Company Participants

- Almir Guilherme Barbassa, CFO, IR Officer
- Raul de Campos, IR Executive Manager
- Unidentified Participant, Unknown

Other Participants

- Christian Audi, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Jose Costabucka, Analyst
- Marc McCarthy, Analyst
- Paul Cheng, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by. Welcome to the Petrobras conference call to discuss the First Quarter 2007 results.

(Operator Instructions)

As a reminder, this conference is being recorded.

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

Raul de Campos {BIO 17251399 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our conference call to discuss 2007 First Quarter results. First of all, I would like to excuse ourselves that we had a small problem in audio which caused this delay in starting.

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 "Question to Host" anytime during this event.

Before proceeding, let me mention that 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 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 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 this 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' 2007 First Quarter results. As usual, we have the disclaimer here that basically says that you should not base your forecasts in our numbers or our forecasts.

But let's go for the production. The First Quarter production had a small decrease, and this was mainly due to the stoppage of P-37 platform. P-37 is a platform that is producing in the Marlim Field. It was programmed to have a stoppage, but they stopped -- it had longer duration than expected. It remains with no production during 20 days. This has been a platform that is producing from one of our largest oilfields -- caused the problems in the production.

Besides that, we have an increase in production P-34 and FPSO-Capixaba in the Golfinho Field. Also, they did not progress as much as we were forecasting. All added led us to an average production of 1800 medium barrels of oil per day; that means 1.2% less than the last quarter of 2006.

But, going forward, you can see that the total production of Petrobras up to now since the beginning of 2006 has increased 1.2, regardless this decrease of the First Quarter of this year. And we hope we can keep the targets we have for the year.

Next, the oil prices had some decrease since the last quarter. It was a small decrease, but it caused a lower income -- lower income from our production. And it is less than the First Quarter of 2006. The oil price decreased by 11%. Since the Fourth Quarter, it is roughly 1%.

The refining in Brazil and sales performed very well. Their refining has increased and the total domestic oil production increased enough to make -- to occupy 9% of our capacity -- of our installed capacity in Brazil. So we have a very good performance on the refining.

In the sales, it was larger volume than the First Quarter of 2006. But, seasonally adjusted, it is less than the Fourth Quarter of 2006, which is a much better quarter to sell oil products in Brazil than the First Quarter. So for the quarter, it is a good quarter. But when compared to its previous one, it leads us to a lower volume of sales in the period.

The average realization price. If you see in dollars, the average realization price is increasing since the First Quarter of 2006. But, due to the real appreciation, when taking in reais, the average realization of price has decreased since the Fourth Quarter. And this quarter also some loss in revenues.

The income statement shows very good performance here. We had of course in net revenues, a reduction when compared with last quarter of 2006. But this was due to the oil production reduction, the sales reduction, the average realizational price reduction. But, when you see the cost of goods sold, we had a reduction as well. What led us to a larger EBITDA and the cost of goods sold reduction was due to the reduction in the production costs, refining costs, G&A costs as we can see in the next two slides.

In the old water [ph], the reduction in all these costs led us to an operational profit larger in the First Quarter than last one. But we had a net income that was shorter when compared with the Fourth Quarter. And there are some reasons here that we'd like to express.

First of all is the interest on capital that was declared in the Fourth Quarter. Only the interest on capital was responsible for a reduction in income tax of about $2R billion because we declared $6R billion roughly in the Fourth Quarter. What means 6 billion times 34%? It means about $2R billion of income tax reduction, what caused an increase in the net income of the Fourth Quarter.

The First Quarter on the contrary, we have no interest on capital to benefit the net income in this period. But we had still extra expenditures. And the lightest one was the pension plan. We spent $1R billion just to have our plan in place as we were planning to incentigrate [ph] the employees to sign up for the new terms of the plan.

Besides that, we had exchange in debt of the Company. We exchange old debt by new issues. And these caused us extra costs as well. So all this together led us to a net income shorter in the First Quarter of 2007 when compared with the last one of 2006.

Maybe still another point that helped reduce the net income of the First Quarter. This was the financial expenses. Based on the foreign exchange variation, we had larger appreciation of the real in the First Quarter than in the last quarter of 2006. And in the First Quarter of 2007, we had more assets -- more lifting assets in dollars than we had at the end of the year. So this caused us a larger loss in the First Quarter than in the last one of 2006. This was another cause of the reduction in the net income.

The operational expense behaved very well. As you can see, we have reduction in all the kind of expenses due to the reduction on the oil price, due to the reduction of production costs or refining costs and personnel and G&A; all has contributed to reduce the (technical difficulty) to reduce the operational expense of the Company except for the last one that is other, where is the cost of a pension plan.

The last one is included in the cost of the pension plan. And these are caused -- it was about $1R billion. So if you deduct $1R billion from 1.8, you can see that there were in fact a lot of reduction in the orders as well.

E&P, we had a decrease in the operating cost of E&P due to the price decrease. But we have us an average we have gained for E&P due to the cost reduction. The production costs has been reduced. And so there were about 1 billion added to this fact. But, of course, the production was 1.2% less. And this caused also a reduction in the net revenue, as well as partially compensated by the cost of goods sold but not totally.

And the operational expenses was reduced in the period. So this has added some operational profit as well to the E&P, what led us to have near $800R million additional operating profits in the E&P for the quarter.

But, the large benefit came downstream -- downstream. Due to the oil prices reduction, they could buy oil from E&P or from abroad at a lower price and sell it at a constant price and domestic market. So they added a lot in the operational profits again in the period. But they did not sell as much as the Fourth Quarter. That's why they could not keep all the gain they had on the costs by volume. Selling less, they have had some reduction in the operating profits. The operation expenses in this case took some of their profits away, partially because here is allocated a pension plan as well. But anyway, they have increased by $1R billion in their operating profits in the period. It was a good period for the downstream.

The balance of exports and imports. We had a quarter here where we were less and we exported less as well. And partially it was because when we compare it with the Fourth Quarter. And this was because in the Fourth Quarter, we imported more and exported more. Why we did that? Because the fuel oil was with very low price in the international market. And as we processed more of the domestic oil, we were producing more of fuel oil and this fuel oil should be exported.

And in this case, it was not economical for us to process domestic oil in the Fourth Quarter. Then, we imported more oil then and processed in Brazil. This does not happen in the First Quarter when the weather changed in the North Hemisphere. And the price has come to the traditional relation with the other oil products. Then, we returned to the normal level import and export Brazil. But, we had as an average of surplus of more than $500 million between export and the import, what averaged 187,000 barrels of oil per day net export.

In the net income, changes we had due to the lower volume we sold in the First Quarter, there were a reduction in revenue. But we had also lower cost of goods sold. And this has given us -- helped our net income and increased by $3R billion.

The financial expense, I have explained the rest. And the tax, it is usually request in the First Quarter. We did not have the interest on capital. So when compared with the previous one, we had some losses here, what led us to the $4R.1 billion of net income.

The leverage ratio increased to 19%, mainly due to the use of cash balance to pay dividends in the period because the total debt was reduced by about $2R.2 billion. But as cash balance has decreased by $7R billion, the leverage was higher than previously. But, still under -- reals still underleveraged since our target is near 30%.

The cash flow statement shows we have generated near $7R.5 billion, was roughly $500R million below our CapEx. But we have used lots of money to pay dividends and we paid out some debt as well. In this case, we ended the period using more cash than we had generated, reducing the cash balance. But we're still in a very comfortable cash balance, much higher than we were planning to have or we need to normally operate the Company.

The investment is a very large volume of investments, $8R.3 billion, most of it dedicated to E&P to expand our production. But we're looking internationally. We're expanding internationally as well. But, most of these international expansions will have dedicated retive [ph] to buy seismic data for exploration or you've addressed to -- built two drilling rigs we have built outside for the international activity.

The domestic lifting costs has performed well as well. It's a small reduction when compared with last quarter. And this has helped us to increase our operating profits of the period. So we hope we can fuel after three quarters. We had the first one; it represents a reduction. We cannot tell for sure that this is a tendency. But we like very much that it's come to be a balance of cost reduction, oil stabilization at least.

We have here the lifting costs plus government take. And the government take has suffered the second reduction from $11.5 in the Third Quarter of 2006. Now we are paying $9. This works as a cushion in our production costs and help us to balance the results of the Company, follows of course the international price.

Refining costs as well as the production lifting costs. We have here reductions in about 6.3% and this is important and it works as well for the lifting costs. This is dollars. When you translate it into reais, the reduction used isn't higher because of the translation and the real appreciation. So as I said, due to some important movement and we expect that we had cost stabilizations here, if not some reductions -- consistent reductions.

This is important to have a look on the oil services price on the left-hand side. As you can see, it is increasing very abruptly in the last two, three years. And on the right-hand side, we have two of the main commodities used for the industry, cement and steel, that is presenting or has presented a very high cost increase. These are influencing all the costs of the industry of course.

That is it. We're ready for any questions if you have. And thank you for your patience to wait for the delay we have at the beginning.

Questions And Answers

Operator

(Operator Instructions)

Frank McGann, Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

I was just wondering if maybe you could give us some description or update on what your exploration plans are for this year, particularly related to the Tupi discovery and some of the surrounding areas. What are your plans for drilling? And when do you think you might have some results from those activities?

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

We have started drilling the second well in the Tupi Field. But I guess Hugo Hapsold [ph] is here. He can give us more details on the exploration front. A moment please.

A - Unidentified Participant

Frank, we are fully concentrated on exploration in Espirito Santo Basin and also in Santos Basin. As Almir mentioned, we have -- we are -- we start drilling the second well on the Tupi -- an appraisal well for the Tupi discovery. And we are planning to drill two more wells -- exploratory wells in the Santos basin and some wells in the Espirito Santo Basin focused on light oil and gas. Some of them are related to the recent discoveries also in Caxiado [ph] Field. And we're drilling around this discovery trying to foster [ph] commitments with the A&P and also to check the results of this main basin. And I think this is our forecast for this year is to keep focused on Espirito Santo Basin and also Santos Basin.

Q - Frank McGann {BIO 1499014 <GO>}

Do you know how many wells in total you are planning to drill in all? And when might we -- in terms of the timing of particular the Tupi well, when we might hear some results from those?

A - Unidentified Participant

The number of wells will depend upon the results. And anytime we have a discovery, then we have to come back and to drill some appraisal wells in order to know the size and to get some rock information -- rock properties and fluid properties. Then, this is something that changes our plan. It's not a fixed plan.

We have a number of wells. We have some drilling rigs available to fulfill some exploration program and anytime we have some new discoveries then we have to come back and drill some appraisal wells. And it's not easy to give you a forecast about the number of wells.

And the time to have some results -- some exploratory results on the both basins, I think we're having these results. Last year, we had declared commerciality of around 2 billion barrels. And considering the last three years, we have already discovered 9 billion barrels of oil and gas as a total. And we are appraising this discovery, proving the reserves. And we have also a huge challenge which is to develop the already proven reserves, which is more than 50% of our reserves is proven and undeveloped. Then, it's easy to give you a better forecast in this.

Operator

Paul Cheng, Lehman Brothers.

Q - Paul Cheng {BIO 1494607 <GO>}

I have a number of hopefully short questions. The effective tax rate for the First Quarter looked like it's about 39 to 40%. The statutory rate is 34%. Is there anything unusual in the quarter or there is just a mix of the business or where does the earning come from?

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

The main reason to explain this difference is the part that there are some incentives in Brazil for cultural support. And this has to comply a cultural project to be -- to have the benefit of the loss -- has to comply with lots of procedures. So what happened during the year all the people that is carrying on one of these projects takes all the research is to fulfill what they have to do to have the right of the support and the benefit of income tax.

And it happens that in the last quarter of the year, most of these projects matured. Then, they draw the money from the Company. And the Company of course reduced this from the income tax. This was one reason when you compare the tax rate of the First Quarter with last quarter that they differ from each other.

Q - Paul Cheng {BIO 1494607 <GO>}

That I understand. For the full year then, what may that social contribution may look like? Are we pretty much done for the year or there is some more to come?

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

No. Every year, we have new projects. Every year, we have the same kind of procedure. And this year, we're going to support some new cultural projects. But, we are going to release the money to them only when they fulfill everything they have to comply with.

Q - Paul Cheng {BIO 1494607 <GO>}

Sure (multiple speakers) what's the annual budget for the program?

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

Pardon?

Q - Paul Cheng {BIO 1494607 <GO>}

What's the annual budget for the program?

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

It is related to the total income tax we pay every year. I believe it's up to 4% of the income tax paid in the year.

Q - Paul Cheng {BIO 1494607 <GO>}

On the -- just wondering, any update about the potential refining asset purchase in Asia? I think you guys have been hopping around. Any update that you can provide?

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

We're looking for opportunities in not only in Asia but all over the places where we send our oil. United States is one of the main destination of the oil produced in Brazil. And so, we are looking for opportunities. They are not easy to find because costs are very high but we still keep looking. We have nothing to say off a new progress we have done in this area so far.

Q - Paul Cheng {BIO 1494607 <GO>}

Can we assume that the strategy would be the same as what you did in the US in the Texas refinery that you are going to buy a relatively simple and unsophisticated refinery? Then, you are going to upgrade it in stuff that you are paying a big team employee already sophisticated refineries?

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

Yes, this is the -- this is our strategy. We prefer to buy an existing refinery then -- and upgrading it, then build a new refinery from Greenfield.

Q - Paul Cheng {BIO 1494607 <GO>}

Also, the next one on Bolivia. When is the sale of the refining asset take effect? Has it already take effect or it's going to be the end of the quarter?

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

You mean Bolivia?

Q - Paul Cheng {BIO 1494607 <GO>}

Yes sir.

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

Yes. We -- the deal was closed now, beginning of May but is validated of end of March. But we're going to keep operating the refineries for one or two more months more just to transfer the operation to them. But the validate is end of First Quarter.

Q - Paul Cheng {BIO 1494607 <GO>}

Right. And you had mentioned that there is about $1R billion of the onetime pension contribution in exchange for some amendment on the future liability. Can you quantify then what is the benefit going forward?

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

The main benefit is very difficult to quantify because the main benefit is to detach the retirees of the pension fund from the active worker at the Petrobras when the salary readjustment of the active force -- the main power of Petrobras. This is the main benefit we have from all these negotiations.

Today, the retirees of the pension fund is going to be readjusted their benefits every year according to the Inflation Index in Brazil INPC instead of -- so we are free to give a higher rise in salary for the workforce in Petrobras and this is very important at this moment that Petrobras is growing so fast.

Q - Paul Cheng {BIO 1494607 <GO>}

I know I take up enough time, just two final questions. One, 2007 capital spending, is it still for the year about $23US billion and any change to that? And second, in terms of the production stoppage in P-37, P-34 and the other one, what is the total impact in reduction in production in the First Quarter?

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

Yes, the budget for the year is still the same as we had. And this is usually Petrobras in the First Quarter, we spend less than the last one naturally because we are increasing our CapEx year-over-year. So when you compare the last and the First Quarter, the last one probably will be much larger than the first one. And we have no reason so far to review our forecasts on the budget.

Regarding the production, I will ask Hugo to give you the answer. Hugo, please.

A - Unidentified Participant

We lose almost 25,000 barrels a day and as an average for the First Quarter due to the stoppage in this main platform, P-37. And the rest of the loss, it was 80,000 barrels a day is in the total. The rest was due to the production reduction in the P-34, which is the Jubarte Field in Espirito Santo and the Golfinho Field and also in the Espadacha [ph] Field, all based on -- mainly related to the energy production that does not allow us to increase the production using artificial list methods. Then, we lose production on these platforms and the 25,000 barrels a day as an average for the First Quarter due to the stoppage in the platform that you asked me, okay?

Operator

(Operator Instructions)

Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

My first question had to do since we have Hugo with us if he could provide us with an update on the platform startups both for '07 and '08 in case there have been any changes. And also, looking down the line at P-57, how the process was moving forward.

Then, secondly, on the cost front, I was just wondering first on the refining front, we saw a sequential drop. Do you believe that is sustainable given that you continue to move forward with a very aggressive refinery upgrade program?

And secondly, on the listing cost front given that the Second Quarter has started with a weak April with production being down, again, do you think the sequential fall investing costs that we saw now can be replicated in the Second Quarter?

A - Unidentified Participant

Okay, 55 and 57 are the first questions?

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

And the new progress.

A - Unidentified Participant

Well we changed the way we are acquiring those platforms. And we split the project in two sides, the first for the hole and the second for the facilities. And we have analyzed some problems that increased the price. Then we changed a little the project in order to keep the price in the level that we want. And we're asking the marketing for new proposals. Now that's the way we are handling the two platforms, P-55 and P-57. And is there any other question for the productions?

Q - Christian Audi {BIO 1825501 <GO>}

Yes, and so as far as 2007 and 2008, Hugo, are there any -- can you provide us with any updates in terms of startups of the different projects you have -- P-54, P-52, P-51, etc.?

A - Unidentified Participant

The FPSO's statutory [ph] engineering is already on stream. The Peedanamea [ph] Field will come onstream on June this year. The FPSO set adjetevtory [ph] of -- for the Golfinho Field will be onstream on August. The P-52 and P-54 for the Ronckodof [ph] Field will come onstream on September this year. And we have also some modest, small platforms in some other fields that will come onstream that they are not so I think -- is there any other platform that you want to know?

Q - Christian Audi {BIO 1825501 <GO>}

No. Then how about the bigger ones in 2008?

A - Unidentified Participant

2008? In 2008 will be P-51 in Marlim salt [ph]. Marlene fouled. I don't have the exact month but it will be probably on the Second Quarter or Third Quarter. And probably the Comoro Bean [ph] Field in Espirito Santo, with tons of FPSO and some Marlimlesh [ph] P-53 for the second -- for the Third Quarter of the next year and probably the second phase of Marlimlesh which is also a standard FPSO also for the Third Quarter of the next year. And I think that's it. And Fraji [ph] which is a project which Chevron is the operator, probably at the end of the next year.

Operator

Prabo Comeron [ph], Loose Sight Research [ph].

A - Unidentified Participant

A couple of questions. Can you comment on -- is there any change in the realized prices for natural gas? It seems higher than last year. Is there any change in the natural gas pricing scheme in the domestic market. Realized prices for USD per barrel is like year-over-year changes about 111%.

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

Yes, the gas price in Brazil has changed for the gas produced in Brazil. Since May 1, we have adjusted by over 20% -- 22% more or less the gas price sold in Brazil from Brazilian production.

A - Unidentified Participant

With regards to -- you were overall to the refining division, you're still using like 13% of foreign crude as a feedstock. Is it expected to go down or you will still be using 13% imported oil in the refinery division?

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

Yes, it's not 13. We're using roughly 20% of imported oil in the refining Brazil. And this depends on our refineries. We are heavily investing in our refineries to be able to process more of the Brazilian crudes. But these take time. We are increasing the average API processing increase -- no, decrease in the average API of the oil processed in Brazil. Our refineries were built in the '70s and beginning of '80s to process Arabic light oil. And today, we are processing an average of 24, 25 API with these oil as a mix from the Brazilian and imported oil. And our target of course is to process more and more of the Brazilian oil here in Brazil.

A - Unidentified Participant

Can you give some comment on how much of your biodiesel requirements for 2008 will be purchased from outside or like you know in terms like how much internal produced biodiesel will be used for next year's mandatory requirements?

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

We do not forecast. We're going to need to import biodiesel to fulfill the requirement in Brazil. The production in Brazil is growing fast. And we believe Brazilian producers is going to be able to supply the domestic markets.

Only Petrobras shall have at the end of this year three new mills prepared to produce about 107 million liters per year the three mills together. And there are other investors building new mills as well. And we hope by the end of the year, beginning of next year, the market is going to be ready to supply all the needs we have here.

A - Unidentified Participant

Then on the gas and energy division, it seems that there is some operating expense called others and seems to be increasing year-over-year. What is exactly this other item, like if I compare year-over-year for gas and energy division, it's increased from 168 million to 238 minus 238 million. So what is this item keep on occurring like others? It's a huge expense. It's the next biggest item after SG&A for gas and energy division.

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

Just a moment please. (multiple speakers) yes, I've been informed here that the main cause of this expense in gas and energy are the costs -- the standby cost of the thermal plants. They are not being dispatched at this moment because the hydraulics in Brazil is very good. We have plenty of water. So all the energy we are selling, we can buy it back from market. We have said that it's cheaper than generating it through our plants. But, the cost of the plants are recognized as the standby cost here. Of course, we have some gains by buying the market energy at a lower price and selling it by volume to our contracts.

A - Unidentified Participant

Can you comment on the Bolivian refinery sales? So what sort of a capacity is expected to go off from the current levels of international capacity of 241,000? How much of (multiple speakers)?

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

The capacity of the two refineries in Bolivia were 60,000 barrels of oil per day. One of them was for 40,000, the other one 20,000. So we sold capacity of 60,000 barrels of oil per day.

A - Unidentified Participant

Sale price was about the agreement between the Petrobras and Bolivia is about 112 million for the two refineries. Are you selling at cost or is there any loss to be realized on this transaction?

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

No. We sold them at cash flow price. Don't forget that these two refineries were very, very simple refineries. They were -- they work on -- (multiple speakers) yes, the input from the refineries were -- they compensate [ph] produced together with the gas that is exported to Brazil. So they were very, very simple refineries.

A - Unidentified Participant

I mean, what was the initial investment cost in Bolivia?

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

We bought them by $99 million.

A - Unidentified Participant

$99 million.

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

Yes.

A - Unidentified Participant

Last question on the production. So can we expect like 2Q production to be similar to Q1 production for '07? Or will those production losses be the last barrels will be recovered in 2Q '07?

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

Let us have Unidentified Participant to give us that.

A - Unidentified Participant

Yes. We are expecting a slight increase in the level of production for the Second Quarter. But the real increase in the production will start at the end of the Second Quarter up to the end of the year. When we -- there would be some big platforms that we will start producing.

Operator

Gustavo Gattass, UBS Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

I have two quick questions here. First, you changed the price for the intracompany gas transactions. I was just wondering how much of a gain did that actually bring to the E&P unit? And by offsetting it, how much of a loss did you see there on the gas and power unit that wasn't there before?

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

(multiple speakers) the benefits for the E&P was $420R billion, which is changing the pricing procedure. And this was a quarter compensated by a reduction in the gas and energy and javistate [ph]. That was the only segment that had a benefit like this.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Perfect. My second question has to do with that benefit. If we look at the gas and power results from the Fourth Quarter to the First Quarter of '07, there was really no deterioration of the results. I was just wondering, what improved so much to offset this change in cost structure from the E&P unit?

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

(multiple speakers) if you recovered the mid of last year toward the Third Quarter, there were movement of energy increase in Brazil. And this caused some loss to the gas and energy division. By the end of the year when rain started pouring again, our salt [ph] prices were settled. And they came back to their position making money on selling energy that we bought in the market or liquidating their contracts in the market. These were one of the main consequences for the gas and energy movement of last year. I don't know if this answers your question.

Q - Gustavo Gattass {BIO 1702868 <GO>}

No, it does. So most of it came from spot prices; that's the point.

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

Yes.

Operator

We now have a question that is coming from the Internet.

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

I've got a question here from Nick Barnes [ph]. Could you comment on the SG&A charge incurred by the E&P division in First Quarter and whether it included anyone one-off's? Also, in relation to the recent announcement about the disposal of the Bolivian refining business, can you state how much EBIT these assets generated in the First Quarter?

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

Yes, the costs for the Q1 of E&P had only the pension plan as one-off's. No other costs have been of this kind. All the others are normal costs. And for the Bolivia, we had -- we had no EBITDA to consequence. We had a loss of $3R million in the quarter. But, this is not really very small for the Company.

Operator

Marc McCarthy, Bear Stearns.

Q - Marc McCarthy {BIO 1542384 <GO>}

I have a few questions, some easy, some more difficult. The easy is, could you give us some update on the stock repurchase plan? I was looking through the press release, haven't looked at the IDR. Have you bought any stock back or what are the plans -- is the first question.

The second question is, if you can be specific about where the dry hole expenses were related to on the international side in the First Quarter. The dry holes were -- or the expensed amount was very similar to the Fourth Quarter which I would've understood to be the sort of year-end cleanup. But, I'm interested to understand how that may impact if any of it is coming from the US Gulf of Mexico or Angola to the extent that that will or could impact your production targeting for 2011. Those are two questions. Then, I will come back with the others.

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

Okay, first one, the purchase we did not start yet. We're planning to -- we have paid lots of dividends in this First Quarter. Then we are leaving the repurchase for the remaining of the year. As we start, we'll be a comingle [ph].

And dry hole expenses, we had not a problem with dry hole. We have FX expenses in the international area with seismic data. We bought new seismic data for US Gulf Coast we bought from Angola and we bought from Turkey. And all added was higher amount than usual for a quarter. And this probably is not going to repeat in the following quarters. Because we are increasing our exploration efforts in all these areas. And these are the kind of first expenditures done for the exploration.

Q - Marc McCarthy {BIO 1542384 <GO>}

So Almir, you are suggesting that you expensed the seismic data as opposed to capitalizing it as you would where you are only expensing the portion that was attributable to a dry hole?

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

They are expenseable. We cannot capitalize that.

Q - Marc McCarthy {BIO 1542384 <GO>}

So you expense them because you have to or because you want the tax deduction?

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

No, because we have to.

Q - Marc McCarthy {BIO 1542384 <GO>}

But there were no dry hole expenses -- or meaningful?

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

Not meaningful. Only the usual, not that can outspend.

Q - Marc McCarthy {BIO 1542384 <GO>}

Then coming back to Hugo. As it relates to P-55 and P-57 and also if you can touch upon accelerating P-56, I'm curious if you have changed plans to utilize semisubmersibles or if you have now changed over to using FPSOs for any of these projects and if so, which ones?

Then if you could tell us how the auction process is going to go on? Obviously, we don't have a huge amount of time here. And your ability to bring on those projects in the 2011 and 12 time-frame is of course the focus of attention here.

A - Unidentified Participant

The problem of -- the anticipation of P-56 requires that we change the project in order to copy the P-52 project which is a semisubmersible. This does not mean that we are changing the way we are developing the field. The necessity for us semisub for dispute, it is quite similar with not only the oil but the uncoating conditions on the field. Then it has allowed us to copy the project of the P-52. Then, we saw this as an opportunity to anticipate P-56 in order to compensate the delays that we will face on P-55 and P-57. But in order to develop the fields in Espirito Santo and Santos Basin, probably we will keep the track of using standard FPSOs that will lead us to develop these fields as quick as possible.

Q - Marc McCarthy {BIO 1542384 <GO>}

So you're thinking to use FPSOs for P-55 and P-57 now?

A - Unidentified Participant

No, no, no. We didn't change the project of P-55 and P-57.

Q - Marc McCarthy {BIO 1542384 <GO>}

They are both semisubmersibles, right?

A - Unidentified Participant

No, no. P-57, it is an FPSO. And P-55, it is a --

Q - Marc McCarthy {BIO 1542384 <GO>}

Semisub.

A - Unidentified Participant

Semisub. And they will keep -- we're keeping the project. We just changed the way we are eliciting our bidding for the asking for the proposals. But because we split the proposals and one for the hole and another one for the facility in order to try to reduce the price.

Q - Marc McCarthy {BIO 1542384 <GO>}

So when do you envision the actual tender processes for these to actually get underway? Are we looking at within the next month or within the next six months?

A - Unidentified Participant

Yes, I think within the next three months, we will be able to ask for the proposals.

Q - Marc McCarthy {BIO 1542384 <GO>}

Whatever happened to the plans to sort of explore generic platform potentially as a fallback to radically modifying these projects? Has that not really progressed very much, or is that more for 2015 and beyond?

A - Unidentified Participant

Oh, no. We are using generic FPSOs, and we will keep using these. For the Espirito Santo's development and also for the gas fields, we are using generic FPSOs from now on. And it is a good opportunity for us and we will keep this standardization of the projects in E&P.

Q - Marc McCarthy {BIO 1542384 <GO>}

I just have two other questions. One which is easy, can you confirm that you guys are now thinking to lease a third what is it -- FSRU to increase your potential re-gas capacity to 35 mcm per day?

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

I didn't get it. Repeat please.

Q - Marc McCarthy {BIO 1542384 <GO>}

As far as I understand, you were exploring leasing two floating regasification units for delivery in the sort of 2008, 2009 time-frame. However, I'm reading now that you are in fact looking for a third in order to increase the amount of potential import capacity having now signed the agreement with the Nigerian LNG project. So I'm trying to get some confirmation about whether or not that is or is not true.

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

It's not the other decision. What we have in-hand right now is the agreement we have signed to build two of these platforms and one to be delivered in the first half of next year and the second end of next year, beginning of 2009 -- I believe more towards beginning of 2009. And we are studying the possibility of having a third one but no decision has been taken so far.

Q - Marc McCarthy {BIO 1542384 <GO>}

So as we think about the strategic plan through 2012, we're better off considering that it is in as opposed to being out?

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

At this moment, I cannot tell for sure. But there is a good chance.

Q - Marc McCarthy {BIO 1542384 <GO>}

Then just the last question relates specifically to the strategic plan. I understand that you have a fairly good number of your drilling needs is not contracted beyond 2009, 10, and 11 and now of course 12. Can you give me some sense of whether or not how was that cost in CapEx treated in the last strategic planned revision at that time was not contracted? Was it viewed as being at the spot market at that time? Or was it viewed -- and how has that changed?

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

We use costs in our expertise plan. All the city's plan takes recovering costs. At the moment, we elaborate them --

Q - Marc McCarthy {BIO 1542384 <GO>}

So we're talking about drilling costs, not just lifting costs?

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

No, the drilling costs. Drilling costs for the last statistically end [ph] that were formulated in the first half of last year took as drilling costs at an average cost of the market at that moment.

Q - Marc McCarthy {BIO 1542384 <GO>}

Okay, so the revision is really just the spot market change in dayrates for the percentage that was not contracted from then until now hypothetically?

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

Sorry, could you repeat that?

Q - Marc McCarthy {BIO 1542384 <GO>}

The change in your CapEx from the last strategic plan to the current strategic plan hypothetically should just be the change in the spot market for the dayrates for the portion that you don't have contracted.

Yes, regarding drilling costs yes. If there is no new fields to be added because of costs we are adding a new year next (multiple speakers) --

Sure, sure.

Operator

Jose Costabucka, T. Rowe Price.

Q - Jose Costabucka

Basically, my question has been answered. It was related to the share buyback program. But if I can ask on that issue, what has changed basically since the announcement that prevented you from buy more shares or buy any shares at all since December? Was has changed in the last five months that explains that you didn't buy any shares?

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

If you follow the presentation, you saw that we spent $7R billion of the cash balance we had at the end of the year. So during -- and out of this 7, 6 was given to the shareholders as dividend or interest on capital. So we paid lots of money to the shareholders.

We used a quarter on these five -- four months. And we're looking at the market. We have up to the end of this year to fulfill the target we have. And we hope due to time, we will be in the market buying the shares back.

Q - Jose Costabucka

Right, but that means that the share buyback program is going to be completed by the end of this year because of this extra payment that you were not expecting when you announced the share buyback program? So I'm confused.

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

No. We have one year to implement the share buyback. We can buy 100% or 0%. It depends on the Company procedures. Of course we knew that at the end of the year, when we presented the program of share buyback, we knew that we had all these interests on capital to be paid during the first half of the year. So it's not conflicting with the program of share buyback, which when it shall be implemented in the remainder of the year. How much we're going to buy, I don't know. I cannot tell you from now. But, we intend to start implementing it in the future up to the end of the year. This is the limit time we have to implement.

Operator

Our next question is another Internet question.

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

Let me read this. This comes from Mast Home Asset Management [ph]. Could you expand maybe a little bit more in your expectation of lifting costs for the Second Quarter? And could you comment why costs were lower in the First Quarter of '07 compared to the Fourth Quarter of '06?

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

(multiple speakers) yes, regarding the Second Quarter, we have no information; yet, we are well in the Second Quarter. What I can tell you is that so far, we have nothing new that could lead us to expect higher costs. So probably it will come in line with the previous one.

And when you take the Q1 compared with the Fourth Quarter, you have -- we have a lower costs mainly in personnel because the Fourth Quarter has an increase in salaries. Usually, we revise the labor force salary in beginning of September. But, the negotiation with the union goes -- extends towards October/November sometimes. So the decision is taking later than the Third Quarter.

But, when we come to a conclusion, the salary rise applies retroactively to September 1. And in this case, all the costs goes to the Fourth Quarter. And this does not happen in the First Quarter of the year. We have no previous costs attributed to the First Quarter. Then, these were one of the main differences we had in the lifting costs in the -- when comparing the First Quarter with the Fourth Quarter of 2006.

Operator

Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

It was just a follow-up about the question I answered earlier about refining costs. We saw a sequential drop. My question was, given that you continue to invest heavily on the upgrade of the refineries, was that a one-off or do you expect -- or should we expect refining costs to fall sequentially again?

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

That's more complex are the refineries, more higher are the costs. So as we are becoming a more sophisticated refiner able to process a heavier crude, more chemical, more product catalyzers we have to use and higher are the costs and appreciation of course that all costs. All this is going to add. Of course, we're going to have a larger margin because we will have -- we will be able to buy crudes at a lower cost and the margin is going to be larger.

Operator

Marc McCarthy, Bear Stearns.

Q - Marc McCarthy {BIO 1542384 <GO>}

I wanted to ask about the spike in refining CapEx. Which projects are actually at this stage being executed? You have some fuel specification requirements to be done if I recall. You were doing an upgrade at Head Duke [ph], Ray Gap [ph], really for completion by 2008, also REVAP and REFAP.

I am curious; there were some changes to that plan as it related to the conversion capacity. But, the fuel quality requirements are in a sense obligatory. That's my first question.

The second question is a corollary to that. You guys have done just an absolutely great job of being able to maintain your sales of gasoline in Brazil despite the fact that ethanol continues to grow, the vehicle fleet to buy that product continues to grow. And the near-term price outlook remains such that it will remain very competitive. And yet, your sales of gasoline have been growing, if not perfectly flat. And your exports of gasoline which I would've thought would've grown haven't really grown at all. As you do these investments for quality in order to meet the needs of potentially the US market, will we not see this change?

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

Yes, last year, we had a change in the percentage of ethanol mix to the gasoline. At the beginning of the year, we reduced from 25 to 20%. And now, we're back to 23%

Q - Marc McCarthy {BIO 1542384 <GO>}

Right. Then we'll go back to 25%

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

Yes. So it Depends on the availability. So we are still selling more gasoline than we were expecting according to our perception at the beginning of last year when 25% were taking out we rented [ph]. On the long-term, it's difficult to say because not only in Brazil, the consumption of gasoline process and oil plus natural gas that are used in vehicles is going to grow.

Q - Marc McCarthy {BIO 1542384 <GO>}

But it's really only in Brazil that it's truly an option. So I'm just asking about in Brazil, the price of ethanol is cheaper? If you drive a flex fuel car, you never buy gasoline. That will -- it's only maybe 15% of the vehicle fleet today. But over the next five years, it will continue to be taking market share away. So I was asking specifically, what was the money spent for -- in refining in the First Quarter? Will you invariably be increasing gasoline exports over the next three to four years?

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

Anyway, we are investing the quality of gasoline to be prepared to export if necessary. The Brazilian market as you will recognize is a very different market. We suffer from not only the ethanol but from the natural gas as well. As you know, all the new crabs [ph] in Rio de Janeiro and Sao Paolo runs with natural gas. This takes a good portion of the gasoline out of the market as well.

We did not feel it as a problem so far. But, yes, it's a problem. It is a point that we have to be aware of it and following projecting how we can manage it. But we believe that the United States is always a very good place to place our surplus of gasoline. 9 million barrels of gasoline per day is a lot.

The first part of your question is regarding the refining and the projects we are implementing. How can you tell because you pull out [ph] all the details on it.

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

Mainly in virtually all of the refineries, we're putting in HDT units.

Q - Marc McCarthy {BIO 1542384 <GO>}

HDS units for gasoline, yes.

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

And hydrocrackers and delayed coking units.

Q - Marc McCarthy {BIO 1542384 <GO>}

But the schedule was changed a bit, right, at the middle of last year, the end of last year? Because I was trying to get an update because we did see a spike in CapEx. Have one of these projects got underway or--? That's all right. I will follow up with you off-line.

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

(multiple speakers) yes, basically what was scheduled was to have all of these units ready by 2011. And we have brought up the termination date to 2009, so you're going to see an acceleration in the ribbon [ph].

Q - Marc McCarthy {BIO 1542384 <GO>}

I will follow up with you off-line. There's some more changes in that.

Operator

There appear to be no further questions. I would now like to turn the floor back to the speakers for any closing remarks.

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

Thank you, all for being here. I hope that next quarter, we can have as good results that we had this time. Thank you. And see you soon.

Operator

This does conclude today's Petrobras First Quarter 2007 results conference call. You may now disconnect your lines and have a wonderful day.