Q2 2007 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO and IR Officer
- Jose Sergio Gabrielli, CEO
- Unidentified Speaker, Unknown

Other Participants

- Christian Audi, Analyst
- Frank McGann, Analyst
- Gilberto Garros, Analyst
- Gustavo Gattass, Analyst
- Mark McCarthy, Analyst
- Unidentified Participant, Analyst

Presentation

Unidentified Speaker

Ladies and gentlemen. thank you for standing by and welcome to the Petrobras presentation and conference call to discuss the 2020 strategic plan and business plan and the Second Quarter 2007 results. At this time at the conference call, all lines are in 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.

Additionally, on the webcast 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. Click on the icon "questions for host" any time during this event.

Before proceeding, let me mention that the forward-looking statements are being made under the Safe 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 the future events and therefore depend on circumstance that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operational factors could also affect the 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 U.S. GAAP results. The conference call will span [ph] the presentation. First, it will be conducted by CFO and Investor Relations Officer, Mr. Almir Barbassa. He will comment on Company's [ph] operating and financial highlights and the main events during the Second Quarter 2007. Following that, our CEO Mr. Gabrielli will comment upon 2020 strategic plan. Afterwards, we will be available for answers any questions you may have. Mr. Barbassa, may you begin, please.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Good morning, ladies and gentlemen. It's a pleasure to be here with you once more to discuss the Second Quarter results. To start with, we have here P-52 that shall be -- come on-stream by October this year, first oil, and will grow in production up to the 108,000 barrels of oil per day capacity. I'll give you one minute to read this disclaimer. And let's go for the results.

The production -- The domestic oil production was pretty much stable between first and Second Quarter of this year. We have some new -- some platforms recently installed, like P-34 and FPSO Capixaba and FPSO Rio de Janeiro, that had a production increase. But at the same time, we had some maintenance in a few platforms that kept the average production of the quarter -- the Second Quarter a little smaller than the first one.

But what's important here is that, in June, we had a higher production when compared with May, so it seems that we are in a good trend. The oil prices for E&P was very positive in the Second Quarter and this is going to be one of the reasons to explain the good results we have in the quarter.

The refining in Brazil performed very well. We kept -- The utilization of the capacity we have in Brazil we kept about the same level we've been using the domestic oil in the volume forecast in Brazil. What's important here is the sales volume. We have increased in this quarter very significantly when compared with the First Quarter, and we had a better quarter than last year, as well.

This was mainly due to the high season demand. We had a very big season crop in Brazil and lots of diesel were used. And the economy growth in Brazil is one of the [ph] responsible, because more fuels were demanded in the period. So this is going to be a reason why the downstream had a good performance in the quarter as well.

International price and other average realization price in Brazil grew in the Second Quarter for -- mainly caused by two factors. First off, the two years the international oil price was higher, so we have -- some of the oil products sold in the Brazilian market, they are attached to the international oil price. So the average realization price in Brazil grew because of that. And the second reason was the foreign exchange, the appreciation of real, as we sell in reais. We had more dollars but the same amount of real.

The income statement, we had -- Because of we sold more oil products in the Second Quarter, we had a higher net revenue, as well as cost of goods sold increased. But we had lower operational costs, which leads us to a higher EBITDA. The EBITDA growth was very strong. And all this led us to a very higher net income, by about 65% increase. This was caused by higher price, higher volume sold and lower operational costs. And in the First Quarter, we had exceptional costs, mainly due to the pension plan. And in the Second Quarter, we had also the benefit of interest on capital declared [ph], so we had an increase on net income because of that.

Billed [ph] operational expense, as I said, was lower, because of mainly two factors here. The exploratory costs that happened in the First Quarter did not happen in the same level as -- in the Second Quarter. And the pension plan, extra costs we had in the First Quarter did not happen again in the second. So this has helped reduce the operational costs.

The E&P operating profit had a sizeable increase, mainly due to the price, as we saw at the beginning. The price that E&P has received during the Second Quarter was much higher than the first one. There were very small effects on cost of goods sold, but they presented a sizeable increase on the revenue, even having slightly lower production.

The downstream, by taking into account the prices of international oil -- The international oil price, as I said, caused to increase the domestic oil price and then we have an increase on revenue because of that. And as they sold more volume of oil products, this has helped increase the total profit as well. And the cost of goods sold by volume and importing more expensive oil to be processed in Brazil costs more to the downstream. But they succeed to have a larger operating profit in the second half as well -- Second Quarter.

The balance between export and import was positive when you take the volume, but was not presented at best [ph] when taking into dollars. And this is due to the fact that the product we export has lower value per barrel than the product we import. Usually, we import light oil and we export heavy crude oil. And we export crude oil and import diesel, for example, as oil product. So the balance, barrel per barrel, is against us.

Finally, the net income was better because of price, because of volume sold. As we sold more, we had a higher cost of the goods sold, but the operational expense has -- was reduced. And that reduced -- increased our net income, reaching BRL6.8 billion in the quarter, which is about the same level of last year Second Quarter.

The leverage ratio of Petrobras is kept on a low level and was reduced by two percentage points compared with First Quarter, due to the fact that we have currency appreciation in Brazil and the foreign debt, in this case, was reduced when measured in local currency. But debt in this period -- You can see here we have a free cash flow as well. That has helped reduce the leverage of the Company by increasing the availability.

What's deserved to mention here is that, in this first half of the year, we used more than BRL12 billion to pay dividends and to pay debt. Part of the debt we paid was not matured yet. We anticipated payment. And this has caused a reduction in cash availability, when compared with the beginning of the year, by about BRL10b. But we spent more than that in paying dividends and financial debts.

Investment was very high in the first half of the year. We almost reached BRL20b. That means about -- more than $10 billion at today's foreign exchange rate in Brazil. And this $10b, 45% was to exploration and production, what means we are putting more money where we make more money. And a good portion of that was addressed to exploration.

In domestic lifting costs, we had a slightly increase when we measure it in dollars, but if we take the real cost there were a slight decrease. And so, because of increasing this cost in this Second Quarter was the real appreciation. And this, if we measure, results the government take. Having the government take included, we have an increase, but this is because we pay the government take according to the international oil price. As international oil price -- As you can see, the Brent price went from $57.8 to $68.8, $11 increase. This caused us to pay more government take.

And in the refining costs, we had the same case. We had a cost increase when measured in dollars, but, when expressed in reais, there were a decrease in cost. This can show you how these two costs; they are very important costs for the Company, the lifting cost and the refining cost; are behaving when measured in reais. And most of these costs are paid and (inaudible) in reais. And you have here the foreign exchange rate, as it falls, when translated into dollars, these costs that are constant in reais grows [ph] in dollars.

This is a comparison with other big oil companies that speaks for itself, does not need to explain. Petrobras performed very well when compared with the First Quarter of this year. The question and answer will be left for after presentation of Mr. Gabrielli. Could you please, Mr. Gabrielli?

Jose Sergio Gabrielli {BIO 5474235 <GO>}

Good morning. I'm going to try to give you highlights of the new strategic plan that we approved in our Board of Administration [ph] last Monday. And this strategic Board -- this strategic plan tries to define -- redefine our vision for 2020 and how we envision the Petrobras at that time and how we are planning to prepare the Company to face the new times in 2020.

First, we think that we are going to see several different features in 2020 that must be taken into consideration by our strategic plan. Questions related to environmental pressures, climate change, cleaner energies and bio-fuels, we think that are going to be much more important in the environment that we are going to behave -- in the environment that we are going to make business in 2020 than today. We must be prepared and we have to be active in the -- in dealing with those types of problems. Otherwise, we are going to face more problems than (inaudible) opportunities that we can have.

A second set of problems that are going to become more important for us are the questions of governance, transparence, different stakeholders affecting the Company, social responsibility, corporate social responsibility and issues that are not as important in the past but are going to become more and more important in the corporate world.

A third thing that we would like to highlight in our scenario for 2020 is that we are going to face a continuous process of growth, especially driven by the growth in China, India and Brazil. In the oil sector and the gas sector, growth of the China and India economies is going to affect in a way that they are going to become important importers of crude oil. However, given the current plan to build capacity for refining, they also are going to become net exporters of diesel and gasoline.

The third thing -- The fourth thing that we would like to highlight is that, even though we are going to face a much cleaner and renewable energy matrix [ph] by 2020, oil and natural gas would -- will continue to play a very important role in this energy matrix. We don't expect any decline in reserve production rates [ph] worldwide. We don't expect any decline in production of oil and gas. We don't expect a big decline in the energy matrix of the fossil fuel sources of energy. However, in the liquid distribution fuels, we expect a much larger share of bio-fuels. We are expecting around 25% of the current demand for liquids for transportation is going to be supplied by bio-fuels by 2020.

As we are going to move ahead and move more and more in non-conventional oil and more difficult areas for exploration, technologies are going to be more important in a strategic position. The ones that can commence boost [ph] technology with very cost-efficient technology would have a better competitive position in the future. And as only 30% of the current crude oil [ph] reserves in the world are under concession rules, 70% are in the hands of national oil companies or with limited access to those reserves. We continue to think that geopolitical problems are going to play very important roles in the oil and gas markets in 2020.

In this scenario that deals [ph] more complexity and requires from the companies more and more adjustment to more difficult conditions, we have a vision for Petrobras. We want to be -- We will be one of the five largest integrated energy companies in the world and the preferred choice among our stakeholders. There are some features that I would like to highlight in this vision for Petrobras.

First, we want to grow. We have -- We are in different rankings today between the 10 or the 15 companies in different rank. We want to move ahead. We want to move up -- scale up in the rankings to go to the fifth -- first group of companies. We are giving signs that we want to grow and we are going to grow, and we think that we are going to grow more than the others. Second, we want to grow and be the preferred choice, which means that we are going to be growing, but we want to be better, and we want to be perceived as a better company.

And third in this vision, we have the idea that we have different stakeholders. We have to be good and big for different stakeholders sometimes with different and contradictory objectives. This will require from us a balance sheet [ph] capacity that is going to be very hard to deal with, but this is the challenge that is -- we are putting to ourselves and, as you know, challenge is our energy.

The main characteristics [ph], the features that we want to link to those -- to this vision is we want to have a strong international presence. We are going to be more and more an international Company. We want to have all scale growth [ph] prominence in bio-fuels. We want to keep and continue to be known as -- for our operational excellence in management, technology and human resources. We want to be a very profitable Company. We want to keep the profitability as one target important for us. We want to be recognized as a benchmark in social and environmental responsibility and we are being committed to sustainable development.

In the vision that we are presenting, we are increasing the demands on ourselves, but we think that those challenges are going to be important to prepare Petrobras to face the realities of 2020. Our mission is to operate in a safe and profitable manner in Brazil and abroad, with social and environmental responsibility, providing products and services that meet clients' needs and that contribute to the development of Brazil and the countries in which we operate. We want to be good in what we are doing. We want to be the best that we can be in what we are doing.

We have some challenges -- special challenges. Capital discipline is one important thing. As I'm going to show you later on, we have a CapEx of $112 billion for the next five years, 2008 to 2012. With this vision and this mission, $112 billion is one of the largest CapEx in the world right now, more than some companies that are much bigger than Petrobras. We have put into [ph] ourselves some targets. We want to reduce 1% -- at least 1% of our investment costs. Even though we are considering in our calculations $112.4b, we want to reduce this each year and one -- in 1% as a result of efficiency, reducing delays, reducing costs. 1% is not nothing, but 1% is $1.1b.

We want to streamline our inventories. We want to have a better management of our inventories. We think that we can minimize inventories of products and inventories of the materials that we use in our process. We want to decrease operating and administrative costs and we want to manage our portfolio in a more efficient way. We think that we can do better in the CapEx of Petrobras and we are being prepared to do that.

We see that one of the main constraints for the growth of the Company is human resources. It's not only for Petrobras, but several different companies are facing problems in the human resources area. And we want to emphasize and bring to the strategic level the human resources question. And we want to be recognized as an international benchmark for personnel management in the energy segment, having our employees as our most valuable asset.

We have developed policies for retaining talent, to attract new talent and to move the capacity of the Company to manage big projects. In this plan, we have 454 big projects. We have thousands of projects in this plan. And we need personnel. We need people to manage those projects.

Social responsibility. We also want to be a world-class reference for social responsibility. We think that the corporate social responsibility is one feature that is very important today for the sustainability in the long run of any type of company in the world. We want to be recognized as a champion of social responsibility.

On climate change, we have programs that -- For sure, we produce oil and we produce natural gas. We cannot minimize the carbon content of natural gas and oil, but we can have more efficiencies in our process and in some of our products. And we want to reduce the total emissions that we can provide. Then, in the technology, we want to be the world-class contributor to technology that leads to the sustainable growth of the Company in the oil, natural gas, petrochemicals and bio-fuels industry.

Given those challenges, how is our strategy? Our strategy (inaudible) the three pillars that we have already announced; integrated growth, profitability, social and environmental responsibility. Different from the previous strategic plan, right now we are emphasizing our business interests rather than the institutional organization of the Company. Here, we are defining strategies for business, national and international, that are going to be led by different parts of the Company or the system Petrobras, but that put [ph] together in the same type of business.

In the upstream business, we want to grow our production and oil and gas reserves sustainably, being recognized for excellence in CNC [ph] operations in Brazil and outside of Brazil. In the downstream and distribution and retailing, we want to expand integrated operations in refining commercialization, logistics within [ph] distribution with focus in that (inaudible). We are focusing right now our downstream activities in that (inaudible).

Brazil and outside of Brazil, we want to develop and lead the Brazilian natural gas market and operate to be [ph] on an integrated basis in the gas and electric [ph] energy market with a focus with South America. We are talking about an integrated market for gas and energy in South America. We are talking in Brazil, Argentina, Paraguay, Uruguay, Bolivia, Ecuador, Peru, Venezuela. We're talking about South America.

We want to expand operations in the petrochemicals in Brazil and South America on an integrated basis with the Petrobras Group of our [ph] business. This is very important, because what we are trying to do here is to give a very clear sign that our expansion through the petrochemical sector is to get more value added in the integration of this chain, the production chain of petrochemical products. It's a movement that we see everywhere, the integration of refining first generation of petrochemicals, second generation of petrochemicals. It's a very clear movement that we can all see everywhere.

And finally, we want to have a very clear statement on our strategy on bio-fuels. We won't separate and give you the idea that we have two different strategies for ethanol and for bio-diesel. We want to operate on a global basis in bio-fuel commercialization and logistics, leading the domestic production of bio-diesel and expanding participation in the ethanol segment.

Now, we have shown in a very clear way that we have five different strategies of business, different segments that we are trying to develop. Now, projections. We have a view that the world would be growing at 4.3% a year (inaudible). Brazil -- Latin America is going to grow 3.4%, 3.9%, a little bit less than the world, and Brazil at 4%. Our estimation of foreign exchange is going to be 2.18. The comparison with the plan -- the previous plan shows that we have pretty much kept the same type of environment that we had before.

And the price, as we have most of our revenues coming from the Brazilian market, we are keeping the link -- (inaudible) link of the Brazilian price with the international price, which means that we are going to keep the international price, on average, following -- the Brazilian price following the international price. Our -- To project our revenues, we are taking the Brent price, $55 per barrel in 2008, $50 in 2009 and $45 in 2010 and $35 2011 on. This means that we want to -- we have a marginal cost [ph] for expansion of the industry around $35 in the long run.

As I mentioned before, our CapEx is $112 billion or $112.4b. $65 billion in E&P, 58% of the total CapEx. $13.8 billion in exploration. We are increasing very much our ventures [ph] in exploration. We are saying that our growth -- main growth driver is going to be the (inaudible) growth. We are going to be more -- developing more on exploratory risk, because we think that we can get better returns in exploratory risk.

We have $29.6 billion in our refining, transportation, commercialization, $6.7 billion in gas and energy, $4.3 billion in petrochemicals, $2.6 billion in our retailing sector, $2.6 billion in our corporate investment, basically health, environment and safety, information technology and research and development. We have $1.5 billion in bio-fuels. $97.4 billion in Brazil, $15 billion outside of Brazil. 29% growth in comparison to the previous plan. 32% growth in upstream, 29% in refining technology and commercialization, 30% increase in petrochemicals, 114% in bio-fuels. This investment, $112.4 billion investment, means on average $12 -- $22.5 billion per year of investment in the next five years.

We are going to invest $97.4 billion in Brazil, 65% of local content, which means that we are going to be demanding from Brazilian producers $63.1b. We know that the Brazilian sector is already almost at full capacity. However, we think that they can -- the investment in the downstream -- in the supply chain can speed up and then we can have the factories [ph] in Brazil able to respond to our demands. This is going to increase our demand in Brazil from the current $10 billion to $12.6b, which means that we are increasing 26% of the demand in the Brazilian suppliers.

What's different between the current plan and the previous one? $13.3 billion new projects. Those new projects are mainly upstream exploration and production projects. More than $10 billion of those $13.3 billion are going to be allocated in exploration and production projects. Exploration, enhanced [ph] recovery, techniques for enhanced recovery for huge -- with very high degree of flotation [ph], infrastructure for our production of upstream production and increasing our capacity for production of gas, including infrastructure of the gas. Refining, we have pretty much an increasing capacity to manage, condensate and produce LPG, which means to allow for the growth of the natural gas in Brazil. And in petrochemicals, new unit in the Petrobras [ph] chemical complex in Rio de Janeiro.

We have $10.9 billion of cost increase. As you know, the market is very -- the size has been very [ph] (inaudible) right now. We have delays and we have rebid on some of the contracts that we are trying to get right now. And we are expecting around $11 billion of cost increase in the previous strat [ph] plan that we had. $4.2 billion is the result of using a weak currency. Dollar is a weak currency [ph] as the appreciation of the real right now. And as we have some of our investments in reais, the appreciation of the real yields [ph] $4.2 billion increase in our dollar-denominated CapEx.

And we have a -- as -- Mainly as a result of the movement in time of some of our projects in the period between 2008 and 2012, we have a reduction in $2.4 billion of the previous projects. Nothing very significant in terms of the strategy about that. We have projects that are in different stages of definition. We have projects in -- under the first evaluation, the conceptual design phase, the design implementation contract stage. As we move from one stage to another one, the more precise definition of the project sometimes increases cost. As a result of this, we are assuming an increase in $2.8 billion in our projects.

I am going to be very keyed up [ph] in this strategy, but I will be back in the questions and answers if you want to go in detail. Now, production, we keep our 7 point -- more than 7% growth per year until 2012. Our target for 2012 is 3.5 million barrels a day of production, in Brazil and outside of Brazil, oil and gas. And we think -- And we are projecting the forecast that -- of our production for 2015 is 4.1 million barrels a day by 2015.

The main difference that we have right now in relation to the past is in the international production, because we have a change in the structure of the production in Venezuela, from service contracts to production -- partnerships in the production, which means that we are going to get dividends and not production from our presence in Venezuela.

In Brazil, we keep the same level of production; 2.8 million barrels a day by 2015, 2.4 million barrels a day in 2012, around 20% above the domestic demand, which means that we are keeping the target of being self-sufficient in the Brazilian production of oil until 2015.

Our lifting costs -- projected lifting costs we are projecting for 2012 at $6.13 per barrel of lifting costs without government participation in 2012, $3.5 our international lifting cost without government participation outside of Brazil. This reduction from the current $6.5, $6.6 comes from the increase in production and also in the impact of the foreign exchange variation in relation to the movement of the Brazilian -- reais-denominated and U.S.-denominated parts of our operating costs.

Domestic products, we are projecting a growth of 2.9% a year in our domestic market for our products in Brazil. The market right now is around 1.8 million barrels a day of oil equivalent. We are projecting to 2010 2 million barrels a day, 2.3 million barrels a day by 2015, 2.7 million barrels a day by 2020. The largest rate of growth -- The highest rate of growth is going to be on diesel. We think that Brazil will continue to be pretty much a diesel country.

And we are considering here in this proposed projection the substitution that we have already in a very significant way in the gasoline, by -- the substitution by ethanol in the Brazilian market right now. The Brazilian market is -- More than 45% of the Brazilian market for gasoline today is provided by ethanol.

The breakdown of the $29.6 billion investment in downstream, we have to highlight that $8 billion is going to be on fuel quality to reduce sulfur emission. This is not going to add any new capacity. It's going to have only the impact on the reduction of sulfur emissions to meet the requirements of the Brazilian market and the market in (inaudible).

$2.7 billion on conversion to improve the use of the Brazilian heavy oil. $3.9 billion in expansion of our refining capacity. This is pretty much the refinery in the north-east of Brazil, the refinery Abreu e Lima, and the petrochemical complex in Rio de Janeiro -- no, the petrochemical complex (inaudible). It's here? [ph] I don't think so. It's in petrochemical, yes.

The flow of products we are going to be produced by 2012, 2.4 million barrels a day in Brazil, 1.8 million we are going to use in Brazil. The throughput in Brazil is going to be 2 million barrels a day. We are going to be importing 208,000 barrels a day of imported light oil to blend with our heavy oil and produce the diesel and the light product that we need in Brazil.

We are going to be an oil export -- net oil exporter country [ph]. We are going to be exporting net 5 million -- 5,000 barrels a day. And we are going to be selling to the international market 762,000 barrels a day by 2012. Those 762,000 barrels a day would come 256,000 from our international production, 296,000 from our exports from Brazil to the market, to our refineries outside of Brazil, 158,000 to our exports of crude oil to the world market and through our throughput of our refineries outside of Brazil, which means that we are selling 762,000 of crude oil plus oil products.

On refining costs, we are expecting increase in our refining costs due to the greater complexity of our refineries, as we are going to add new hydro treatment units then new cokers units. The throughput is going to increase from the current around 2,000 barrels a day -- 2 million barrels a day to 3 million barrels a day by 2015, which means that we are going to add 1 million barrels a day of throughput in Brazil, in Brazil and outside of Brazil. We are -- we want to increase our market share in the distribution in Brazil from the current 31% to 41% in Brazil, from 24% to 36% in the retailing business in Brazil.

On the petrochemicals, we want to expand our presence in the production in the first and second generation process. We want to increase our presence in the petrochemical sector, adding value to the product of our refineries. We want to maximize the use of the currents [ph] of our refineries. But not only the production. We want also to be important in the development of technology.

Today, the large majority of the petrochemical production in the world comes from the use of natural gas and/or naphtha. We are developing [ph] technology for crude catalyst cracking that may develop the production of petrochemical products from crude oil, heavy crude oil. We are going to use the heavy crude oil that we produce to enable [ph] petrochemical complex to produce a petrochemical product. And we want to develop this technology. And also, we want to be very important in the development of technology for biodegradable polymers and biopolymers.

Gas and energy. We have a big challenge in the gas and energy. First, the current situation of the gas energy in Brazil, the demand for gas in Brazil is 46.3 million barrels a day -- million cubic meters per day. We are projecting a growth of 19.4% until 2012. We are going to reach 2012 with 134 million cubic meters per day of demand. 48 million cubic meters per day is for thermoelectric and [ph] gas-fired plants.

However, it's important to mention that this 48 million cubic meters per day is a potential demand. It's not an actual demand. As you know, Brazil is pretty much a hydroelectric country. 87% of the power generation in Brazil comes from hydroelectric plants. The thermoelectric gas-fired plants are dispatched only and only when you don't have enough rain and enough water (inaudible), which means that you don't have to dispatch the thermoelectric plant 100% of the time, 100% of the plant.

However, we are considering here the total demand under the assumption that our thermoelectric plant; our Brazilian, not only Petrobras; are going to be dispatched 100% of the time, 100% of the system. 42.1 million cubic meters per day is the demand from the industry and we have 43.9 million of other users. 134 million cubic meters per day with a very specific [ph] condition that it's a potential demand, not an actual demand.

What we should do, we have to develop a flexible supply. As you know, the natural gas, different from the oil, requires the infrastructure, the building of the infrastructure to bring the molecules from the well to the market. We are increasing the supply, the availability of natural gas from our upstream, from our exploration and production. We are going to be supplying to the market 72.9 million cubic meters per day.

We keep our contract with Bolivia. We have a contract with Bolivia until 2019; 30 million cubic meters per day. We have a 24 million cubic meters per day (inaudible), allowing us to transport up to 30 million cubic meters per day. That is the shape of play [ph] that we have with Bolivia. We have 6 million barrels per day -- 6 million cubic meters per day of flexibility in the contract with Bolivia.

Plus, we are adding regasification capacity in Brazil of 31.1 million cubic meters per day. In our current plant, we have 20 million cubic meters per day of regasification units that can bring LNG to Brazil when we need it, which means that we have 37.1 million cubic meters per day in our supply that's contingent upon what's going to happen in our demand, because 48 million cubic meters per day is potential demand for thermoelectric but not actual demand for thermoelectric.

This is the market. What's going to be the sales of Petrobras? We think that we are going to sell 57 million cubic meters per day in 2008, 82 million cubic meters per day by 2012, with our sales to the market. Power generation. As you know, we have several thermoelectric plants in the portfolio of Petrobras. We have the capacity of generating electricity that's greater than what we have here. We have here only the sales, the amount of power that we are selling to the Brazilian market.

By 2008, we are going to sell 3,070 [ph] megawatts in Brazil. We think that we can increase these sales to 5,400 [ph] megawatts, 3,700 [ph] from our thermoelectric plant, after we close the cycle of some of them, plus additional capacity of thermoelectric generation from biomass, from bio -- from a small power generation facility that we have in our distribution company.

In the bio-fuels, as I mentioned, we have two strategies that are different. One is for ethanol, that in ethanol you want to be participating in the domestic production chain to develop the international markets, and our focus is on logistics within sales. In the bio-diesel, however, our strategy is on production of bio-diesel, meeting the requirements of the Brazilian market, and getting all the opportunities to capitalize the opportunities to the international market as well.

We also will know that, on the ethanol and bio-diesel markets, we have a very strong investment in technology development, and the development of technology is going to play a very important strategic role in the future. And as such, we want to develop these technologies ahead of our competitors, in order to get for us competitive advantages in the future.

$1.5 billion is now our investment in bio-fuels. Those numbers are important for the Brazilian market. With bio-diesel, we plan to be meeting the requirement for 2% of mandatory use of bio-diesel in 2008 and 5% of mandatory use of bio-diesel by 2013. Ethanol exports, we are planning to export, mainly to Japan but not only to Japan, 4.7 million cubic meters per year by 2012.

On the financials, we have a reduction on our capital -- return on capital employed from 16% to 14%. This reduction comes from different sources. The first one; I would say that one is very important; is the increasing cost of the investment. As we increase the capital, we have a reduction on the returns.

The second one is the fact that we are increasing our investment in exploration. And the result of the exploration investment is not going to come on-stream during the period of our strategic plan, come on-stream after 2012, which means that we are going to have the investment without the return.

The third reason is that we have investment in infrastructure, mainly on the natural gas market, which gives us an opportunity to get the monetization of our reserves of natural gas currently discovered and the future discoveries that we may have after our exploratory results.

On the other hand, the reduction of the return on capital employed occurred at the same time as our cost of capital went down, which means that the result -- final result to our shareholders is equivalent -- almost equivalent.

Our long-term funding, we are going to need a little bit more activity on increasing our debt, from $3.1 billion average per year to $3.9 billion a year in this plan. Our cash balance is going to be a little bit less. We are going to project a final year cash balance of $3.1b, which means that we are going to have a stricter control of our cash balance.

The leverage here is -- The reduction on the leverage ratio from 25% to 20% is pretty much the result of depreciation of the real. In the past, we suffer a lot because our leverage ratio was going up as a result of the depreciation of the real, because our assets are in reais. And as we had the depreciation of reais, our assets in dollars went down and our leverage ratio went up. And it appears that we had a very -- pretty much a difficult financial situation. However, in real terms, we didn't have a big change in the Company. The same thing is happening right now. As the real is appreciating, the capital in reais becomes greater in dollars, and we have a reduction of the leverage ratio as a ForEx change effect.

The free operating cash flow is going to be around $1.4 billion per year. The EVA, economic value added, above the cost of capital is going to be $81.5b [ph] for this CapEx in the period of 2007 to 2012. $103 billion will be added to the value of the Company after the cost of capital in 2015.

Cost in uses [ph] and sources, we are going to invest $112.4 billion plus $11.4 billion of amortization during the period, which means that we are going to be using, after the cash -- the operational cash flow, $123.8b. We think that we can generate, with the price curve that I mentioned at the beginning, $104.4 billion of cash flow after payment of dividend. This is after dividend payment. And we can raise from the market $19.4b, which means that we are projecting a small increase of $8b, now, as total debt, because we are going to be raising $19.4 billion and amortizing $11.4 billion of our debt.

We have stronger and stricter targets for health, safety and environmental targets. We have more challenging targets for social environmental responsibility measurement. We have more stricter and more demanding targets for human resources. And the impact on the labor market in Brazil is going to be very big. We think that this Company [ph] would imply in the supply chain of the investors -- of the companies that are going to be producing to our demand, 228,000 jobs per year, on average, directly related to the supply chain. The total workforce related to this, direct and indirect, is going to be something around 917,000 jobs per year.

The value added in relation to the Brazilian GDP in Brazil is going to be somewhere around BRL246 billion per year, which is somewhere around 10% of the Brazilian GDP. This is a very challenging plan, but, as we say, challenge is our energy. It's a viable plan, it's a reasonable plan, and we think that we can make it. Thank you.

Questions And Answers

Operator

Okay.

(Operator Instructions)

Let me check if someone has a question here in the audience. First, there.

Q - Unidentified Participant

(inaudible) reserves you guys foresee is necessary to support those production targets in 2012 and 2015. The second one is regarding debt. You said that --

A - Unidentified Speaker

Could you repeat, please?

Q - Unidentified Participant

Sure. The question was regarding the production targets. What amount of crude reserves do you guys foresee to be necessary to support the 2012 and 2015 targets?

The second one was regarding the debt, the incremental debt load, about $8b. How much -- How do you guys see that being loaded on from now to 2012? What's the curve? And with that, is the -- if you guys are looking to extend the majority of the average life of your debt. Thank you.

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

I am going to leave the debt question to our CFO and I would talk a little bit about the production in crude and reserves. Our current reserve production ratio is around 19 [ph] years. We are going to increase our production from the current 2.3 to 3.5 in 2012 and 4.5 in 2015.

Our plan is to have internal recovery rate -- how do you call it -- replacement rate, the replacement ratio above one, which means that we are going to increase our reserves in the minimum and the same amount that we produce until 2015. And we are probably -- this is not our target, but it is our projection that we are going to be above 15 years of reserve production ratio by 2015.

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

Okay. Regarding the financing of the extra $8 billion of cash we are going to need to finance this plan, Petrobras has long experience to access every different market. And -- But as we got the investment grade rating, the capital market becomes more accessible and a deeper pocket.

So this may be the main source, but would not be for sure the only source. Bank loans sometimes is more competitive. ETA [ph], there are situations -- as we buy lots of large, very expensive products, we may get special conditions for ETA [ph] financing. DMBs [ph] in Brazil is a good source. It's a very competitive price.

So we have really very many different opportunities here. Probably the capital market is going to be the one that would be -- can have the chance to present the largest growth in the set of sources we have.

A - Unidentified Speaker

Another question here.

Q - Christian Audi {BIO 1825501 <GO>}

Gabrielli, [ph] Christian Audi with Santander. A couple of questions. Going back to the point of return on capital employed, you made the point that the drop from 14% to 16%, part of it was your cost of capital has come down, part of it is costs going up. I was wondering is that [ph] the recurring question among investors, your ability to maintain returns. So can you talk a little bit more or elaborate a bit more in terms of -- we've seen this drop here, but is the trend one that -- should we expect the continuing downward trend? Or given the nature of the projects you have that maybe we don't yet see because they go beyond 2015, should we maybe expect a turnaround? But any color, additional color, that you could give us, I think, would be very helpful.

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

As you know, if you get a production curve for any type of oil and gas, you are going to have a kind of hump curve. You reach a peak and you go down. If you get our investment plans, they have the same type of shape, the same shape. We have investment that goes up and then reduces.

When you calculate the return on capital employed, you have a cut at the end of the tail. And to have this cut, you sometimes (inaudible) in some of the projects in the peak of the investment without getting any results. The average time between the first indication that you have some volume and the first oil, the average time is eight years. Eight years, which means that we have, on average, an investment period without returns for eight years for big oil projects.

When you take on top of that cost increase, the capital and the investment during this period is greater than in the past. It's going up. It's growing, by reduce -- increasing the capital without the return.

Third, when you take -- and some of the investments that we are making is on infrastructure for your production, the result is coming 15 years pipeline. Big transportation systems of our production areas. Drilling rigs that we are buying that are going to be operating for 10, 15 years. They are going to have an impact on our returns after 2012. And our return on capital employed is calculated as an accounting measure from '08 to '12. I think that's the main reason why we have this reduction.

Q - Christian Audi {BIO 1825501 <GO>}

So just as a follow up, so --

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

For the future, okay.

Q - Christian Audi {BIO 1825501 <GO>}

Yes --

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

For the future. It's very hard to make an assumption about the future after 2012. As you know, we have put in targets for 2012 and forecasts to 2015. It's difficult to calculate after 2012 those numbers, because they are going to depend sometimes on historical [ph] factors. They are going to depend on the integration of the portfolio of infrastructure and production. There are some delays that we may have in the integration of the different parts of the chain, mainly on natural gas, because natural gas necessarily you have to look at the chain from the well to the market. And there is a good -- The visibility of something after 2012 today is not as much as we have until 2012. That's the point. We cannot have [ph] these calculations.

Q - Christian Audi {BIO 1825501 <GO>}

And just a second question. Cost increases continue to put pressure in all oil companies. As we've seen here, it's also impacting you. Can you talk in general terms do you expect this trend, as it has been the case in the past five years, to continue non-stop? Are we reaching a point that maybe they may plateau, not grow, (inaudible) in the past or should we expect the continuing cost pressures to go on?

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

Until two to three years ago, what we saw in the past was that the increase in the cost of the supply chain would follow the increase in price of oil with two years' delay. We had an increase in price of oil; two years later, you get the impact on the supply chain. In the last three years, this delay has collapsed. Right now, it's almost at the same time. It is almost contemporary. The increase in price of oil immediately goes through the supply chain.

However, in some of the products, we start to see some indication that the capacity is growing. And we are maybe finding in some of those products reaching the peak price and we are going to face a plateau of high prices during a certain time until the production would increase, and then we are going to see some price reductions. But we don't forecast these right now. But we don't think that there's going to be forever an increase in costs. There is, for sure, a transfer of part of oil income from the oil companies to the suppliers.

A - Unidentified Speaker

Now, we have a question from the telephone, from conference call.

Operator

Thank you. That question is coming from Frank McGann of Merrill Lynch. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Yes. Good morning. Just a question on the international side. I was wondering if you could give a little bit more color as to the drop. I assume it's because there's less coming not only from Venezuela but perhaps an acquisition that was built into the prior numbers, but perhaps you could just give a little bit of color on that.

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

On international production, we firstly changed some of our policies, that, rather than trying to get some of our reserves through acquisition, we are relying much more now on these plans on exploratory activity internationally.

Second, we had a change in the structure of the business in Venezuela, that right now we have a mixed company in which we are shareholders and we receive dividends from this company -- those companies. They're not -- We don't share production. We get dividends. And this affects our production.

And third, we have some movements on time of some of our productions no longer (inaudible). The increase in investment is a result of mainly from the idea that we are renting drilling rigs, two drilling rigs for our international activity. (inaudible) two, one off Columbia, (inaudible) in Columbia, the other one in Gulf of Mexico, United States of America.

A - Unidentified Speaker

(Operator Instructions)

Let me check within the audience. Yes. We have another one here.

Q - Unidentified Participant

(inaudible) from Citi. Just a question on -- Given that you're increasing your investments in the natural gas segment, can you comment on your pricing policy here? Given, let's say, for the thermoelectrics, since they don't have fixed volumes, will you charge higher prices here? And do you maintain your view that natural gas prices should be aligned to fuel oil prices?

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

Yes. We are trying to introduce in the natural gas market in Brazil [ph] several types of different types of contracts, to allow for the flexibility in the Brazilian natural gas market. We are offering different prices for different contracts. We don't have a general pricing policy. We discuss contract by contract with each one of our purchasers.

The ideal is to have contracts that are firm commitments that we have to provide that amount of natural gas and this is going to have one price. The other type of contract is the one that we may supply certain quantity of natural gas or we may supply the alternative fuel. This is going to have a different price. The third type of contract is that we may supply, or not, natural gas. And the third one is a spot market. That's the smaller one. Each one of those have different types of price.

Also, we are trying to put an idea that we have, in the price of the gas, two different components. One is the return for the infrastructure, which is fixed; pipeline and so on. The other part is the price of the molecules that should be linked to the alternative fuel. That may be crude [ph] oil. It may be diesel. It may be water. This is natural gas.

In the electric [ph] power generation market, it's different. In the Brazilian system, you have auctions for this supply of energy for the next two, next three, next five years. There's an auction that the distributors buy energy from the generators. And we had already sold in those auctions around 2,000 megawatts.

And also, we have what is called the free market for energy. That is going to be, when we have excess supply or excess demand, the consumers -- the big consumers that don't have contracts, they can go to this market and then the price is going to be defined [ph], which means that we don't have really one pricing policy for natural gas and energy, because the market is very complex.

A - Unidentified Speaker

Another question.

Q - Mark McCarthy {BIO 5634411 <GO>}

Hi, this is Mark McCarthy from Bear Stearns. Just following up on Frank's question, you discussed the reasons for the changes to the international targets, but they are staggering, right? They're a 30% drop from what you were working with before. I'm assuming that there's an error in the table that was presented of about 230,000 barrels a day. But even with that, the drop in 2015 is 320,000 barrels a day. That's 30%, or something like that. So most notably, if you're now -- are you not considering Venezuela? Have you pushed out the exploration success in Angola? Can you specifically address -- that's not -- that's something material.

The other question that I had is every strategic plan has some blend of cost increases and new projects. It seems to me that each new strategic plan has come with less and less detail. This strategic plan came out with no divisional breakdown of where are the new projects or what really the new projects are. Can you tell us, within upstream, which is 50% of the spending, what is new? And can you tell us how much of the $13 billion or so of CapEx growth is attributable to that? And I know we have Celso here, who's -- If you're the architect, he's the engineer. We could maybe hear from him on some of the specific numbers.

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

Mark, first, I think the numbers really don't lead to 285 [ph]. But anyway, I don't know exactly number. But Angola, for example, is one very clear example. Angola, for example, is a very clear case of what I was talking about. We are increasing our investment in Angola, but we are not expecting any results in the next five years, because we are in exploration (inaudible).

Q - Mark McCarthy {BIO 5634411 <GO>}

(inaudible).

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

No. We've never had to -- On production, we've never had to or little. We have 500 something --

Q - Mark McCarthy {BIO 5634411 <GO>}

(inaudible).

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

Oil equivalents. Okay.

Q - Mark McCarthy {BIO 5634411 <GO>}

(inaudible).

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

Yes, that's true.

Q - Mark McCarthy {BIO 5634411 <GO>}

(inaudible).

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

Yes, I cannot give you the details of the numbers, because I don't have it right now. But what I know in general trend is that we have really an increased investment in exploration, international. Angola is one big example of that. Our investments in Angola are going to increase a lot [ph], but the results are going to come on-stream maybe next five years, not less than that. Our investment in Nigeria is going to -- In Nigeria, you are pretty much -- we are not operators. We have to follow the operators and the costing overruns [ph] are really amazing in Nigeria, much more than anywhere else.

Q - Mark McCarthy {BIO 5634411 <GO>}

(inaudible).

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

No, it's not a cost of recovery, because we have a part --

Q - Mark McCarthy {BIO 5634411 <GO>}

(inaudible).

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

No, Carabobo is there. Carabobo is 100,000 barrels a day. That's it. That links to the refinery. There's no big deal in Carabobo.

Q - Mark McCarthy {BIO 5634411 <GO>}

(inaudible).

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

It's not Carabobo that's the problem. The problem mainly is that we have -- 65% of our production in Venezuela is out of our production, because right now the concept in Venezuela is that we have a dividend policy, not any more the production. The investment increased and the production's really declined, and we have also not relied any acquisitions of reserves, (inaudible) reserves. We are moving our investment in our international in exploratory risk, which means that we may have nothing. But we have to rely on our knowledge.

Q - Mark McCarthy {BIO 5634411 <GO>}

It doesn't make a whole lot of sense to me, to be honest with you. You've 200,000 barrels a day within the next five years that's out of the plan.

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

We can have (inaudible) give you the numbers. I don't have the numbers in my mind -- on top of my mind.

Q - Mark McCarthy {BIO 5634411 <GO>}

Celso, if you have any thoughts about this, you can shed some light.

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

They are telling me here that this blue number.

Q - Mark McCarthy {BIO 5634411 <GO>}

Yes, the green one is wrong. Right, it's wrong. It should be [ph] 512.

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

It's 515.

Q - Mark McCarthy {BIO 5634411 <GO>}

Right, which is down from 740 before. So that's -- The drop is 30%, even after --

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

(inaudible) that the drop is big. I think the main reason is the delay -- the change in time and the Venezuela operation. (inaudible). I don't have the number right now. I don't have it on top of my mind, unless Lucchessi has it. (inaudible)

Q - Mark McCarthy {BIO 5634411 <GO>}

And just following up on -- Which new projects have been added to E&P and how much of the (inaudible) goes to it?

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

This is for [ph] exploration. Exploration and what we call (inaudible), which is enhanced operational recovery.

Q - Mark McCarthy {BIO 5634411 <GO>}

And of the $13b, how much is attributable to it? So you have no new projects. You have higher spending -- higher exploratory spending.

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

The additional projects in exploration. The growth in the exploration is abroad, in different countries; Turkey, Angola, United States and several countries in Latin America. In Brazil, it's a much more aggressive campaign to -- for pre-start [ph] and a few other -- The idea is to extract [ph] the concessions we have in Brazil. That's the growth of the -- and also the cost of the exploration, especially drilling, is reflected also in these numbers.

Q - Mark McCarthy {BIO 5634411 <GO>}

So exploration is now defined as a new project?

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

Yes, it always was new project. New exploration, new activities in exploration.

Q - Mark McCarthy {BIO 5634411 <GO>}

Okay. Do you know which -- what -- of the $13b, how much is that?

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

Sorry, we call new projects the projects that were not released in the last version of the plan one year ago. But exploration, in the same concession, we drill a well you have the result and you can forecast the cost for evaluating [ph] x million dollars. The next well, we have to revisit these numbers and the planning of the concession. So new project could mean new wells in the old concessions that we previously didn't forecast, okay? What we should do is try to get the numbers, precise numbers, and then release them I hope that [ph] until the end of this session. They are trying to get numbers here.

A - Unidentified Speaker

I think we have a question from internet again -- from conference call, sorry.

Operator

Thank you. Our next question is coming from Gilberto Garros [ph] of Merrick. Please go ahead.

Q - Gilberto Garros

Yes. I'd like to ask you about the assumptions that you made on the Brent curve. Could you please elaborate a bit on that?

A - Unidentified Speaker

Would you repeat again, please, louder?

Q - Gilberto Garros

Yes. I would like to ask you about the assumptions made on the price of oil, the Brent curve that you presented.

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

Actually, we are taking the long run a little bit below what is being considered in the market as the marginal cost of expansion, which is the cost for the new areas of exploration of non-conventional oil and the increasing cost in the conventional oil in areas that are more difficult to introduce -- to bring to production in a commercial way. This is between $35 and $40 per barrel, and we are taking $35 in the minimum level for the long run.

In the short run, we are increasing the price of our projections -- not projections, but the numbers that we are using for our revenue calculations, because the prices of the last two years were above, much above, what we had in our previous plan. And we are -- continue to be in the lower bracket of the forecast of most of the analysts (inaudible). We are in, I think, the First Quarter of the distribution, if I remember the curves that we have in our strategic plan, of several dozens of the different forecasters.

Q - Gilberto Garros

Okay. Thank you.

A - Unidentified Speaker

Okay, we have a question here in the audience.

Q - Christian Audi {BIO 1825501 <GO>}

Christian Audi again with Santander. Gabrielli, three questions. In terms of production, when we look at the 2015 target, there was a small drop in domestic gas production. I was wondering, versus what the target was in the last plan, if you could explain what changed there? And secondly, if you could give us an update as we look out to 2010 and '11, any updates on P-55, P-57 and P-56?

And the very last is, when we look at discoveries, I know there's no news in terms of pre-salts. You continue to do the testing. Am I correct to assume that this plan, from an infrastructure point of view, does not incorporate anything at all related to pre-salt?

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

Yes, you are right. In this plan, we are not incorporating any big changes that we may have to face if we have success in the pre-salt (inaudible). P-55 and P-57, we are redesigning the process of bidding. We have already some offers in the new model and we are facing all still very high prices. We are in discussions. We are -- For sure, we assume that they have at least one year delay for P-55 and P-57. We are trying to anticipate the P-56, to get the production of the P-56 to cover part of the production of P-55 and P-57.

In 2012, I don't have the specific number, but I guess that is the result of some delays on the first gas of Santos, so probably that's going to impact in 2012, but I'm not sure. I don't have the specifics. But I assume -- I know that we have some delays in the first gas in Santos and then this probably would affect 2012.

Q - Christian Audi {BIO 1825501 <GO>}

And so, just as a follow-up, how concerned are you in that 2010, 2011 period of really having, from an oil production growth point of view, a pretty flattish sequential growth, if we can't really get P-56 accelerated?

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

No, because there's no -- P-55, P-57 would affect 2011, not 2010. End of 2011, I think. There's no impact on 2010. And if we can get P-56, then we are going to have the production of P-56 at the end of 2011. What we had on 2010 on the previous plan, I don't think that there's a big change. In the previous plan, I don't think there is any big change. Why [ph] the platforms that come on-stream in 2010. We have the platforms -- previous one. I don't think there are big change for 2010.

Q - Christian Audi {BIO 1825501 <GO>}

(inaudible).

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

The difference is 40,000. No news, no.

Q - Christian Audi {BIO 1825501 <GO>}

(inaudible).

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

Yes, 2010 we have only P-57 here (inaudible) that's delayed, definitely delayed.

Q - Christian Audi {BIO 1825501 <GO>}

(inaudible).

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

Yes.

Q - Unidentified Participant

Almir, you've been the money man at Petrobras for a long time. You've got now more than $100 billion to spend, and in two years' time that number's gone up double. About, I can't remember, maybe a year ago, for the first time, you outlined a 5% buyback program by Petrobras. Wow. Buy back shares of the preferreds. The discount of the preferreds is now for some reason a staggering 15%, and yet there's no mention of this $100 billion plan on an idea to buy back some stock. Why?

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

We approved a $2 billion share buyback at the end of last year and it prevails for one year. So we have still, at the end of the year, to see what to do. We --

Q - Unidentified Participant

(inaudible).

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

No, no. It's not a question. It's the time of implementation we have for such a program. Reviewing this, according to the new plan, we are going to have more expenditure. And the reason we have to do share buyback was the availability of cash. As you saw, we are going to need an extra $8 billion of cash to support this new plan, so we have to consider altogether if we are going to implement or not.

The chances are lower at this moment. Costs have increased. We are going to spend $10 billion more due to the costs. Since last year, since we released the plan of '07/'11, now, in the plans '08/'12, there is an extra $10b. And the project for the equity return is about the same, although the ROACE has reduced two percentage points. Our capital cost has decreased, so the pay to the equity -- the return to the equity is kept [ph]. And our average return has been very high.

Of course, this plan is based on very conservative prices. As we go to the real world, selling oil price $60 or $78 a barrel, we make much more money investing new projects than buying back. So I believe, for the average, is better to keep growing and producing more.

Q - Unidentified Participant

Last year, I asked you the funny question which came first the oil price change or the CapEx change. I work out a little bit of math to make sure that, when you make your oil price adjustments, everything balances out. You're saying, really, that there's no room in the budget, right? But arguably, if you change the oil price by $1, you'd pay for the whole buyback program. And arguably, working with $35 Brent long term or even with your curve, you said it yourself, it's very conservative. So to me, if you're realizing a lower return on equity -- return on capital, might not that be an opportunity to take some of the equity capital off the table, especially when the discount is [ph] 15%?

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

Yes. I'm not saying that we are not going to buy some shares back. But because we still have some chance to improve the return on equity by increasing our debts, our leverage is below our target. Our target was to be between 25% and 35% in the leverage. We are below 20%. So there is room there to increase that, and in this way we can improve even further the return on equity. So -- But there is an important change here, is the extra expenditure we are going to have in the next five years.

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

In general numbers, we have around 4% of the Company we are paying as dividends. Our pay out, 4%, around 4%, plus between 7%, 8% of growth per year. We are saying to our shareholders that we are giving back to shareholders in terms of value, 4% in dividend plus 8% of growth per year. Plus the capital -- the reduction of capital cost, which should give us more return to the shareholders.

A - Unidentified Speaker

Last question here.

Q - Unidentified Participant

Just two final questions, Gabrielli. Ethanol, you made it clear that your strategy is not to be a producer, but rather to facilitate the mass producers and participate on the logistics and infrastructure. I was just curious why not pursue the production side of things, what the rationale was there?

Then, lastly, on the distribution side, you have very aggressive targets for BR. BR's market share really jumped a lot over a period of five years. Is there any -- Could you elaborate a little bit? Is there any major strategy change, because that's a big jump?

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

No. We are not planning acquisition in the BR side. There's no acquisition. It's only (inaudible). We had already this vision on (inaudible) north-east of Brazil.

On the ethanol, the Brazilian ethanol market, producing market, is very consolidated in Brazil. There are more than 300 producers, private producers, more than 300 right now.

We have probably around more double this number of producers of ethanol in Brazil.

Petrobras is not a producer of ethanol. We never produced it. Never, no. We have (inaudible) with more experience in production of ethanol. But we have, right now, mainly with the Japanese trading companies, some structures that we are trying to get up to the production that we call the bio-energy [ph] complex.

There are new producers, dedicated to ethanol more than to sugar, that are going to produce mainly to the export markets and not to the domestic markets. And they're going to be linked to long-term supply contracts. Petrobras may have, in those type of projects, a small share participation to guarantee the long-term contracts, but not as an operational partner of the production.

On the bio-diesel, it's different, because bio-diesel is a market that's being built right now. It's a very infant type of market.

A - Unidentified Speaker

Okay. We have another question from conference call.

Operator

Thank you. Our next question is coming from Gustavo Gattass of UBS Pactual. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, Gabrielli. Just wanted to follow up on I think it was Christian's question regarding the fact that nothing is there. I was wondering, here, in the event that things go well in this testing, in the event that you have some positive news on the exploration side on this one -- I know it may be too early, but can you give us an idea of how you would actually see the strategic plan shifting to accommodate a shift towards that sort of production? Or is that something that's probably going to be even beyond the next CapEx plan that we're going to be seeing next year? And if you do have any updates on that field or even (inaudible), could you actually share them with us?

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

The pre-salt is not in our plan because the numbers and the tests that we have are not final and we have not considered any of the facilities that we need to develop and any of the new technology that we have to apply. (inaudible) will require a completely different -- probably, if the numbers are confirmed, completely different solution and production plan. It's not in our current strategic plan.

A - Unidentified Speaker

Okay. No further questions.

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

I cannot say how it's going to affect, because we don't know. We don't know.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

A - Unidentified Speaker

Okay. No further questions in the audience as well. Okay. I will pass to Mr. Gabrielli for closing remarks.

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

I'm trying to get the numbers that Mark McCarthy asked. And they could not get the numbers, but I'll send to you and to anybody that wants to know. I would thank you for your attention. I hope that we can respond all your questions. And I know that we are going to have more and more questions, which is very good, but we are now open to continue release of all the information that we may have for your enlightenment. Thank you.

Operator

That does conclude today's teleconference. You may disconnect your lines at this time.