Q4 2005 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO, IR Officer
- Carlos Enrique, Accounting Representative
- Claudia, Company Representative
- Raul Adalberto De Campos, IR Executive Manager

Other Participants

- Almir Guilherme
- Christian Audi, Analyst
- Frank Mcgann, Analyst
- Marc Mccarthy, Analyst
- Paul Cheng, Analyst
- Unidentified Speaker

Presentation

Operator

Ladies and gentlemen. thank you for standing by and welcome to the Petrobras conference call to discuss the Fourth Quarter results. At this time, all lines are in a listen-only mode. Later there will be a question-and-answer session. And instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

Today with us, we have Mr. Almir Guilherme Barbassa, CFO and IR Director. And his staff. At this time, I would like to turn the conference over to Mr. Raul Adalberto de Campos, Investor Relations Executive Manager of Petrobras, who has some additional comments. Please go head, Mr. Raul.

Raul Adalberto De Campos {BIO 17251399 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our conference call to discuss the Fourth Quarter and 2005 fiscal-year results. We have a simultaneous webcast on the Internet that could be accessed, at the site www.petrobras.com.br/ri/english. 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, clicking on the icon â€œquestion to hostâ€ at any time during this event.

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

Finally, let me mention that this conference call will discuss Petrobras' results, prepared in accordance with Brazilian GAAP. At this moment, we are unable to discuss any issues related to US GAAP results. The conference call will be conducted by our CFO and Investor Relations Officer, Mr.

Almir Guilherme Barbassa. He will comment on the Company's operating and financial highlights and the main events during the last quarter. Afterwards, he will be available to answer any questions you may have. Mr. Barbassa, please begin.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Good afternoon, ladies and gentlemen. It's a pleasure to be here with you and have the opportunity to talk about Petrobras' Fourth Quarter and 2005 fiscal-year results. And the results we had last year in 2005-- is a very good reason to be pleased to be here and talking to you.

As usual we had the disclaimer. And going forward; we had an increase of 15% in production in the E&P domestic oil and gas and liquid from natural gas. It is one of the main forces that led us to have the profits we are going to show you. And for the current year, we believe that we are going to present a fairly large increase in production as well, based in the platforms listed in the slide, P-50 to 34, FPSO (Capshaba) and SSB 300, in the (Piranima). The last two will be producing 120,000 barrels of light oil that shall replace imports to Brazil. Next please.

According to the international inventories of oil product, the refining margins have caused an increase in the spread between light and heavy oil. So we had, at the end of the year, about $10 differential between Brent and the average price that E&P sells it oil. So we had a reduction between the Third Quarter and Fourth Quarter, in oil price in the international arena. But the E&P lost more in price than the international Brent benchmark.

Due to this decrease in price, we had the operating profits of E&P beingâ€”we had a reduction of (3,660,000) reais; and the other effect we had during the Fourth Quarter was mainly caused by the adjustment in provisions for drywells and the abandonment of areas. The drywells wereâ€”the number of wells that were carried to cost in the Fourth Quarter was larger than previously, because it was the E&P â€” people did a balance of all the year and found that some of them should be recognized as not commercial. So we had a larger figure in this quarter than what is usual.

Next slide please â€” we have the domestic lifting cost, an increase between third and Fourth Quarter as is shown in this slide. But the main causes were services costs that -- they had to do the industry level of activity is costing more for every well. And chartering of drilling weeks; we had adjust the ratings we pay as we renew contracts. This has caused some increase as well. And bonuses; we have paid for one of our chartered BSO due to good performance in the production.

But there is also an increase due to personnel labor force increase and wage readjustment. And concerning wage readjustment; this occurs normally in September. But as negotiating went on, negotiations with the unions went on; the cost was recognized only in the Fourth Quarter. And the cost of September was carried on to the Fourth Quarter as well as the readjustment of provisions of the (inaudible) wage, salary wage of the employees. And the provision for vacations, these are the reasons. But when you look at the reais, the cost has increased only 12% year on year.

Next please â€” on the refining and sales, we had between the third and fourth and quarter of 2005, a reduction on domestic sales of oil products of about 8,000 barrels of oil per day. This, as you are going to see in the next slide, will cause some reduction on the profit of this segment. Another factor here is the reduction of domestic oil, crude oil, as a percentage of the total refined oil; that has decreased from the Third Quarter from 80% to 79%. As margins were very large between heavy and light oil, crude oil, the refining lost some ground here as well.

Next please â€” the third and Fourth Quarters had very important effects on price due to the hurricanes in the U.S. And the realization price of supply in Brazil, the price we sell our oil products, has increased in September as well; and we had between the third and Fourth Quarter, a very large increase while the Brent benchmark here has decreased from 61 to 56. This (inaudible) has maintained the policy of the Company to be an average of the market in the long term. And of course these prices, as you are going to see, have caused a large gain in the supply area.

Here we have the operating profit of the supply segment. And the largest portion, as I just said, was due to the price increase. But we had a reduction in the profit due to the amount and volume of oil products sold in the domestic market. And there is another part here; that is the cost of goods sold. This is the effect of the price of the crude oil bought from E&P, bought by the supply area from E&P in the Third Quarter, at a high price. And went to the inventory. So the inventory that was possessed during the Fourth Quarter had larger costs than the current price of oil in the Fourth Quarter; what caused reduction in the part of refining to supply segment.

And of course due to the reduction in the amount of the volume of oil possessed; that was compared with the previous quarter, there was an increase in profit in the Fourth Quarter. That is the next point in the slide.

Next please â€" domestic refining costs; there was a small increase between the third and Fourth Quarter. And it is due to the personnel costs, as I just explained, the increase in wage and the number of people employed; and a scheduled stoppage in the (Hilla). But it's important to see here as well, that the increase in (Hayas) in the year, compared with previous year, was just 15%.

Next please â€" we have here the operating profits of the Company; and who did contribute to it during 2005. E&P, due to the price increase, as we saw, has reduced from the Third Quarter to Fourth Quarter. In the Fourth Quarter there was a reduction in price that E&P sold to supply. And of course, due to the spread in margins that the downstream could get, it contributed to some increase in the profit. And the last point to explain is the elimination that is mainly related to the inventories, the cost of inventories. Here we sold â€" the products we have sold took the cost of the previous quarter and you have to readjust in the elimination of the (abating) segments, what caused the increase of $2.4 billion.

Next â€" the net profit; the largest contribution came from revenues and the cost of goods sold; mainly from supply, account for 1.4 in total costs. Compare this to the previous quarter, third to Fourth Quarter. And operational expenses that had an increase of 2.2 billion; we are going to explain it further in the next slides.

The financial and operational expense has improved almost 1 billion reais due to the foreign exchange evaluation at the end of the year, what is Petrobras maintains the most of the cash, the cash position, in foreign currency. We had a gain at the end of the year due to the increase of value of the dollar at the end of the year. And the minority interest, there was an adjustment of 1.3 million reais here because the SP companies, they are indebted, mainly in dollar; and due to the increase in the foreign exchange, they have (reduced) a loss in the balance sheet as they were consolidated to Petrobras. Then their loss came to Petrobras. And these adjusted here as a minority interest.

And taxes is due to the interest on capital that was declared during the (inaudible) quarter as well; what contributes to 1 billion reais in net profit.

The operational results, as you can see, there were increases in net revenues and cost of goods sold. But the EBITDA and operating profit reduction between the two quarters, we are analyzing. The next slide will show you what are the main origins of these operational expenses.

Sales have increased by about 500 million reais, mainly due to the increase in cost of freight. We have exported more. And the market was very active in the second half of the year. So freight cost has increased and this caused the increase in operational expense in the Company. There are other reasons. But this is the main one.

General and administrative expenses; we hired more employees, about 600 new employees. And the increase in wages and the related expenses I've just explained; has caused such an increase in this item.

Exploratory costs are mainly drywells that were drilled before the Fourth Quarter. And were re-evaluated and considered as a loss in the quarter, only the drywells, caused the loss of about 700 million reais in the quarter. This is not in line with the rest of the year due to the exceptional re-evaluation that was done in that moment.

And finally, in others, there are mainly two items; the (contra) projects of the this institutional relations and the operational expense with the thermal plants that led us to a situation of increasing the others cost, operational cost, about 500 million reais.

Next please â€" here we have the evolution of the net export of oil and oil products. During the Fourth Quarter, we had a surplus in the export of about 120,000 barrels of oil per day. While the oil products exports remain about the same, we may have now in 2006, a decrease in that volume due to the reduction of the mixture of alcohol in the gasoline in Brazil; because alcohol is becoming scarce due to the high price of sugar. The alcohol producers make a substitution between the two products. So they are now producing alcohol and begin to produce more sugar. And the crude oil exports that were in the range of 300,000 barrels of oil per day at the end of the quarter, may remain about the same volume or (slightly more) volume for the First Quarter; but as the new platform comes on in extreme, we may have an increase in these exports.

As well as in the imports of the crude oil, there might be some changes by the end of the year when the two new platforms that will produce light oil, the Capshaba in (inaudible) and Piranima; they are going to add 120,000 barrels of light oil of production by the end of the year. So we may reduce the total imports of crude oil by then.

Next please â€" the cash breakdown, as you can see here; the reason that there was an evaluation of the dollar by the end of the year caused a gain in the financial revenues because we maintain the largest part of the cash either in dollars, or dollar-linked securities.

Next please â€" the leverage of the Company is reducing and it is caused mainly due to the dollar â€" to the real evaluation and the increase in cash generation as well. We are reviewing our business plan; that will be released by the middle of this year. And the new business plan may be addressing this issue; what we will be doing with such a large amount of cash, that today, as you can realize, is half of the total debt; since the net debt is half of the total. So that aside is the cash which you are going to see in two or three slides ahead.

Next please â€" the cash flow statement shows clearly here what was our free cash flow generation; 14 billion reais; is a fairly large amount, enough to support all of our investments and even increasing the cash balance at the end of the year to 23.4 billion reais.

Next please â€" investments was a record for the Company; 25.7 billion. And the largest amount addressed to E&P, 15.5. And this is a very important figure. I'm going to detail it further in the next slide. But there was an increase in gas and energy, mainly due to the acquisition of the (Merchant) plant, thermal plants; and investment in the network pipelines in the Southeast and Northeast of the country.

Next please â€" here we have the big breakdown of E&P investment of 15.5 billion reais. As you can see, 2.2 plus 800â€"about 3 billion reais was dedicated to projects as listed in the bottom of this slide. These are projects that are contributing to the current production. And have contributed to the profit we are presenting to you. But the largest portion, on the left side of the pizza, is $6.9 billion, were addressed to about 600 projects that are being developed in the Company that will contribute toward the future production. Besides that, we have in exploration 2.8 billion. That has increased when compared with previous years. And it gives to Petrobras, strength enough to keep the goals the Company is projecting for the future.

That's it. Thank you. And if you have questions, please--

Questions And Answers

Operator

Ladies and gentlemen (Operator Instructions) Your first question is coming from Frank McGann with Merrill Lynch.

Q - Frank Mcgann {BIO 1499014 <GO>}

Yes. Good afternoon. Just a couple of question; first on the exploration expense line, I was just wondering if you could provide a little bit more information as to where those were, how much was in Brazil and how much was outside of Brazil, any particular reason that it was so much larger than in the past. Secondly, in the gas and electricity segment, the results were fairly weak in the quarter and I was wondering if you could just provide a little color as to â€" did you take any write offs or were there any unusual expenses in that line? And then lastly, just to follow up and this is on the E&P side, on the announcement at the end of December related to (Marlum Lefsay), I was wondering if there was any update on the lower horizons that you're looking at there and what your plans are for further evaluating them.

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

Frank, this is Raul. Let's go step by step. The first one is on the lifting costs. You wanted to see what is Brazil. And what is international, correct?

Q - Frank Mcgann {BIO 1499014 <GO>}

No, not lifting, the exploration.

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

The exploration investmentsâ€"

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

Okay, the exploration costs we showed you was only in Brazil, because the 15.5 billion reais shown is the investments on E&P in Brazil. If you go to the previous slide, you can see how much was invested internationally.

Q - Frank Mcgann {BIO 1499014 <GO>}

Sorry, perhaps I wasn't clear. What I was really interested in, is just the exploration expense on the operating line in the quarter. Maybe you could just provide a little bit more color breakdown of what that wasâ€"how much in Brazil, how much outside of Brazil.

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

The drywells are all in Brazil. And the adjustment on the provision for abandonment as well, all of these expenses were done in Brazil.

Q - Frank Mcgann {BIO 1499014 <GO>}

Okay, do you know how much was for abandonment costs? Is it a large part of that?

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

The abandonment is only 50 million. The drywells are more than 700 million reais.

Q - Frank Mcgann {BIO 1499014 <GO>}

Okay.

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

What was the second part of your question?

Q - Frank Mcgann {BIO 1499014 <GO>}

In gas and electricity, I was just wondering if there were any unusual charges or write-offs there related to any of the existing plants or the recent plants you've purchased.

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

Okay, how we'll give this explanation â€"

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

My colleague is first going to say it in Portuguese and then I'll translate for the benefit of whoever doesn't speak Portuguese.

Basically the extras that we had in the gas and electricity sector was approximately $50 million, or slightly over 100 million reais, referring to the recall position of the gas that should be available in the Northeast, which we compensate by generating electricity in the South of Brazil; and $150 million was in relation to contractual matters that were pending with all the generators that we negotiated throughout the year.

Q - Frank Mcgann {BIO 1499014 <GO>}

Okay, is it fair to say that a lot of the amount was related to perhaps future periods that you know that you're having unusual costs, for example for the gas for the Northeast plants; or is it only related to the period in 2005â€"meaning is this going to be an ongoing expense or is this kind of a one-time only thing?

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

(Portuguese)

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

These are all expense that relating to 2005, which we don't expect to be repeated in 2006.

Q - Frank Mcgann {BIO 1499014 <GO>}

Okay. And then my last question was just related to Marlum Lefsay, in terms of any further work to evaluate the lower horizons there?

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

(Portuguese)

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

Can you repeat your question, please?

Q - Frank Mcgann {BIO 1499014 <GO>}

Yes, in terms of the announcement you made at the end of December, related to the Marlum Lefsay field and the lower horizon there that seemed to offer some real potential in terms of developable reserves; I was just wondering what your plans are for further evaluating that in terms of additional wells that you may drill or when you think you'll have more information about that.

Q - Unidentified Speaker

Okay, we have drilled a well there, looking for lower carbonates and we have achieved some good results but we haven't evaluated the amount of oil and we could not have numbers to create a figure of our expectations. But we believe that it will increase the reserves. And we will develop in the future, these new reserves.

Q - Frank Mcgann {BIO 1499014 <GO>}

Do you know when you might have more information? Would it be later this year or is this a longer term?

Q - Unidentified Speaker

No, we are planning to drill another well this year and probably one or two wells next year in order to prove the reserves to have a more precise figure (inaudible). All right?

Q - Frank Mcgann {BIO 1499014 <GO>}

Okay, perfect, thank you.

Operator

Thank you, your next question is coming from Christian Audi with Morgan Stanley.

Q - Christian Audi {BIO 1825501 <GO>}

Hi, gentlemen. I had three questions. I'll take them one at a time Raul. The first one related to operating expenses having been higher than expected; can you just clarify which ones you believe are recurring â€” in other words. So we can better gauge our expected operating expenses going forward? I take that in terms of the higher freight costs that's here to stay. But general and administrative expenses are likely going to be recurring because you hired more employees in the higher wages; the exploratory costs, if you could give us some view there; and also in terms of othersâ€”whether you think that these levels achieved are going to be recurring or not.

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

Yes, let's go one by one.

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

Okay Christian; we believe that sales expense represented by higher freights could be repeated in the next quarters as oil prices are high and demand for ships, for tankers, has increased. General and administrative is another item that can be repeated in the future, maybe not as big of an increase as we had here between third and fourth. But there were. I mean these wages that will remain. And the number of employees we are planning to hire in the near future. The Company is growing fast and we need to replace lots of retirements and the new employees will be hired comply with the increase in activity of the Company to sustain these activities that we having now. Exploratory costs; we don't believe that, of course, as you saw, we are investing more in exploration. And it all depends on the success of the exploration. We hope they will have good success. But it is expected that moreâ€”that drywells will appear, since we are going to drill more at (inaudible). And others; we believe this is more one point in time; it does not seem to be repeating again in the next quarters.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Great. And the second question from us is â€" I noticed that you changed the definition or you re-announced lifting costs in past quarters. Can you just explain the rationale for why you had to restate them, please?

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

To rephrase that, that's the calculation of lifting costs, rightâ€"classification of the expenses, right? I'm going to ask (Carlos Enrique) from accounting to get into that?

A - Carlos Enrique {BIO 1891275 <GO>}

Basically we had two points to restate on the lifting costs. First, we adjust our costs related â€" we had the (collective) labor agreement for 2005 and 2006 that (inaudible) in periods since September 2005. Then we adjust our ratio since September in order to quantify and maintain the same level in the same precedent. And the second one, we adjusted some costs that we booked incorrectly regarding charging fees for platforms that in the past were booked as fees related to other companies into the Petrobras group. And we adjust for third parties related and according to our procedures, we include these costs in lifting costs (into) the Fourth Quarter of 2005.

Q - Christian Audi {BIO 1825501 <GO>}

And do you expect to be adjusting additional quarters?

A - Carlos Enrique {BIO 1891275 <GO>}

No, I don't expect.

Q - Christian Audi {BIO 1825501 <GO>}

And then the last question was more forward-looking in terms of CapEx. Do you have a view, obviously the FX has greatly strengthened and this has always been an issue for Petrobras in terms of the fund your CapEx in reais. And then what does it mean into dollars? But how do you see the situation right now in terms of '06 CapEx amount; what is it that you're planning for and are you not going to adjust anything until your mid-year strategic plan update?

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

The CapEx; we have put down for 2006, 38 billion reais; is a fairly large amount. But it is according to the level of activity the Company is sustaining at this moment. Of course there is some room for some growth in this level of activity and it all depends on the capacity of the market to supply, services and goods and equipment for Petrobras to fuel all these (inaudible). We are investing as much as we can do, because we have very good projects and we tend to keep the growth of the Company. And there is of course, some of this money increased when compared with the amount we have invested in 2005. There is some cost correction that will reduce the real increase in total CapEx. But most of it will be due to the volume and level of new projects we are starting and the increase in effort to keep our pace in production.

Q - Christian Audi {BIO 1825501 <GO>}

Okay, thank you very much.

Operator

Thank you, (Operator Instructions)

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

Could I make a question here, which we have received through telephones, please?

Operator

Yes.

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

Okay. The questions come from (Guy Rockwell) from (Edmond de Hotshield). The first question is; what can we expect in terms of cost control in '06?

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

We are â€" all the Company is working in their process, many internal processes of the Company to reduce costs and work out what we can do in this segment. Of course there are many. Most of the costs we are running now do not depend on us. Most of the costs come from the market. And we are increasing, if you consider the number of employees and the production of the Company and sales and other things; you are going to realize that there were gains in productivity there. But it's still a concern of everyday in the management of the Company to look for opportunities where we can reduce operational costs and all kinds of costs. But in an environment of increasing demand and lack of supply, it's not easy.

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

Okay, the second one is also from Mr. Guy Rockwell and also partially from Mr. (Sequiere) at (Hedging Griffle); what will be the size of exports in '06 and what is the expect effect on margins for the Company?

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

It all depends; as I mentioned, of what is going to happen to the Brazilian market. If the economy grows, it will be higher than expected. But we may have an increase in oil product demand, the (off) oil product in Brazil. And so (inaudible) oil will be left to export. But we plan to increase our production in Brazil of about 200,000 barrels of oil per day from 1,700,000 to 1,900,000. This increase in production, part of it will be addressed to attend to the increase of demand in Brazil; that's supposed that we have about 50,000 barrels of oil per day of increase in the Brazilian demand. This will lead us to export an extra 150,000 barrels of oil per day. But on the other side, if less alcohol will be added to gasoline, we will have less oil product to be exported. So these are the main factors that can affect the total exports of Brazil during 2006.

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

Okay, thank you. And the final question, can excess cash be used for an extraordinary dividend payment?

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

We are, as I said, we are revisiting, re-evaluating, our business plan that we will be covering in 2007 to 2011. And in this exercise, we will be considering every option. We have no decision at this point in time. It may be more activity and it may be share buyback. It may be more investments; it may be all the possibilities open at this moment.

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

Okay, thank you, Operator. I'll pass the word back to you, thank you.

Operator

Thank you. Your next question is coming from Paul Cheng with Lehman Brothers.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you. Good afternoon, gentlemen. Three questions; hopefully it will be short, first in (comp rate); what is the principle value or principle asset value that under (corporate) exposed to the foreign exchange? Second, I think you gentlemen are trying to give me an understanding of why there is a big swing in the elimination line item assessment. I'm still not sure that I totally understand, could you maybe elaborate a little bit more on what's causing the big swing and if there is any rule of thumb there for us to use on a going-forward basis under what market condition or what pricing condition thatâ€"and what would lead to that kind of swing, in what magnitude? And then finally, any update you can share with us related to the (Bolivia) negotiation with the government there, thank you.

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

First question, I have a colleague here to explain, please.

Q - Unidentified Speaker

Hi, (inaudible) speaking. The main assets exposed to the exchange rate in corporate segment is related to all financing that we can't allocate in the segment, like E&P, (inaudible) and others; when we cannot identify which segment is responsible for this debt, we allocated it in the corporate. And the other important item is related with our credit between the Petrobras holding here in Brazil. And our affiliated companies abroad. We have an affect in favor of Petrobras holds, that doesn't have counterparts of these effects abroad, because the affiliated companies abroad convert the financial statements by the extended rates at the end of the period. Then we have a specific effect here in terms of consolidation that we can't eliminate in the consolidated financial statements. And other items, the cash; we allocated cash asset, the assets relate with cash in the corporate segments.

Q - Paul Cheng {BIO 1494607 <GO>}

Hold on one second, I'm sorry. I guess my question is â€" what's the principle amount? Is it $10 billion, $20 billion that's in the corporate that you have allocated to corporate that would be exposed to the foreign exchange so that in the future, I think we would be able to do a better job in terms of estimating the earning.

Q - Unidentified Speaker

I don't have this amount here. Demandâ€"the (inaudible)â€"

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

We'll get that information to you, how much is on the segment. Basically, we'll get that information later to you, Paul; what is exactly in the corporate segment, okay?

Q - Paul Cheng {BIO 1494607 <GO>}

Okay, thank you.

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

(inaudible) we ended the cash break down; for example you can see how much of the cash balance is dollarized, that is the two parts in the bottom of the column, the dark blue and the red. They are either inferring currency abroad or in Brazil with foreign-exchange links (correction). It is only here we have about 15 or more billion reais.

Regarding elimination, I'd be asking Raul to help us on this explanation.

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

Okay, Paul, let me try on this. There are a lot of factors that affect the eliminations. And you've got different sectors; for instance, what the supply sector will solve to distribution. But where you get the biggest effect, is probably between your exploration and production. And your supply sector. Exploration and using the material that we have in the Fourth Quarter, if you take exploration and production and at fallen revenue because its transfer price came down; because exploration and production carries no inventories, the effect on E&P is immediate; so that is eliminated. When you go down to the supply sector, the supply sector cost of goods sold is not at the price that it bought from E&P. Cost of goods sold is based on average inventory costs. So there is a lag between the price at which E&P transfers to the supply sector. And the cost that the supply sector sells out. That is a good part of the eliminations that we have there. So it was positive because the price at which E&P transferred to supply was low. But the cost of goods sold that was in the supply sector, still reflected the high cost that it had incurred in the Third Quarter. That's generally why you will have positive eliminations which should materialize also in the next quarter.

Q - Paul Cheng {BIO 1494607 <GO>}

Are you guys using in the refining or in the supply you said, last-in-first-out, or first-in-first-out?

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

No, we use average cost.

Q - Paul Cheng {BIO 1494607 <GO>}

You use average cost. But your turnovers; it should not be more than 25 days, right?

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

No, it's longer than that.

Q - Paul Cheng {BIO 1494607 <GO>}

It's longer than that. What is your turnover?

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

Paul, can I suggest something; that we call later on and get down into these details?

Q - Paul Cheng {BIO 1494607 <GO>}

Yes, no problem.

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

We'll be glad to get into that detail but I think maybe some of the others maybe not as concerned on that. Let me ask Mr. Barbassa to get into the Bolivia question.

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

Okay, regarding Bolivia, we are at this moment negotiating with the Bolivian government. Number one we have an understanding that we'll deal with many different projects in Bolivia of interest of Petrobras. And this memorandum shall be signed at the beginning of March and we hope negotiations will go on; is mostly as it has been so far. And there are mutual interests of a good understanding between Brazil that depends most â€“ about 50% of the gas consumed in Brazil to date comes from Bolivia. And of course Bolivia has no other alternative to sell its gas as well. So it's (inaudible) and we are very positive on this negotiation. We hope not too late we'll be signing a final agreement and we will be able to keep not only what we had there. But we may be entering in new opportunities of investments in Bolivia as well.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you.

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

Just one last clarification; just completely objective Paul, the average turnover time of our inventories is 60 days, crude oil.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you.

Operator

Thank you. Your next question is coming from Marc McCarthy with Bear Stearns.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Hi guys, this is Marc McCarthy. I had a few questions, a few, mostly just easy details. Almir, if you recommend a switch to LIFO you might shorten this call in half. I'm just curious if that's possible. Is that a no? I'll take that as a no. Anyway the specific question on gas and power SG&A, you talked about some special expenses. Were they allocated to SG&A or were they allocated to other expenses? I'm curious because we saw a sizeable jump in SG&A within gas and power during the quarter. I didn't know if that was related to the consolidation of some of the Merchant plants or what; if you can give us some guidance there. That's the first question.

The second question is timing for some results from Treasure Bay and Blackbeard in Gulf of Mexico. The third question is â€” did you consolidate Venezuelan reserves in the reserve report that you published? And the last thing was can you tell us the number of exploration wells that were drilled in 2005?

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

Just a moment, Marc, please.

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

Let's hold on because we're trying to get you an objective answer, Marc.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Thanks, Raul.

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

Marc? A representative of the gas and energy will give some explanation. I will ask Raul to translate it for you, please.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Okay. Great.

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

Okay basically the expenses that we have there. And I'm translating here, are the provisions for eventuallyâ€"lack of credit provision, in other words for non-payment provisions. And we also have their expenses related to those thermoelectric plants which we acquired during 2005, mainly Termoceara and (electric) which was acquired from MPX and Eletrobolt, which was acquired from the Enron creditors. Some expenses related to the Macae Merchant plant which we ultimately acquired from El Paso in January. And some related to (Thermal real). So these are general expenses that were incurred because of the acquisition process which we involved in during '05.

Q - Marc Mccarthy {BIO 1542384 <GO>}

So they're not related to kind of capacity payments that you used to pay that you now consolidate, in effect, as an SG&A or as a cost of goods sold? Because the gross profit was actually quite high. But you had this huge spike in SG&A which seems like a fixed cost until they are dispatched.

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

No, general and administrative expenses you just have these. The capacity payments are in other expenses.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Okay and so then these numbers will stay high; I imagine or maybe 50% of the growth will remain? I mean, SG&A almost tripled.

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

Okay of that total in '05, about 130 million is non-recurring. The remainder will stay there.

Q - Marc Mccarthy {BIO 1542384 <GO>}

So the other three questions wereâ€”kind of an update on the Gulf of Mexico prospects for February/Marchâ€”did you consolidate Venezuela; and the number of exploration wells that were drilled in 2005?

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

Okay regarding the Gulf of Mexico; we will have our colleague (Claudia) that will give us some help, please.

A - Claudia {BIO 1864184 <GO>}

In 2005, we have invested 253 reais in exploration in Blackbeard, Cascade and (Garden Band). And we plan to continue with this exploration investment in these three fields and also in developing Cottonwood. And we also invested 79 million reais in the leasing in the Gulf of Mexico, with 53 (block). In Venezuela, we are negotiating new contracts and new fields. We have a new block (modeling) that we acquired in 2005.

Q - Almir Guilherme {BIO 1921476 <GO>}

Regarding the next question about the reserves in Venezuela, we expect to produce the same volume we were expecting before the renegotiation of the contracts. Because the old contracts were to be in force during eight years, remaining eight years; and the new ones will be valid for 20 years. So even having a lower share of about 50%, we intend that we are going to produce the same amount of oil in the 20 years time.

And regarding the number of explorational wells in 2005â€”

Q - Unidentified Speaker

The number of exploratory wells comes to 40, 40 exploratory wells. But I will give you a breakdown and a more precise number maybe in a minute. But how many of them are wildcat wells and appraisal wells, okay?

Q - Marc Mccarthy {BIO 1542384 <GO>}

That's great, or if you have a success factor, that would be great, too.

Q - Unidentified Speaker

Our success factor is close to 20%. But I can give you a precise number in a minute. But it's pretty close to 20%.

Q - Marc Mccarthy {BIO 1542384 <GO>}

That's fine, if you can just come back, Almir; it's very helpful in terms of the production for Venezuela. But I think there's a bit of a technical issue about whether or not you're allowed to consolidate them as a result of the lack of control over the concession contract. And I don't know if you have an answer yet, or if you will produce an answer in some time. I'm trying to find out if you've already kind of answered this question.

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

I (evidently) don't have the answer by now because we are still on the negotiation; we don't have the final version, final situation of the contract. So we'll expect we can get it. But we don't at this moment we cannot assure it.

Q - Marc Mccarthy {BIO 1542384 <GO>}

And Claudia, if you can just produce a date or a timeframe when you expect to have results from the Treasure Bay and Blackbeard prospects?

A - Claudia {BIO 1864184 <GO>}

I am not sure at the moment. I will check. But I think it's in this year.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Okay. I'm hopeful it's this month.

Q - Unidentified Speaker

Marc, it's (inaudible) again. And now I have the number of where (inaudible). 40 exploratory well wildcats and 29 appraisal wells.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Thanks very much, (Ugo).

Q - Unidentified Speaker

You're welcome.

Operator

Thank you, your next question is coming from Frank McGann with Merrill Lynch.

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

Excuse me, can I come in with a question before Frank, please?

Operator

Sure.

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

It's a question from (Kitty Wong) of Fiduciary Trust. Can you please give an update on when each of the new platforms will come on stream this year?

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

Yes, please I'll ask Ugo here to help us on this important issue; if you would please Ugo.

Q - Unidentified Speaker

Okay, we have six new projects to come on stream this year. Two of them are gas projects, two to produce light oil. And another two with heavy oil. The first one is developed in the first phase â€" the development of our (inaudible) with the P-50, that will come on stream in April or May of this year. The second one is the P-34. It's a heavy-oil project. The phase one of (inaudible) field; that will come on stream in September or October of this year. And the next one will be Piranima Field; that will come on stream maybe in September. And the next two are gas projects, in the (Monitee) Fields and (Paraquagua) Field. I imagine it will come on stream on the earlier second half of this year, maybe August. And Paraquagua close to November/December of this year. And the last one is the phase one of (Go-Field) which is a light-oil project that will come on stream at the end of this year. I have to remind you that this field Go-Field field is producing close to 20 barrels a day from this pre-pilot phase that is already on stream at the beginning of this year.

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

Okay, Operator, thank you for that. I'm sorry, Frank, please go ahead.

Q - Frank Mcgann {BIO 1499014 <GO>}

Maybe just a follow up on that, I mean some of these projects have been delayed. It looks like a little bit more (Pigma) P-34. Is there any likelihood that your 1.9 million, or close to it, target for this year would be affected for domestic crude?

And then two other questions; one just related to the Pasadena refinery; there were some news reports that in addition to the acquisition costs, you were going to spend 500 million to upgrade it and potentially take your stake in the refinery to 70%. I was just wondering if you could confirm that and give us maybe some more of the details.

And then there was also a report that I saw either last night or today that (BR Disridor) was going to be investing in a series of small Hydro plants. And I was just wondering if you could confirm that.

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

Let's start with the Pasadena refinery. The intention of Petrobras, as we are acquiring this part of this refinery, is to invest in it to increase the conversion capacity of the refinery so we could process our heavy oil part of our oil production in that refinery. And as we are going to invest, today we have a rough estimation of $400-500 million to increase conversion capacity of the refinery. We intend to increase our stake. But this all depends on negotiation. There is nothing at this point that is already established by the agreement so far signed. And of course these are our plan for the refinery.

Regarding the BRâ€"that is investing in this small hydro plant, this is really a very small business. And it is more in line with the business of BR that deals with distribution and there is no (monetary-detailed) segments. And of course this does not apply in any change in the course business of causing energy of Petrobras that will keep its interest in large thermal products and so there is no real effect on the strategy of the Company. This is (inaudible) images and we'll not take more than 100 million reais of investments of BR that will have other (inaudible) in this plant.

And regarding P-34, Ugo, will you help us please?

Q - Unidentified Speaker

I think that our production target for this year is (inaudible). And even considering what is happening with P-34, we don't have any reason to change our mind on the forecasting to come on stream this year. Okay?

Q - Frank Mcgann {BIO 1499014 <GO>}

Okay, great, thank you very much; very helpful.

Operator

Thank you, your next question is coming from Christian Audi with Morgan Stanley:

Q - Christian Audi {BIO 1825501 <GO>}

I wanted just to follow up on theâ€"you talked about alcohol and gasoline mix. Do you expect to change that mix any time soon and if so, can you give us a sense of the magnitude and time?

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

This is a subject that is in the newspaper. Petrobras doesn't control this mix. These are controlled, this matter is controlled by E&P and we just follow what is ruled, is the term. But as we are seeing the market and the alcohol price and there is a great chance we understand that this year it is going to reduce the amount of alcohol in the mixture. And then we will have some consequences on that, more gasoline will be consumed in Brazil and there will be less left to export. But we are comfortable on that, the market will be supplied. We have an excess of gasoline. There is no problem to go and effect a change in the blend of our (inaudible) gasoline.

Q - Christian Audi {BIO 1825501 <GO>}

And right now the mix is 25%, is that right?

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

Yes. Today it's 25. And it is expected to go 20.

Q - Christian Audi {BIO 1825501 <GO>}

Okay, great; thank you.

Operator

(Operator Instructions) Your next question is coming from Marc McCarthy with Bear Stearns.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Hey guys, just a quick follow up; if you can justâ€"I remember reading before, you do expect the revised (Gazini) bid to be completed sort of end of March timeframe. I wanted to see if there is any update about that or the thinking about a re-gasification terminal in the North, given the recent apparent signing of a contract in Chile?

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

Marc, we are in due course with the Gazini procedure to find an (EPC) contractor to build it. We expect to have a conclusion the nextâ€"how long would it take to have thisâ€"

Marc, we have some doubt here. I know there is a process in the market but I cannot give you the right time and now I can follow up with this answer soon.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Okay, that's fine, thank you very much, Almir.

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

There are two parts. (inaudible) that is under construction. But I believeâ€"

Q - Marc Mccarthy {BIO 1542384 <GO>}

I'm asking about the long stretch.

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

The long leg (inaudible); but I can provide you with this information later on, please.

Q - Marc Mccarthy {BIO 1542384 <GO>}

Okay, great, thank you.

Operator

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

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

Okay, thank you all for being here. We hope next quarter we can have as good results as we have now. And 2006 we hope will be as good of a year as we had in 2005. That is our record so far in net profit for the Company. Thank you, bye-bye.

Operator

Ladies and gentlemen. your host is making today's conference available for replay starting one hour from now. You may access at IR website or the replay by dialing 1-973-341-3080, lasting through August 23rd. That number again is 1-973-341-3080. At the voice prompt, enter the access code 7028529. This concludes Petrobras' conference call for today. Thank you, very much for your participation. You may now disconnect.