firm commitment. And 6 million cubic meters per day of flexible supply, in such a way that we think that our supply is going to increase from 106 million cubic meters per day now to 173 million cubic meters per day.

If you look at the total demand, we have 200 million cubic meters per day by 2020. But we are not considering these as any challenge, because the demand on -- on the projection of the demand on (inaudible) depends very much on the result of future options for power generation that would evolve in Brazil, evolve in 2014 in action in the next few years. And we -- it's not a heard demand.

In the second half, we are going also to have the projection of our supply, it's not heard completely -- it's not completely -- it's in the conservatives view because it reflects the knowledge that we have right now about injection of natural gas that we need in the pre-salt. If we can have less injection, we can have more supply to the markets. And this is the information that we are going to get in the next two, three years. Which means that in two, three years' period, we -- for sure, we have very clear confidence that the supply and demand of natural gas is balanced, is squared, because we can take into actions in the supply of natural gas, in the regasification -- construction of our fourth regasification plant, a terminal in Brazil and in the speed of the construction of capacity for power generation for thermoelectric plants.

Next. On biofuels, we have an investment of $4.1 billion -- $3.8 billion, 47% of that is going to be -- $1.9 billion is going to be in production of -- new production of ethanol. We are going to be increasing our market share from 5.3% now to 12% by 2015. This is production capability of biofuels and partners that we have in the business.

In the biodiesel, we are going to keep pretty much stable participation with a small decline of our market share from 28% to 26%. And we have a very big investment in the logistics of ethanol because through our company that -- we have 20% of the Company (inaudible [ph]. We have truly [ph] a big ethanol pipeline to reduce cost of transportation of that ethanol in Brazil and to the international markets.

Also, we are very optimistic about the research and development of third -- second generation of ethanol. And we plan to have in the period 2016 -- before 2016 an investment plan for production of second generation ethanol in industrial scale.

In the distribution, we have a $3.1 billion investment. It's going to be pretty much dedicated to operations and logistics. Storage and transportation is going to be very important. The transformation in the geographical locations of the market in Brazil, given the asymmetry of the growth rate of Brazilian GDP is improving. And it's requiring from -- it's demanding from us a new logistics in certain areas. And then we have to improve our capacity to deliver oil products to the Brazilian markets.

On the other hand, we are planning to increase our market share in the automotive and global markets from 38% to 40% from now to 2016.

Next, please. Our international investments we -- with the same relative size of our investments is $11 billion. We are keeping 5% of our investments to the international investments. We are operating in 27 different countries. 87% of the investment is going to be on upstream and the remaining 13% is distributed mostly in different areas, including very important investments in refining and in the distribution.

We have right now international investment optimization process of our portfolio and we hope that we are going to concentrate investment in areas that are giving better return for the Company.

Next please. Thanks. On human resources, we have right now 85,000 workers for the system, 61,000 workers for Petrobras and 24,300 workers for the companies that assist in Petrobras. We are planning to increase the size of the system in terms of employment from 85,000 to 103,000 by 2015. It means that we have around 14,000 new employees that we are going to hire.

We don't think that we are going to have big problems in hiring those new employees. But we have to take into consideration because we have a very competing process of placement. The last placement that we had in the offer, 2008. And we got 390,000 applicants. This means that we have a very big attraction for new employees. We don't think that we are going to have to face big problems to attract new employees.

However, we have very specific position that 51% of our employees have more -- less than 10 years in the Company and 46% have more than 20 years in the Company, which means that we have a transfer of knowledge, a transfer of values between the two generations that is going to be a very important thing. Training, transferring knowledge and keeping the old generation in the Company is going to be a big challenge in a very bullish type of market.

Next. Also we need to develop and improve the research and development and the technology and innovation. We have doubled our capacity for research and development because we doubled our centre for research and development. We multiplied by three the capacity of research and development in the Brazilian universities that are grouped into Emacs networks that combine more than 120 institutions in Brazil.

And also, we are seeing very clear movement for new research and development centers of suppliers moving to Brazil to develop research and development in Brazil because the future of offshore deep water production is mainly located in the Brazilian coast.

With this, I open the questions and a session. Thank you.

Questions And Answers

Operator

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

Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

A couple of follow-up questions. On the cost front, you explained that the important impact that the FX changes in the plan have had on the costs. When you look at the Brazilian real related costs, are you seeing something abnormally high this year or you're assuming some abnormally high increases in costs during this period of the plan from '11 to '15 or is this just normal inflation? Can you give us a little bit of color on the risk of higher than expected Brazilian real costs, please?

A - Almir Barbassa

Christian, our -- according to the methodology we built this plan, we work with fixed price. Every year we adjust on inflation of last year that has happened. We do not project any cost inflation for the remaining five years of the plan. We just take the prevailing prices. At the moment we are building the plan. And we work with the exchange rates we just announced when real on $0.73 to dollar.

Of course, based on the appreciation of the real and on the cost increase in Brazil, we had an increase. When you take the expenditure of Petrobras into dollars, to the portion we are expending in reales, becomes more dollar because of the exchange rate and because of the inflation rate we saw in Brazil during the year 2010. You see?

A - Jose Gabrielli

Yes. There is also a kind of carry over problem, because when you move from '10-'11 to '10-'14 -- to '11-'16, you take out '10, the year 2010. And add 2016. If you project that in 2010, we have a higher cost than 2009. This is going to put -- and you have more production in 2016. This is going to add more cost in the average of the period because of the translation of the period.

Q - Christian Audi {BIO 1825501 <GO>}

And is there any -- understood. Is there any -- how can you protect yourself, particularly in the domestic market, from these increasing costs, particularly as the supply chain is developing itself in the domestic content? It's forcing you to have to use this domestic content. As you negotiate these contracts, as you deal with these suppliers, how can you avoid ending up paying higher prices locally than internationally for some of these products or services? How do you go about to protect yourself in that way?

A - Jose Gabrielli

I would like to emphasize what Director Almir said. We take the -- at the beginning of the period, we take the cost as given and it is flat for the period. We are not introducing any inflationary costs during the period. Which means that really we have our estimations considering the cost as it is now. If it is low, it's low. If it's high, it's high.

When we had the plan in 2008, we had very high costs. In 2009, we had a lower cost. Now we have a cost that is pretty much in line with 2008. But in the future what's happening is that we are considering that our size of operation is increasing and our costs is going to increase as we increase our production. These operational costs, I'm not talking about investments.

Q - Christian Audi {BIO 1825501 <GO>}

Right.

A - Almir Barbassa

I'd like to add one point. What I'd like to add is that as costs increase over time, we adjust for cost increase to build the plants. And we take the new project of prices as well, of the volume. What happened in the exchange this year is that the average, the oil price we took for the previous plan that was about $80 a barrel is the same we are using here $80. So we did not move the price of the oil. We remain same level we were using. And we added the inflation cost for this 2010.

So that's why we have reflection on our cash flow. The main reason of the cash flow generation reduction was that. If we took, for example, the $95 per barrel that we are using as well in this plan, you can see that the cash flow generation is going to be of the same, $149 million to $155 million. But for such a size there is no difference, which you can see is very small.

Then you can -- the protection we have in this price, we are exposed to the markets. We cannot have production this kind of extended to over time. You can build here and there. But there is no capacity. There are no markets for such kind of production.

Q - Christian Audi {BIO 1825501 <GO>}

Understood. Okay. And the other question that I had is on the topic of returns. Is it realistic to think that in the period of '11 to '15, given that you can see the introduction of pre-salt, which is showing initially very high productivity as per the Lula project, is it feasible and realistic to think that you'll be able to maintain during this period of '11 through '15 the return of capital employed levels of 2010 of 11% to 15% -- sorry, 15% to 20% during this period of '11 to -- 2011 through 2015, which is a period that, as you explained in the Portuguese conference call, you have a lot of new capital being employed and therefore maybe the return might come down a bit? But it is realistic to think that it will stay in the range of 15% to 20% from during the period of this plan?

A - Almir Barbassa

Christian, we are having projects with very high returns. But it depends on the normal [ph] thing we are going to measure. If you take the periods, only the periods, when you are investing, following your CapEx [ph], a quarterly return cannot be maintained. But the Company value is not there. The Company value is for the life of the project. Then we are expecting to (inaudible) based on the assumptions of today.

A - Jose Gabrielli

And also I would like to call attention for the fact that some of the areas are new areas that require infrastructure to be developed. And as we have to invest in the infrastructure, for sure we are not going to invest on the infrastructure only for the fuel [ph] that's going to be begin production.

But as we know. And we need have in our portfolio, all the fuels in the area, we are building more capacity than the beginning of the fuels, which means that the next project are going to come on stream with more returns, because the infrastructure is already amortized by the first project. After that we're going to build new infrastructure in airports. We have to have new airports. We have to have new ports. We have to build new pipelines. We need to have more helicopters. We need to have more labs. And this is not going to be only for the first production. But for the size of the development that we have in our plans.

Q - Christian Audi {BIO 1825501 <GO>}

Understood. And the very last question, as you look at this plan you have generated very high productivity initially in the pre-salt and extended well tests in the Lula well. When you look at this plan and the upcoming pre-salt projects from 2011 to 2015, did your reading [ph] your assumptions raise the expected productivity per well to higher than 20,000-25,000 barrels per day or are you more conservative?

In other words, are you ready because of the very positive results you got at the extended well tests, did that result in you increasing for this plan, the productivity you expect from all the pre-salt projects? Or you haven't done that yet, you've decided to be more conservative for now?

A - Almir Barbassa

Okay, Christian. (inaudible) the Plant 5, the new Plant 5.

A - Jose Gabrielli

Which is page 23, slide 23.

A - Almir Barbassa

Yes. We increased the productivity per well from 15,000 to 20,000 barrels per day. Yes. There on page 23 you can see the results. We reduced the investment and increased the net present value.

Q - Christian Audi {BIO 1825501 <GO>}

But that's just -- that's for the whole -- only for the pre-salt projects or for all your projects, post and pre-salts? You're using that 20,000 just for pre-salt, right?

A - Almir Barbassa

Yes.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. All right, thank you very much.

Operator

Fernando Vale, Citi.

Our next question comes from Subhojit Daripa from Morgan Stanley.

Q - Subhojit Daripa {BIO 3639048 <GO>}

A couple of questions. First question comes putting into context BG's comments early in the morning. BG put out a very, very bullish comment on the pre-salt, saying, that in last 12 to 18 months, given the extended well test and the DSTs, have shown much better reservoir properties, better connectivity across the structure thereby increasing the potential size of it.

In fact, as I said, as you probably know, they've doubled the potential recoverable volume. And that has important implications in terms of the OpEx and CapEx per barrel. When I look into your CapEx and OpEx per barrel assumption, the $12 and $5 a barrel, my question is -- and I assume that these assumptions are not taking into account the potential improvement in the size estimate. My question is how aligned or how far off is your view to BG's and if you expect over time, as you have more certainty these potential, let's say, costs in OpEx for OpEx and the CapEx to gradually go down towards, let's say, BG's new estimates?

And the second question is related to the asset divestments, the $13.6 billion of asset divestment. I understand that you guys can't say much about it. But just wanted to understand if you were talking about asset sale per se or we're talking about kind of a sale lease back in order to, let's say, to improve the efficiency of the capital employed. And when could you expect more details coming out of this plan? Thanks.

A - Almir Barbassa

Well on BG, we are not going to comment. The other operators out there feel that they had to comment. But we have different views. Our view will not change. Their view is their own responsibility. We are not going nor to support them or to contest them. They have their own views. We have ours. And ours are public. And I'm not going to comment on BG.

On our divestment, our divestment program, we have three different areas of operations. We are not -- the first thing is restructuring of our cash management in such a way that we can free some parts of our cash balance in such a way that we can use this for our direct investment. This is pretty much a financial management of our portfolio of financial assets.

The second type of operation is the traditional farmhouse. We have upstream blocks in Brazil and outside of Brazil that we plan to develop a package for farming out a part of those blocks. And the third is a conditional sale of shares. We have companies that we belong to, as/or we have participation, that we can sell to other partners. We are not talking here of sale is that -- or a kind of project finance to minimize impact of our investments. We are talking really in terms of rights of properties.

Q - Subhojit Daripa {BIO 3639048 <GO>}

Okay, really thanks. If you allow me to kind of follow-up on the first question. When I look into the slide 23 and I see the improvement in terms of the declining in investment and the CapEx, are we talking about the CapEx per barrel or the CapEx in absolute terms? And the reason I'm asking that is because I wanted to understand if the originally a place -- recoverable factor that you're using back maybe in 2008 has been upgraded to a higher volume estimate thereby reducing the average CapEx per barrel? Or has -- it's actually both ways, the CapEx in absolute terms and the size of the recoverable volume which has been upgraded?

A - Jose Gabrielli

Well I would say that it's overall vision. The most important thing is that the subsea systems is a big part of the investment in the pre-salt portions. It is even bigger relatively to the other projects that we have offshore, which means that the drilling of wells from pre-salt wells the subsea systems, these generally are more important than in other areas. We have a very good improvement in productivity of these well in such a way that you couldn't reduce the plant number of wells that we must build.

As we reduce the number of wells to get the same production for the total capacity that we have installed in each production and floating units, we can reduce very dramatically the investment that we have planned. And this will reflect, not only in the overall total investments CapEx. But also in the CapEx per barrel produced.

A - Almir Barbassa

And also we have reduced the drilling time, as you can see in the presentation.

A - Jose Gabrielli

Yes.

A - Almir Barbassa

Actually, we have reduced 34% of the drilling time in the last few years.

Q - Subhojit Daripa {BIO 3639048 <GO>}

That’s very clear. Thanks. So it's actually the CapEx per barrel that's going down. Okay. Thanks.

Operator

(Operator Instructions [ph] Our next question comes from Fernando Vale from Citi.

Q - Fernando Vale {BIO 3303435 <GO>}

Sorry about the earlier call. My phone dropped. I wanted to ask on the plan. There was a lot of talk that the plant would come at a higher total investment value than it came. And that you went to your Board and they asked you to review. So I just want -- if you could give us a little bit more color as to what was reviewed and what areas were -- could have increased in your investments?

And my second question would be on the upstream and downstream CapEx. Is that for a 100% of the investments or on your equity share on it. And does it increase capitalized cost -- does include, excuse me?

A - Jose Gabrielli

The second part can you repeat it? I could not get the second question.

Q - Fernando Vale {BIO 3303435 <GO>}

Yes. The investment, the total investment, does it include capitalized cost. And does it include a 100% of the investments or only your equity share on each investment?

A - Jose Gabrielli

It depends on the project. Some projects we have 100% of our budget. Yes. All the projects that we are controlling, the shareholder, is 100% of the budget.

Q - Fernando Vale {BIO 3303435 <GO>}

Okay. And does it include capitalized cost?

A - Jose Gabrielli

Does it include --? Will you repeat it?

Q - Fernando Vale {BIO 3303435 <GO>}

Does it include capitalized cost?

A - Jose Gabrielli

Capitalized cost, I don't think so.

Q - Fernando Vale {BIO 3303435 <GO>}

Okay.

A - Jose Gabrielli

No, no, we are not capitalizing the financial cost. No. In our planning we have to introduce that because of the new accounting rules. But we didn't do it yet.

A - Almir Barbassa

It's not included in the business plan. (Technical difficulty) directly on the construction of the (inaudible). The capitalized cost are not in.

A - Jose Gabrielli

But on the first question, remember that we have the biggest investment plan in the world right now, even though it's $224 billion. It's $224 billion, which is really big. There is no other company in the world that I know that has a so big investment plan. And the Board and the Executive [ph] Board for three months worked with these plans.

We have 688 projects, more than $25 million. We have 3,000 projects, less than $25 million. We have a very clear opportunity because we have a very big reserve or base in the upstream business. We have a huge growth in the downstream market for the Company, where we have a dominant position. We have a dominant position in the natural gas plants. We are increasing our presence in one market that's growing very fast and substituting gasoline in the fuel, that is bio-fuels market.

Given those opportunities, the management of the Company, the Executive Board and the General Board of the Company worked for three months to try to analyze each project and get the best results. And the best result is the current project CapEx of $224.7 billion.

Q - Fernando Vale {BIO 3303435 <GO>}

Understood. Thank you very much.

Operator

Gustavo Gattass, BTG.

Q - Gustavo Gattass {BIO 1702868 <GO>}

You had a proper feel for the timing of the six years. I know that the business plan is five year business plan. And I know that you actually have a lot of cash on your balance sheet right now. Should we expect some action on the asset sale front during this year or is that, I don't know, a strategic posture? It's something that you're thinking about. But it could just play out over, I don't know, year three, year four or year five. What is the sense of urgency in doing something like this? That was my first question.

A - Almir Barbassa

Gustavo, we are going to start this year, the second half of this year you are going to see some of this project being done. And we hope, as far as we can see now, that in about two years we will be concluding these divestment program.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, perfect. The second question, I just wanted to get a bit of a feel. In the Brazilian press, particularly in the TV shows today, Gabrielli, there was a lot of, I would say, chatter about domestic fuel prices. And we've heard from the Company a lot of on and off comments, "so we need to do it now," and then prices fall. And "it's not necessary again." I just wanted to get a feel from the management, how is that balance of decision process right now? Is it something that the management thinks are necessary over the course of the next six months or is it something for further on down the line?

Operator

(Operator Instructions) Pardon me. I have reconnected the speakers to the call. Please continue with your presentation.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, guys, can you hear me okay?

A - Jose Gabrielli

Okay.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hello.

A - Jose Gabrielli

You have more question or should I answer?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes, I'm going to refrain from asking the previous question, because apparently it was dangerous enough to crash the call. Let me just ask you one quick question then. Could you give us an idea on the production guidance that you're giving? Is it possible to say how much is coming from the Varredura project? I'm assuming that that's -- that's an amount of oil that doesn't really get linked to any of the new production units. So I was just trying to quantify how much here I should account for coming from just reutilization of existing assets.

A - Jose Gabrielli

You mentioned production from the Varredura project?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes.

A - Jose Gabrielli

Well we don't just -- it depends on -- some of the projects [ph] are not introduction as yet.

A - Almir Barbassa

We are producing 133,000 barrels per day -- (technical difficulty) -- Varredura project.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Guys, I apologize. But I'm not sure if it's my phone but I can't hear anything that you're saying at the moment.

A - Almir Barbassa

Yes. What I said is that we are producing today 133,000 barrels per day from the Varredura project and we plan to build 67 exploratory wells in between [ph] 2011 and 2015.

A - Jose Gabrielli

Did you get?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes. But then when we look at the --

A - Jose Gabrielli

Again, we have a production right now of 133,000 barrels and we're going to drill 67 exploratory wells to the final -- the production that we can get.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. But when you give out the guidance is there a specific amount that is counted upon?

A - Jose Gabrielli

It will depend on this process [ph] results.

A - Almir Barbassa

And that we'll give information.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, I'll follow up with you guys because I'm not sure if it's my phone but I'm really not getting that much sound quality. Thank you, then.

Operator

Igor Norezeti [ph] from Banco Espirito Santo.

Q - Igor Norezeti

Hello guys. Good afternoon. I just like to clarify something regarding your assumptions in terms of CapEx. And you mentioned the $12 per barrel in terms of CapEx. I imagine that this includes the FPSO acquisition. I was wondering if you could provide us a breakdown of how much out of this value refers to the FPSO.

A - Almir Barbassa

Well between 60% to 70% is subsea systems.

Q - Igor Norezeti

60% to 70%?

A - Jose Gabrielli

Yes, 60% to 70% is subsea and between 40% and 30% is floating units.

Q - Igor Norezeti

40% and 30%, okay. Then could you provide some color in terms how you're treating gas maybe your assumptions for gas prices?

A - Jose Gabrielli

(Technical difficulty) The price of gas?

Q - Igor Norezeti

Yes.

A - Jose Gabrielli

The price of gas, well, we have several contracts. Right now we have some contracts that we connect the price of gas to the fuel oil, gas from Bolivia, for example is connected to three types of fuel oil at international price.

We have the LNG projects for regasification that depends -- is pretty much connected to NBP price and we have the domestic price that is pretty much a national policy that is we're giving right now discounts because we have competitiveness with other fuels that are used alternative to the natural gas.

Q - Igor Norezeti

But the gas that come from the -- especially from the pre-salt area, do you have any specific methodology to consider these prices or would follow the same policy you have right now?

A - Jose Gabrielli

Same policy (inaudible) but in terms of price is a different thing.

Q - Igor Norezeti

(inaudible) the final realization price?

A - Jose Gabrielli

Yes. That's the same price as the demand.

Q - Igor Norezeti

Okay then, thank you very much.

Operator

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

A - Jose Gabrielli

Thank you very much everybody. I hope that we clarified some of your doubts. And you keep some of them of others. And also we have some of them.

Operator

Ladies and gentlemen, our 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' conference call for today. Thank you very much for your participation. You may now disconnect.