Q4 2011 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO, IR Officer
- Theodore Helms, Director IR
- Unidentified Speaker, Unknown

Other Participants

- Christian Audi, Analyst
- Denis Parisien, Analyst
- Emerson Leite, Analyst
- Felipe Santos, Analyst
- Frank McGann, Analyst
- Gustavo Gattass, Analyst
- Pedro Medero, Analyst
- Robert Kessler, Analyst

Presentation

Operator

Ladies and gentlemen. Thank you for standing by and welcome to the Petroleo Brasileiro S.A. conference call to discuss the Fourth Quarter 2011 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, Petrobras CFO and Investor Relations Officer and his staff.

At this time, I would like to turn the conference over to Mr. Theodore Helms, Investor Relations Executive Manager of Petrobras who has some additional comments. Please go ahead, Mr. Helms.

Theodore Helms {BIO 15433381 <GO>}

Good morning, ladies and gentlemen. Welcome to our conference call to discuss Fourth Quarter 2011 and year-end results. We have a simultaneous webcast on the Internet that could be accessed at the site, www.petrobras.com.br/ir.

Before proceeding I would like to draw your attention to the slide number 2. We may make forward-looking statements which are identified by the use of the words will, expect and similar that are based on the beliefs and assumptions of Petrobras management and are information currently available to the Company.

The conference call will be conducted by our CFO, Mr. Almir Barbassa. He will comment on the Company's operating and financial highlights and the main events during this quarter and he will be available to answer any questions you may have. Almir, please begin.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Good morning, or good afternoon for everyone. Thank you for being with us in one more conference on our results for 2011 and Fourth Quarter of 2011.

Starting with the highlights of the Company we can read in the spot in the numbers and figures we have here what is the performance of the Company. We keep growing our results. We have a reserve replacement ratio of 148%, keeping our high long life of production near 18, 19 years, increasing the production of oil in Brazil in total the oil-equivalent and mainly gas. We have increased by 18% mainly from Brazil, because we finished the construction of some important pipeline that allowed for delivering this gas to the market.

Pre-salt is contributing every to the increase of production. Our share of the production in pre-salt today is 133,000 barrels per day, not including our partners here. With the partners we reach production year 200,000. And we have some new platforms and units that will come production during 2012, including the new pilot on the Sapinhoa. Sapinhoa is the new name given to the field of Guara, where we used to say Guara area now we have Sapinhoa. That was declared us commercially viable with group reserves of 2.1 billion barrels of oil.

We keep selling more and more to the Brazilian market that is growing and presented a 9% increase on 2011 over 2010l. And in 2010 we had an increase of about 10% in average. So two exceptional years for the market. And our investment has kept in the range of BRL70 billion, what allows for the growth of the Company of projected. In dollars this is near $45 billion, what means the BRL224 billion programmed for the five years plan.

Next looking at the proven reserves we can see that Petrobras is essentially a Brazilian company and with a large share of reserves in deep and ultra-deep waters. We are growing the proven reserves in Brazil. In the last 20 years we had reserve replacement higher than 100%. What means every year we were adding some new proved reserves to our total proved reserves, keeping our reserve production ratio of 19 years.

Next the exploratory activity has been very successful in Petrobras with success index higher than 50%, adding new fields as show in the pre-salt and post-salt in Brazil. And this is contributing to add potential new reserves of cost lower than $2. In 2011 the average was $1.55 -- $1.56 per barrel of new oil found. We are expecting 2012 to present around

$2. And we are increasing our expenditures in exploration with -- increasing from BRL9 billion to BRL10 billion dedicated to exploratory activities.

We are increasing the number of wells we are going to do offshore from 47 in 2011 to 66 in 2012. And this is a reflection of the availability of new rigs as we are going to discuss in more detail next slide.

Next please. The production in Brazil increased substantially in the last quarter and you can see that the main contribution came from our stoppages. The volume we lost in the Third Quarter on stoppages programmed and unprogrammed was 79,000 barrels per day. And in the Fourth Quarter it reduced to 24. This is important and there is new wells that were connected from the Varredura project.

Discoveries that in the greenfield of areas that are producing and connecting wells to the existing platforms, we were able to add new production of more than 40,000 barrels per day during the -- but at the end of the year we were expecting to complete 16 wells to increase production. But we were able to do only nine. There are other seven that will come on stream during the first half of this year. Four of them has been already completed and in production.

So we expect the planned and unplanned maintenance to be reduced from in the 67,000 we lost in average 2011 to a lower range, mainly the unplanned that we're in the level of 33,000 barrels per day we lost from production in 2011. And we expect not to happen in 2012.

The wells I just commented it has affected the production as well. The wells that were to be completed but not entered into production only this year. The gas and the energy that there is (inaudible) by important pipeline that allows for the production of Mexilhao, Urugua and Lula. We have been pleased that domestic produced gas will be sold -- to be sold in Brazil. And the reduction of flared gas as well.

The production for 2012 is expected to receive the largest contribution from P-56 that will have an additional average production for the year in the range of 90,000 barrels a per day. The second largest will come from P-57 that will contribute to an additional production of 70,000 barrels per day. There is the Lula Pilot that has had its production increased at the end of 2011. Then the average of range to (inaudible) would be higher. And there is another well that is reconnected to the Pilot as well.

And new platforms that will come, as well as new wells from the Varredura. We expect to have at least five production wells to be connected with existing platforms, increasing by more than 30,000 barrels per day the average production of the year.

The contribution of Santos Basin pre-salt and the accomplishment of the year as we can see the production of Lula Pilot that reached 65,000 barrels per day at the end of the year. And there is still another well to be connected. The Declaration of Commerciality of Sapinhoa Field -- a (inaudible) number of new wells drilled in the region. When compared with the existing wells we did 17 (inaudible). In 2010 we had 20 wells drilled in the region. So this again reflects the number of leads available.

And important to say is that the dark areas shown in these slides are the areas that we acquired from (inaudible), the transfer of rights of 5 billion barrels. In this area we had drilled the second well in the Franco Field, Franco area. And it proved to be as good as the first one. And we're projecting to have a first extended well past dip area before the end of this year.

And this gives the information about the drilling and the work we're doing to reach production that we are expecting in 2015. To do that we have already acquired four hulls to be transformed into FPSOs to produce in the area.

Campos Basin pre-salt is contributing already with 81,000 barrels per day. And there is expected additional production of more than 30,000 that will come from new wells to be connected to existing platforms. And another nine wells -- exploratory wells shall be drilled. We hope to keep our success as we had so far in discovering new opportunities for increased production in the area.

Next the number of rigs we have today is plus the ones we're going to receive during the year. We will complete 34 rigs able to drill up to 3,000 meters of water. And this gives us the equipment we need to perform our projected program.

To receive new rigs after 2015 we just announced a bid where we agreed to hire another 26 rigs with the seven we had by the last year. We completed three rigs and they were all contracted under our international price scenario, very competitive with international standards.

In the costs of E&P we can show here how the performance of the different costs has been on the last three years. When you see lifting cost on the left-hand side that is the absolute price or the absolute cost for distribution of the price of a barrel through different shares that it contributes.

The cost of lifting has increased from BRL17 to BRL21 from 2009 to 2011. But looking at the relative share of these costs to the price we see that they were a reduction from 17% of the price of a barrel to 13% in 2011. While at the same time their contribution to net income has increased from 25% to 33%.

Of course there are many impacts inside of these value in terms of costs that follows the price of oil. But we have been able to keep our costs -- exploratory costs, DD&A and others, even reducing from 23% to 16% on the same period. So it shows how more productive and how more profitable has been the E&P production.

The next slide shows that on the left-hand side the spreads between the price we sell our oil heavier than the Brent compared with Brent. The spread in the range of $6 to $10 remains as such.

On the right-hand side we have an impact of the depreciation of the real mainly in the Fourth Quarter. And increasing when translated to reais the international price of oil products increased the differential between the price we're selling, although we have increased the prices in the domestic markets in November. But the impact of the exchange rate was bigger.

Domestic refining and sales. We are working hard to produce more and more, mainly of diesel and gasoline. And we are using more -- our refined capacity reaching 92% of the refining capacity. But although we have increased our production the market has increased faster and rapid. So we need to import more to supply the consumption in Brazil until we have the new refineries that shall enter in production by 2013 and 2014.

In the downstream I have mentioned, we add more products to our processing capacity -- reach our utilization factor to 92%. And increasing the production of -- that we know later as well during there the year of 2011 14 new units to improve the quality of product, as required by regulation in Brazil.

And we have many others to be inaugurated as well as increasing the complexity of our existing refineries and becoming more better prepared to process the oil produced in Brazil.

Only in 2011 we have increased our processed oil in Brazil that were supplied by oil produced in Brazil by 50,000 barrels per day. And this is the best way to sell the production we have. We had no transportation costs on it.

And for the year we have the main projects we have in the downstream are the two new refineries, as I said, is going to come on stream next year and 2014.

Gas and power, we supply the market with the same amount. But the origin of the gas is different from the previous year, mainly because of in our age of pipelines we have been built and allowed for more production of domestic production. And the growth of our oil production we have more associated gas available as well.

In terms of demand, we have less on the thermoelectric area because of the rain season in Brazil has been very good. But the industry has increased the demand. And mainly the industry and the use we have for gas in our own activities. So these make the same volume with the different weeks of demand as well as in the supply side.

For the next year we are looking for more balanced CapEx distributed among different areas on the segment, where we are going to build a new power generation plant, a new fertilizer plant, a new LNG terminal and a natural gas processing unit to phase the increased production from the Campos and from pre-salt.

Now we come to operating income. When we see it 2011 income -- operating income compared with 2010, we see that we had a higher sales volume and increasing our sale production because of the volume and because of the price we sold the oil products in the year.

But the cost of goods sold has increased as well. And they use many factors here. We had a larger volume of imported oil and at the moment where we had in the domestic market a lower price when compared with international. But higher than the previous year.

And we sped up the production of the oil in Brazil. We paid more of the net take because of the increase in international oil price from one year to the other, as well as certain other costs we had with increase of expenses in the dry wells during the year.

And we see the net income. We see that adjusting for operating income we have the financial results for the main reason that caused a reduction on the year-to-year comparison. And this was because in 2011 there were depreciation of the real, while in 2010 there were an appreciation. So these movements when applied to the debt we had denominated in dollar the industry is adjusting into our net income. But has no cash effect.

We're going to make a comparison here for Third Quarter with Fourth Quarter in terms of operating income. And I have said we sold more with higher price in the Fourth Quarter. But the cost, as already explained, has a bigger impact in this quarter mainly because of the average of the exchange rate applied to the Fourth Quarter compared with the one prevailing in the Third Quarter. We're going to discuss these in more detail ahead.

And we had special participation on tax due to the production growth as well that has increased. And there are few wells -- important wells that is contributing more to the production and is being charged with higher tax rate what increases the cost of production.

And there were also the dry holes and the impairment that has occurred at the end of the year does not defer exactly all of it to the Fourth Quarter but the whole year sometimes. But it is causing here the reduction of the Fourth Quarter results.

Going to the next we have the net income. And adjusting for the operating income we just analyzed, we have here a big result from financial results. In the Third Quarter we had a big impact on our results because of the depreciation of real that has occurred at the end of Third Quarter -- mainly at the second-half of September. And this now is adjusted to make this comparison.

On equity income we had an increase in the participation we had in different companies. And taxes is another point that has caused a reduction in the results. But there is a contribution here for an adjustment that we have been in Nigeria, where we used to pay taxes and not including in our -- as tax paid. But we were taking out of the production the oil that correspond to the tax.

Now we're taking the oil as ours, as is the most common procedure. And have in the tax paid as cost of the Company. But in terms of net income there is no impact. But there is an increase and in the Fourth Quarter in terms of what we are showing as expense. And the minority interest is the other side of the financial results. That is not part of Petrobras. But from the other shareholders on the controlled subsidiaries.

Trying to give a contribution to better understand the practice that caused some deviation from what market was expecting in terms of results and what we have presented. And what -- I don't mean that this is where the real or the items that caused that effect. But we did that just on the purpose of trying to bring some light to that difference.

And the first item here is the average FX exchange rate affecting the costs on the Fourth Quarter -- what this means. It means that we have many costs in terms of operating costs, in terms of government take, in terms of product imported.

All of these when the transaction was done are referred to dollars. It was affected during the quarter by more than 10% in the difference of the average exchange rate that prevailed in the third and Fourth Quarter. While the exchange rate at the end of these quarters were moved just 1%. When compared at the end of September and the end of December exchange rates were about the same. But the average moved more than 10%.

And these sometimes cannot be seen easily in all impact it has. We did our best estimate here for operating and EBITDA in the range of BRL2.6 billion of difference between the two quarters.

The participation of imported goods in the sales we did that has increased from 28% to 32% is another fact. The increase of sales were mainly supplied by imports. And this has increased the cost of goods sold. Our best estimate here is more than BRL1 billion also.

Inventories. We formed a Board. What is this? When the first information that comes to the market is information of Brazil exports. Every product that leaves the boundary of Brazil isn't sale for Brazil, is an export. But this is not the case of Petrobras that sometimes have a larger and more expanded boundary.

So then we have a subsidiary in other countries to where we are exporting our oil, oil products. And it is still ours in terms of consolidation. It did not left -- that goods did not left the Company, it remains in our balance sheet.

So when looking at the Brazil exports you may have a list or a long information giving an expectation sales generation that will produce more operating income and the EBITDA as well as net income. That in fact did not happen, because all that product went to inventories.

There is another item here. This is related to accounting procedure. We are now adopting Brazil starting from the Fourth Quarter. But applying to all the year of 2011, a new procedure to consolidate results on the joint controlled companies. We are now doing -- using the same procedure as is in the US GAAP procedure.

We're just taking the results of a joint-controlled company by the result -- the financial results, the share of the Company, meaning the results the Company presents -- the equivalence of an equity.

Dry hole costs is another item that happened to be higher in the Fourth Quarter than the average. And this is the results of procedure. At the end of the year you will do -- completely review on the wells that has been drilled or under appraisal and evaluation if it is discovery or not. Then we decide to build the costs to the balance sheet results.

So there is an increase in terms of average that could be expected, as well as impairment. We had run at the end of the year and it caused another say BRL1 billion [ph] of extra cost. And what we called here extemporaneous depreciation is depreciation that was due to other quarters. But was allocated here because the assets were not properly allocated in due time until the asset start operating. They start operating before the Fourth Quarter and were not under the depreciation process.

So it was incorporated then as a production asset at the end of the year. And this caused some extra depreciation costs at the Fourth Quarter. So this is just tentative to contribute to explain what are these possible factors that caused deviation from what was expected.

Looking at the E&P results, we have an increase in the sales in terms of revenue contribution from price and from volume. We were in higher production in the Fourth Quarter. And main counter effect on that was the effect on average costs in the cost of goods sold.

And the reason here was the average exchange rate that caused us more cost when paid in dollars, translated into more reais. And as well as the price of crude oil in Brazil. Although if you take the current price internationally if fell from Third Quarter to Fourth Quarter. But when translated into reais with a higher exchange rate you have a higher price and the government take is paid there is this information.

And there is the dry holes as well as operating expenses that has increased due to the salaries increase and other practice. So on average we had almost leveled results for the quarters.

Next shows the results of downstream. And here we have a higher impact on the average costs, mainly because of the imported goods. And although we had an increase in sales and price, this was not enough to compensate for the extra costs. And this brought the results to an even lower result in the Fourth Quarter when compared with the third one.

We have here the investment. And 2012 investments in the range of BRL87 billion. But with the split among different segments in Petrobras keep growing the proportion of E&P. As our business plans shows, we are going to increase along the next years the participation of E&P in the budget of the Company. But we keep the downstream that is investing in building new refineries, as well improving the quality of products and getting prepared for higher and the bigger markets we are supplying only just in Brazil.

We have here our capital structure. That has increased somewhat our leverage in the third and Fourth Quarter. But this is highly due to the exchange rate that has depreciated real and increased the volume of debt when denominated in reais.

But the important point here is the high liquidity we keep in the Company, at the end of the year with more than BRL50 billion available. And we just finished a very successful transaction issuing $7 billion of bonds to international market very successfully, when we had a demand of about $25 billion. That shows the health of the Company and keeping -- helping keeping the high liquidity to phase our projects and our programs we have had.

With that we finished the presentation and we are prepared to answer the questions you may have. Thank you very much.

Questions And Answers

Operator

(Operator Instructions). Frank McGann, Bank of America.

Q - Frank McGann {BIO 1499014 <GO>}

Just two questions. One, the tax rate, I know you touched on it briefly when you were going through the Fourth Quarter numbers. But it was quite high and I was wondering maybe if you can give a little bit more details. Is there anything special that caused that to be high? And what kind of an average tax rate perhaps would you expect going forward from here, if perhaps the deconsolidation of subsidiaries has changed that in some way perhaps?

Then in terms of importation, obviously, a major factor and it has been a growing factor over the last couple of years. And likely to continue to be factor, what are you seeing in the First Quarter versus the Fourth Quarter. And what are your expectations in terms of the effects of importation on profitability in 2012 versus both the Fourth Quarter and the full-year 2011?

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

We have in terms of tax rate the main reason here is what I said regarding Nigeria. The contribution to development in Nigeria were given oil. So the oil produced we were taking a part of it and giving to development of the contribution.

But from the beginning of 2011. And we did this correction in the Fourth Quarter, we start -- we reviewed that procedure and we adopted a more common procedure in the area where we take the oil as ours. And we sell and we give the proceeds to the government.

And this does not affect our net income. But it does affect our revenues as well as tax paid. So there is really a high increase in that moment because of that reason.

The other -- we are estimating that this was about BRL700 million in the total of the taxes expense of BRL1.5 billion. And that is -- maybe the consolidation has some impact as well, because now we're taking only our share in the net income that is added to the equity of our subsidiaries.

But we did not calculate on how much this was taking into consideration that the operational income for this consolidation was about BRL700 million there might be some impact as well. But that is lower level than the case of Nigeria.

Q - Frank McGann {BIO 1499014 <GO>}

Which should continue. And we could assume that would be spread out over a year as opposed to just one quarter in the future. So that the main effect would be spreading it out versus the absolute amount?

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

If I fully understood you, this is going to continue for the next time -- for the next quarters. We are going to incorporate as income that will affect our operational income, our EBITDA. And then adjusting to the tax at the end of the balance sheet building. No impact on the net income which increased somewhat in the other items, what in certain level would you compensate part of the reduction caused by deconsolidation that has an impact in the other direction?

Regarding the imports of Fourth Quarter 2011 first of 2012, I will ask Marcel [ph] from the downstream if he has some comments on that.

A - Unidentified Speaker

First of all, talking about sales, we expect to have on the 2012 the sales on the domestic market a little bit higher than we had on the 2011. Of course, we'll increase a little bit the production. But level off goods that we are going to import on 2012. I mean, talking about the average of the 2012, it is going to be very close to the average that we had on 2011.

I can tell you right now about the (inaudible) that I am talking about EU versus here it is going to be around the same level. It is okay?

Q - Frank McGann {BIO 1499014 <GO>}

Yes. That is perfect. Thank you very much.

Operator

Emerson Leite, Credit Suisse.

Q - Emerson Leite {BIO 4003528 <GO>}

I have two questions. And maybe if there is time, a third one. First one is related to this overall pressure in costs. Obviously we are seeing cost pressures from different sources. We had an important increase in labor costs by the end of last year, given the wage negotiations. And service costs or contracted services are also going up meaningfully.

My question is what is the view of inflation -- cost inflation in services? In your direct to employees we know what were the increases. But from elsewhere in the supply chain what is your perceived cost inflation there and any hopes that these could diminish going forward? That would be the first question.

The second question is related to this recent contract for the conversion of 4 FPSO hulls for the rights transfer areas. I understand that the winning bid was for a lump sum of $1.7 billion. And I wanted to understand better the scope of these contracts, as it seems to be for the conversion of four hulls and it seems to be pretty high number on a per hull basis.

Just to make a comparison, the Company is paying $3.5 billion for the construction of eight hulls and the conversion of half of those hulls is almost half of that contract. So the number really comes I would think way too high. So I wanted to understand what is the scope there? What else is being provided that we might not be seeing at a surface?

And finally, if there is time, I would like to see what is the Company official opinion whether the current level of refined product prices is adequate or not for the current level of profitability?

We had some comments yesterday from the incoming CEO. But I don't know whether the press had the comments in the right context or not. So I wanted to get the official message of whether prices are adequate or not at the current time. Thank you very much.

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

So starting from the pressure on costs. This is not new. This is -- when you look at labor, services and other, we are seeing cost increase since oil price start growing.

What I have shown you is that the average cost -- lifting cost is a very important cost. The average relative term is being lower than used to be. Of course, we have every year one adjustment on salaries. We are growing. We have more employees working for the Company. But we don't have these on a day to day basis, we have long-term contracts and they are adjusted every year by inflation.

So we are reflecting the costs of inflation. But what has impacted us more was the action rate. Action rate is another price that moves dramatically somewhat, sometimes in a short trend. And these reach all our costs. Although in the long run we are prepared to (inaudible) with that take into consideration the price of oil denominated in dollars. And that we follow in the long run. So this is what I can tell you regarding. I don't see as a problem. This is what is happening for some time already.

Regarding the cost of conversion, really, I don't have the figures. I cannot help you at this moment. But I am going to see if I can give you an answer on that, mainly comparing the conversion costs of these four rules that we will be using in terms of rights and the eight ones that is being built for the other fields.

And regarding refined product price, Marcel, you have any information on that please, additional to the one we have given already.

A - Unidentified Speaker

Well I guess it is just as I said. I don't have any additional information right now.

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

But let me add something here. The question was that if prices were at a fair level or not. I can tell you that taking into consideration the price policy of the Company, yes, the Company keep generating high EBITDA -- is being able to keep the liquidity of the Company. And we are in line with our long-term plan. So I don't see, even if you look at the moment and take a picture of a moment, yes, you may have a different view in the short -- very short period of time. But on the long run it is in-line with our projections.

Q - Emerson Leite {BIO 4003528 <GO>}

Thank you. Just to follow-up on the first -- after the first question about labor costs. On the service contracts that you have, you mentioned they have clauses for readjustments on a yearly basis. Most of them are inflation packet only. So you don't have like cost pass-throughs. For instance, if labor is going up for your suppliers of services on the day to day indirect employees, the inflation that you are seeing from indirect employees is actually inflation baked on, it is even less than the 10% or so that your employees got. That is what you meant by yearly annual increases?

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

Yes. We have the index adjustments, not cost-relayed -- transferred to us from other sources. And depending on the contract, there are more -- there is more than one index that is tied to the adjustment of price, even for indexes on costs of construction of the oil industry in other countries that have -- where we used to supply or the supplier used as source the goods. So it is not only one index there are many methods. They are all indexes.

Q - Emerson Leite {BIO 4003528 <GO>}

Thank you. I will then wait for the follow-up on the conversion costs. Thank you very much.

Operator

Gustavo Gattass, BTG.

Q - Gustavo Gattass {BIO 1702868 <GO>}

(foreign language).

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

(foreign language).

Q - Gustavo Gattass {BIO 1702868 <GO>}

Sorry, I was confused here with the telephone. I just had a couple questions on your slide 20. Coming back to the point that you mentioned about going from the Third Quarter to the Fourth Quarter, some of that I just wanted to understand a little bit better.

The first question that I have had to do with CPC 19 and the comments there. Because when we initially did the math on your filings looking at the restated amounts for the Third Quarter the impression we had was that you effectively had an impact of about BRL100 million or so per quarter on your operational results. And not really something very, very big.

I just wanted to understand is that something that changes or change a lot between first, second and third and then Fourth Quarter in such a way that the Fourth Quarter number is a lot bigger? Or I just really want to understand how that number was calculated, because I'm a little bit puzzled by it. So that is actually the first question.

And effectively the second question, just with regards to the inventory build in, I would say abroad, my question here was I was doing the math and just assuming this inventory is E&P inventory. So that it is crude that you effectively sold, it would imply something like 10 million barrels of oil that effectively were outside of Brazil. But not yet booked. So there are two things that I wanted to just understand on that number.

The first one is when you report your export numbers in your press release are you reporting a number that is consistent with the sales or are you reporting a number that basically it is the amount that left Brazil, whether or not it was sold? So that is the first part.

And the second part is when you calculate the 738 is it calculated as a delta of what was in transit in the Third Quarter relative to what was in transit in the Fourth Quarter, because I would assume that you have oil in transit at all times. And not only in the Fourth Quarter of 2011?

Those are the two questions. Sorry for being really greedy. But I'm still trying to understand the results that's all.

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

I don't have the audits from our accounting department.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, okay. Just before we go there. (inaudible) please know. This is actually the sixth time now. But that is okay.

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

sorry, sorry. But let's have (inaudible) helping us in this answer. Thank you.

A - Unidentified Speaker

The effect of it change related to CPC 19 was almost BRL700 million for all the years that we adjusted in the Fourth Quarter. For the other quarters, first, second and third, the effect is almost we estimated something like BRL200 million per quarter in terms of operational results.

In our financial reports we restated the Fourth Quarter of last year and the Third Quarter without the effects. But the average per quarter was almost BRL200 million.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Just so that I understand. So when you are saying this is if I had looked at your numbers and said, okay, this is the reported full-year number. And subtracted what you had reported before for the nine months, you would have an effect of 738. But the numbers that we actually saw in the press release they don't have that big an adjustment. That is what I understood from what you said. I just wanted to confirm it. Is that it?

A - Unidentified Speaker

Yes. You're right.

Operator

Felipe Santos, JPMorgan.

Q - Felipe Santos {BIO 16391255 <GO>}

You have another question from Gustavo before.

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

(foreign language). Sorry, sorry. We say a lot of things. I don't know what is happening today.

Q - Felipe Santos {BIO 16391255 <GO>}

I will just remind you, the second question was on the inventory build outside of Brazil. I just wanted to check if that is the delta on the inventory build calculation or if that is just a number for the quarter? Again, I would assume that you are always building inventory outside of Brazil and not fully exporting. So that is the question there.

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

Can you help us please.

A - Unidentified Speaker

(multiple speakers) speaking. This effect of BRL700 million is there. But recognizing this (inaudible) of abroad and don't book as revenue. And this is impacting the Fourth Quarter. Then the First Quarter, about our operations, we will book in our revenue in the First Quarter of 2011 -- 2012, sorry.

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

But this Fourth Quarter which entered the inventory higher than the third one by BRL700 million is --.

A - Unidentified Speaker

(inaudible) inventory and these are not operation, we will recognize that revenue in First Quarter of 2011 -- 2012, sorry again.

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

Did you get it?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes, yes I did. So later on I will follow up just with how you book the volumes. But we can do that later. The financial numbers were more important. Thanks, guys.

Operator

Felipe Santos, JPMorgan.

Q - Felipe Santos {BIO 16391255 <GO>}

Just one quick question. For the call in Portuguese you mentioned that the long-term model that you're using now is $75 per barrel. Before you had $85 per barrel. First, let's confirm this. And second, would this new forecast for oil, would change your long-term CapEx? Are you going to do this oil adjust for the calculation of an impairment? Thank you.

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

Yes. In fact, we have reduced from $80 to $75. And this is a reduction on projected oil price by the period beyond 2016. That has an impact on our impairment calculation at the end of last year. But we have no impact in our CapEx, because the average we have as average cost for the Company is below $40 a barrel. So there is no -- the impact we had were only marginal to the secondary recovery fuels (inaudible) that were in phase of secondary recovery, marginal fluids and not the main ones that is very help in terms of cost and return.

Q - Felipe Santos {BIO 16391255 <GO>}

Okay. Great. Thank you.

Operator

Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

A few questions related to cost. The first one, in the past when you disclosed lifting and refining costs in your press release you used to show the impact that FX had caused or how much of the change quarter-over-quarter was due to the FX. I didn't see it this time around. So could you provide us, for example, the lifting costs quarter-over-quarter? The decrease, how much of it was related to FX versus actual operational developments?

A - Unidentified Speaker

I can give you the numbers for comparing year-over-year. The ones for quarter-over-quarter I would have to come back to you on that. But year-over-year comparison the exchange rate effect was $0.45 on $1.

Q - Christian Audi {BIO 1825501 <GO>}

$0.45. And on the refining I know that is mostly real-based. But is there any FX issue there as well or no on the refining costs?

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

Marcel, do you have at these information?

A - Unidentified Speaker

Comparing quarter to quarter on the refining costs the effect was $0.02 on the difference that we had on the required to Fourth Quarter.

Q - Christian Audi {BIO 1825501 <GO>}

The other thing that I was confused was in the last conference call when we talked about these two important costs, lifting and refining, the sense that I got was that it would be difficult for these costs to go down, at least in the short term, yet we did see a drop in both of them.

So going forward how should we read that? Do you see the beginning of the year space for these costs full bore or this was a one-time event, that we shouldn't put into expectations for lifting and refining costs in 2012 to be substantially lower than 2011? Could you provide us some color in terms of how you're looking at those two please?

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

We don't expect in the long run to have a reduction on costs because of inflation, because of oil prices, because of these pressure that mount on the industry. We, of course, there are moments where we have more impact than others when you compare it quarter to quarter. For example, if we are installing new equipment mainly in the production area, where you have all the team prepared to produce the top production or platform. And all the fixed cost of the platform will be there, regardless the volume it is producing.

So this sometime contributes to have a higher cost in a moment than the other. In average we are reducing the cost when compared with price. And this is what I think is very important for the Company, looking at the cost regarding prices.

The price is a pressure, of course, to the cost. And we have other source of cost as well. But increasing productivity, becoming more efficient in our operation in downstream, increasing our average utilization of the refineries. And all that is contributing to, if not reducing, at least keeping price costs from increasing.

Q - Christian Audi {BIO 1825501 <GO>}

Then last question is in the past you had released production guidance for the coming year in the Fourth Quarter results. So how come you were not able to do that this time round in terms of the production target for 2012?

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

We are appraising what will be the conditions and how far we can see with more certainty. But it is not going to take too much, I believe, to release a new figure for this year.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thank you.

Operator

Denis Parisien, Deutsche Bank.

Q - Denis Parisien {BIO 20333702 <GO>}

I wasn't able to see your bond roadshow so I was wondering if you could give a little bit of clarity on your financing plans for 2012. Are you going to do, as last year, only the one multi-tranche jumbo in the dollar market and seek financing in other markets this year as last year? If not, what would we expect in the dollar market going forward? And if so, in either case what would we expect in other markets this year? Thanks.

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

We have not changed our financial policy fundraising. We keep looking for the best opportunities for the Company in terms of (inaudible) and costs. And in terms of the dollar market, we have been saying for some years already, what is our policy very clearly.

And we have said these years again that we do not intend -- we have no plan to come back to that market along of the year again.

The other markets we will be looking at and seeing if there is an opportunity to access or not. And we have enough liquidity to maintain the Company operating. We are generating that income, cash by the operation of the Company in volumes that give us the comfort to keep maintaining our CapEx and our financial policy as announced.

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks very much for that. 0Did you also give any CapEx guidance for this year. And whether or not you expect to execute closer to the guidance?

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

Our guidance is 87.5 [ph] more than we have done last year. We will be trying to deliver that. But of course being a company on the size of Petrobras we are a lot dependent on the performance of many different suppliers, not only in Brazil. But abroad.

Our drill ships, for example, the 15 we are going to receive this year. But some we expect in former years and they were built in other countries. So just to say that we depend heavily from suppliers. We do our best to keep all under control. But sometimes it is not possible to achieve.

So we are aiming to reach the target. Although to fulfill the $224 billion in five years we do not need to make -- to reach a CapEx of 87 this year. So if lower -- 10% lower would be enough.

Q - Denis Parisien {BIO 20333702 <GO>}

Great. Thanks very much.

Operator

Pedro Medero [ph], Citigroup.

Q - Pedro Medero

I think most of my questions have -- the results have been already cleared. I just have two other questions. One more related to strategy and the other to the refining bid.

The first one, I would like to understand how is the progress of the divestment program announced last year? We can see that during the Fourth Quarter there was an asset sale on the international E&P front from Africa. But the numbers that the Company had been guiding for were materially bigger than what these initial assets represented.

Can you comment a little bit more about how this plan is evolving through this year? There have been talks about potentially selling international refineries as well. What can we expect to see for the year on that front?

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

This is a new problem for Petrobras. As you may know following the history of Petrobras, we build -- we grew organically. We are not a company that do too much of acquisition and very few divestments too. So we're working on this process and getting prepared.

First, we work on -- we are working on identifying the assets we are going to sell. Although we have done first exercise before announcing the volume, we did find much more than we announced. We were conservative in expressing the numbers, because not all comes to be true at the end.

So we're now doing a more specific design on the strategy on the assets to start bringing them to the market. We have done very small ones, as you have said, in Africa but it is not material. We have to bring assets with higher value. And we hope by the first half of this year we will have the opportunity to present a few of them.

There is one already being announced that is the Japanese refinery we hold -- we have today. But in terms of E&P domestic and international, it will take a few time more -- sometime more. And -- but you're going to see some news on the first half of this year.

Q - Pedro Medero

Just as a follow-up, I recall that on the last plan you were estimating a divestment that would total from $13 billion to $15 billion. And out of that metric, or that estimate, the amount of asset sales itself were close to $5 billion, whereas nearly $10 billion were supposed to come from working capital improvements.

From what I heard now you think that these estimate $13 billion to $15 billion would increase? And you specifically own the $5 billion. Do you expect that the bulk of this comes through the market in the first half of this year or in 2012 at all or it is just a small percentage of it still?

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

Just to place the figure more in line with what we have announced, we announced $13.6 billion of divestments and working capital, about half and half in the two projects. We are already working in the working capital. And we have achieved some gains already. In the divestments, I believe a very considerable amount of what has been announced shall be in the market in the first half of this year, yes.

Q - Pedro Medero

My second question is on the refining side. I think the Company had been expecting for a confirmation from PDVSA about its interest or its true participation on the northeast refinery. And there have been some investment contingencies aligned with that decision or not. I think the latest that I've heard is that PDVSA can still confirm its participation through the startup of the unit. But will there be any changes to the project or to the overall budget assigned to the northeast refinery since we don't have this confirmation yet? And will the unit be able to process the Venezuelan crude that is a little heavier than the average in Brazil?

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

No. We did not start the units that will be processing the oil from Venezuela. And is going probably to be one of the moments to take the final decision either to be partner or not. But so far we did not start that construction.

Q - Pedro Medero

Just one final question, if I may. Are you guys able to tell what was the contribution to your reserves for 2011 coming from Sapinhoa and if there were any contributions coming from the Varredura project at this point?

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

I'm going to have my colleagues from E&P to help me in this answer.

A - Unidentified Speaker

From everything we have found so far from a ring fence exploration that occurred after the Varredura project, today we have roughly 350 billion barrels of oil equivalent in our proven reserves. And the contribution of Sapinhoa was not the biggest share in the pre-salt reserve booking for 2011. It was roughly 200 million barrels. The biggest contribution came from the revision in the Lula area of proven reserves.

Operator

Robert Kessler, Tudor, Pickering, Holt.

Q - Robert Kessler {BIO 2161903 <GO>}

I wanted to see if I could get you to give some perspective on the downstream as you look forward to 2012. Clearly you had a big loss on a full-year basis for 2011, almost $6 billion in US dollar terms. And I recognize there is always a lag effect on pricing, although crude prices were relatively stable. I know as you suggested the exchange rate fluctuations influenced the loss in the quarter towards the back part of the year. But if you were to stabilize the crude price and the exchange rate, what would your expectations be for downstream profitability for 2012?

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

The best we can say regarding that is stability. Of course, the Fourth Quarter impacted mainly by the exchange rate, we have a high difference when compared with the previous quarter. But in a normal scenario of exchange rate and international price, we don't expect to move from the average we have in the year, not different than that.

Q - Robert Kessler {BIO 2161903 <GO>}

Can I ask why -- just looking at the -- if I understand correctly, ethanol was priced higher than what you are supplying petrol-based gasoline for in the quarter. And yet you are increasing your market share effectively buying product off the international market at a net negative gross margin.

So why -- that begs the question, why supply the domestic market, undercut the locally grown price and do so at a loss on the top line? Do I understand the dynamics there correctly. And why are you embarking on their near-term strategy?

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

I believe that the reason was the flexibility of ethanol producers. They can move their product production from ethanol to sugar. And there were some impact on the sugar price internationally moving them to do that change and reducing the supply of ethanol to the market.

This is associated with the fact that we have increased in the market, domestic market average of 9%, taking out the oil products. It really makes a big difference. Of course, gasoline on that by station has increased on 24%, in part due to this fact that we have a crop production -- reduction -- ethanol production this year due to the (inaudible) reduction in the crop of sugarcane. But there were also some different mix on ethanol and sugar produced in the country. So that is what leads to a higher import of gasoline to Brazil.

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>}

Thank you very much for being with us. And I hope to see or to talk to you in the next quarter with good results, better maybe than we are presenting, always improving. Thank you very much.

Operator

Ladies and gentlemen, your host is making today's conference available for replay starting one hour from now. You may access this replay at the Company's IR website at www.petrobras.com.br/ir.