

## Q3 2003 Earnings Call

### Company Participants

- Jose Sergio Gabrielli, CFO and IR Director
- Luciana Rachid, IR Executive Manager
- Marcos Menezes

### Other Participants

- Carlos De Leon, Analyst
- Emerson Leite, Analyst
- Frank McGann, Analyst
- Marc McCarthy, Analyst

### Presentation

#### Operator

Ladies and gentlemen thank you for standing by and welcome to the Petrobras conference call to discuss the Third Quarter results. At this time all lines are in a listen only mode. Later there will be a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press star '0'. As a reminder, this conference is being recorded.

Today with us at Petrobras head office we have Mr. Jose Sergio Gabrielli, CFO and IR Director and his staff. At this time, I would like to turn the conference over to Luciana Rachid, Investor Relations Executive Manager of Petrobras who has some additional comments. Please go ahead Mrs. Luciana.

#### Luciana Rachid {BIO 19907433 <GO>}

Good morning, ladies and gentlemen. Welcome to our conference call to discuss Third Quarter results. We have a simultaneous webcast on the Internet that can be accessed at the site [www.petrobras.com.br/RI/English](http://www.petrobras.com.br/RI/English). Additionally, on the webcast registration screen you may download and print the presentation and download the financial market report.

Before proceeding let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from those anticipated in any forward-looking comments or as a result of macroeconomic conditions, market risks and other factors.

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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 questions related to US GAAP results.

The conference call will be conducted by our CFO and Investor Relations Director, Jose Sergio Gabrielli. He will comment on the company's operating and financial highlights and the many events impacting Third Quarter results. Afterwards he will be available to answer any questions you may have. Mr. Gabrielli you may begin.

### **Jose Sergio Gabrielli** {BIO 5474235 <GO>}

Good afternoon, to all of you. I would like to mention first of all some changes that we made in the accounting procedures for the Third Quarter of this year. As you know the consolidated results we present for the six months ending on June 3rd included Petrobras Energia results for six months. However, these six months were from December '02 to May '03. In other words there was a time lag of one month. During the quarter ending September 30th, our accounts department succeeded in eliminating this time lag in the consolidation of Petrobras Energia.

The quarterly results we are now presenting reflect that subsidiary performance for the three months from July to September 2003. Which means that our numbers for the nine months of 2003 shows the results of Petrobras Energia from January to September.

Slide number one, we try to show the connections, the relationship, between the price, our average realization price in Brazil and the international price. The green line shows average Brent price in US dollars. The blue line shows our average realization price in Brazilian Reais measured in dollars using the exchange rate. The red line shows the use of oil products price in the United States weighted by the volumes that we sell of those products in Brazil. It's a composite index that tries to show the impact of the behavior of a hypothetical product mix in Brazil using US price. These numbers shows how we can keep the Brazilian price in line with the international price.

The bottom part of the slide tries to show the difference between the average exchange rate and the end of period exchange rate in Brazil in Reais.

The difference is important for accounting procedures. Our flow variables are measured considered according to the average exchange rate because we have to account for the movement using the current exchange rate. But our stock variables are measured by using the end of period exchange rate. Sometimes these would show some difference as we had in the past. The movement, the difference between those two rates, is not very big in the last quarter. But it is important to explain some of our results.

Slide number two tries to show the value of our stock in the US market in the New York Stock Exchange. As you can see, comparing to the price that we had in December of '01 our stocks are now above those prices. Around 5% above the price that we had in 2001, which means that we could recover all the ones that we had during the last year.

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The market value of the company that was in December of '02 something around \$15.4 billion now it has recovered to \$25.5b. As you can see in the graph we are mimicking the movement of the Brazilian Stock Exchange index, the Bovespa. We have a better performance compared to the Amex Oil Index that tries to show the behavior of the stocks of the oil companies in the US market.

The next slide, slide number three, tries to show some of our results. We have a modest increase in the net operating income due to a fall in the volumes sold on the domestic market. We had a reduction in our sales to the Brazilian market of 2%. Our international sales increased 24% basically as a result of incorporation, the consolidation of Petrobras Energia. Our total sales volume increased 5% and our oil and gas production increased by 13% comparing the Third Quarter of '02 and Third Quarter of '03.

Our results, our net operating income increased 12%. The gross profit that we had, we had an appreciation of 24% between September '02 and September '03. At the end of the period the exchange rate which was in '02 R\$3.89/dollar and in September '03 the exchange rate was R\$2.96/dollar. This would impact our financial variables and reduce our debt in Reais even though our debt in dollars is the same.

Our net profit was also impacted by tax savings that we got from provision for interest on our own capital. According to Brazilian law if we decide to distribute a part of the next year dividend as interest paid on our own capital, this would give us some savings that are around R\$1.1 billion for this quarter.

Slide number four tries to compare the net income of the nine months ended in September '02 compared to nine months ending on September '03. Our net revenue, we have increased net revenue results almost exclusively from the increase in our average realization price in Reais and also as a result of the increase in our production from 1.8 million barrels a day to 2.040 million barrels a day.

Our average realization price increased 88.7% in Reais in spite of a decrease of 6% in the volume sold in the domestic market.

We have a growth of 11.2% in the exported volume of oil products, 35% in dollars of oil export price against a decrease of 4% in the volume that we sold.

The cost of goods sold, we had an increase 40% as a result of the increase of the government participations. Our listing price per barrel increased 3% in dollars but expressed in Reais they reflect a 32% devaluation of Reais.

Including government participation the cost per barrel increased 6% in Reais as a result of the productive gains, the advancement of Marlim Sul to a new tax rate and including the (inaudible) and those that pay a special participation. It should be remembered that special participation reflects directly international oil price in the exchange rate. Yield to refined cost increased 28% in Reais, a 3% reduction in US dollars, as a result of price increase on chemicals (inaudible) and from a devaluation of Reais.

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We had also some other operational expenses that increased mainly as a result of provisions for losses in the energy segment and industrial stoppages, among others.

The average exchange rate in the first nine months of 2002 was more appreciative than in the first nine months of 2003. We have a strong devaluation of Real during the first nine months of 2002 against the Real appreciation in the same period of 2003. This behavior affects our financial variables as we mentioned, which is one impact is on interest expense. But we have an increase in our monetary gains by reducing the amount of foreign debt at the end of the period.

Comparing slide number five we are comparing results of -- the Second Quarter '03 and the Third Quarter '03. We have to mention that this comparison cannot be straightforward because the published results for the Second Quarter of '03 included the numbers from December '02 to May '03. Now we are using pro forma numbers to reflect the consolidated result of Petrobras Energia from March to May '03 for the Second Quarter of '03 and July to September for the Third Quarter of '03. Which means that we are not comparing the same month in the two quarters.

Gross net income was approximately 7.8% and the fuel price (stability) was mainly due to the 6.4% increase in sales volume. We have an increase in production in sales in the Third Quarter of '03.

The cost of goods sold grew by 10% mainly due to increase in the government take and as a result of the 3% increase in Brazilian production, 9% increase in the price of Brent crude.

As you can see in the graph, most of the variation that we have is explained by change in our revenues, change in the cost of goods sold and the impact of the net financial impact that is a result of the exchange rate movement.

We have also impact on tax. The impact on tax is partially saved as a result, as I mentioned, as a result of the tax savings resulting from the distribution of interest on our own capital.

Slide number six tries to show some of our other operating revenues and expenses. It's a slide that should be commented that the adjustment of gas turbine generators, lawsuits and others increased. Is a better result in the Third Quarter not because we had many movements in these accounts. But because we don't have any movements in those accounts during the Third Quarter of 2003.

The red bullets that we had are the new impacts on those accounts. We have other operating revenues caused by increasing ship or pay. We are going to explain these later on. We have some provisions for lawsuits due to (compulsory) contribution of the national security system in Brazil.

We had a loss that we had with an operation in EN May 2000 and that we complete the operation now in September of '03 with losses of the hedging operation. And also which means that our operating revenues and expenses changed from R\$1.2 billion to R\$0.9 billion in the Third Quarter of '03.

Slide number seven tries to show some of those numbers. Shows that our net income would be without extraordinary items would be R\$4.771b.

We have a fiscal savings related to the provision made for interest on our own capital of R\$1.1b, liquidation of the exchange hedge of R\$198m, complemented provisions related to the social security notifications of R\$160m, provision for financial exposure of plants, ship and pay \$171 million and our net income without extraordinary items would be R\$4.771b.

Slide number eight shows that we didn't have very large movement in our net revenue. Our net revenue was R\$23.391 in the Second Quarter of '03 and was R\$23.798 in the Third Quarter of '03. Basically the impact, the main variables that affect the net revenue, cancel each other in such a way that we have a very small movement in our net revenue.

The cost of goods sold in slide number nine also remains virtually unchanged. We have a slight increase in the cost of goods sold. The cost of goods sold gained particularly from the lower price from imported oil and oil products. The gain was completely neutralized by the effect of the exchange conversion and on the cost of international activities. Excluding the impact of Petrobras Energia different accounting period on the consolidation, the cost of goods sold increased more significantly for the worse by around 10%.

Slide number 10 tries to show some of our segment results. We have an increase in net income of our E&P activities of 9% as a result of the average price of Brent crude. We have an increase of 3.5% in our domestic production and we have also as a result of those two movements we have an increase in our cost of goods sold as a result of the government take increasing and increasing our lifting costs. Our increasing our lifting costs was due to higher expenses for drilling, repair and other activities connected with wells, underwater operations, inspections and maintenance and rent of rigs. And also as a result of the difference between the exchange rate at the end of the period and the exchange rate, the average exchange rate, that affected this number in an important way.

Our reasons for the reduction of our net profit was the provision for social security contributions and the increase in our financial expenses in line with the rest of the company due to the Real's depreciation.

Considering our Downstream operations, slide number 11, we have a 5% reduction in our average realization price for diesel, a 11% reduction in our average realization price for gasoline and these were partially offset by an increase in the sales volume for diesel and fuel oil and LPG.

The cost of goods sold fell by 7% as a result of a 2% increase in throughputs and also because it was no longer affected by the exceptional purchase of oil and oil products

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made at end of the First Quarter of '03 as a result of the Middle Eastern crisis and the profits in the Second Quarter of '03. As you can see we have a greater reduction in our cost of goods sold in relation to this change in the operating revenue which resulted in an increase in our gross profit in our Downstream activities.

On page 12 it is important to mention that those numbers are also affected by the fact that we are incorporating, we are consolidating some of the numbers of the State level distribution gas companies in Brazil that belongs to Petrobras. Petrobras has participation in those distribution companies, which means that the comparison is between not really the same basis. But anyway we have an increase in the cost of goods sold and a reduction in the gross profit of the Gas and Energy change. Quarter-over-quarter should be carefully analyzed as a result of these natural gas distribution companies.

The next slide, slide 13, tries to show the impact of the distribution. The increase in net income was a result of 6% increase in sales volumes and a higher gross margin. It had a direct impact on the results. The increase in operational and financial expenses affected the net profit.

Slide number 14 shows a reduction of our leverage ratio of net debt on the net capitalization from 45% in the Second Quarter of '03 to 42% in the Third Quarter of '03. Our short-term debt on the total debt also falls from 21% to 19% in those two quarters.

The reduction in our leverage ratio is basically as a result of the increase that we had in the cash balance. Our cash and cash equivalent moved from R\$16 billion to R\$20.9 billion and also we had a reduction, a movement in the debt portfolio of the company because we closed, as I mentioned, the (Samurai) bond of R\$250m. We paid off the (Samurai) bond in September of this year and we raised \$750 million in the financial market this year.

The short-term debt increased due to the reclassification of short-term debt as of June of this year.

The next slide, slide 15, shows the movement in the cash balance. We had net cash generated by operational activities of R\$7.5b, a Capex of R\$4.2 billion and a cash used in finance activity of R\$1.7b. That increased our cash balance from R\$16 billion to R\$20.9b. The free cashflow increased that we had during this period.

As I mentioned before, we had a reduction on net debt from \$37.9 million on slide 16 from R\$37.9 billion to R\$35.9 billion in spite of an increase in our debt of R\$2.1b. The reduction on the net debt was possible as a result of an increase in our cash balance of R\$4.6b.

Slide 17 shows the value added by the company comparing the nine months of '02 and the nine months of '03. We have an increase in the governmental entities in the value added from 58% to 65%, a reduction on the financial institutions and suppliers from 29% to 5%, an increase of our shareholders participation in the value added from 8% to 25% while the level for us of the personnel stays with a 5% share in the value added of the company.

Thank you. We are open to question and answers right now.

## Questions And Answers

### Operator

At this time, I would like to remind everyone that in order to ask a question please press the number '1' followed by '4' on your touch-tone phone at this time. If you would like to withdraw your question, please press the pound key.

Our first question is coming from Carlos de Leon from Deutsche Bank. Please go ahead with your question.

### Q - Carlos De Leon {BIO 21527222 <GO>}

I have just got two questions. I wonder if you could update us on the latest regarding P51 and P52, which seems to be delayed for quite a few months now? I would like to hear what you would like to spend on these two units.

My second question is whether you could update us on your expectations for lifting costs into next year and maybe indicate a range of where you expect the lift costs to be with and without government participation?

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

Well P51 and P52, we announced that P51 we had no decision. We are finishing the bid process with P52 and we hope that we are going to be starting the definitions of the schedule for starting of the project as soon as possible.

In relation to lifting costs, we have a small increase in the lifting costs in the Third Quarter. But we have to mention that we had some intervention that we had in some of the blocks. We have an increase, a higher expenses for drilling. We have also an impact of the difference of the average exchange rate and the exchange rate at the end of the period. We are not expecting to continue to increase our lifting costs. We are keeping the same target for 2007 of lifting costs of \$2.80 per barrel.

### Q - Carlos De Leon {BIO 21527222 <GO>}

Okay, thanks.

### Operator

Thank you. Our next question is coming from Marc McCarthy from Bear Stearns. Please go ahead with your question.

### Q - Marc Mccarthy {BIO 1542384 <GO>}

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I wanted to first applaud Jose, Raul, Luciana on your efforts to explain some of the divisional changes. It's clearly a step in the right direction.

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

Thank you, very much. Everybody is happy here.

**Q - Marc Mccarthy** {BIO 1542384 <GO>}

I have two questions. One relating to Capex. In light of some of these delays and the currency, can you talk a little bit about Capex through the end of the year in light of your previous stated targets for '03 and '04 as they relate to consolidated BR GAAP numbers and can you relate that both in dollars and in Reais?

Then the second question relates to some discussion about bringing some new infrastructure to some of the new finds in Espirito Santo, Santos and Sergipe locating some FPSOs. I guess Marcuso made a couple of statements regarding this in the last day or so. Can you talk a little bit about replacing possibly the P52 production if in fact that is the intent and the timing for that?

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

Well on our caps to September we have an investment extension of R\$13b. Our target for 2003 is something around R\$21b. But the R\$13 billion and the R\$21 billion is in Reais. We cannot give the numbers in dollars right now because these were planned numbers using an exchange rate that was not the current exchange rate.

In relation to the use of temporary production systems to produce light oil, we are considering these possibilities. But I am going to answer to Marcos that is here and can give you a more precise answer?

**Q - Marc Mccarthy** {BIO 1542384 <GO>}

Perfect. That's great.

**A - Marcos Menezes**

Well we are finalizing the studies in relation to understated production regarding new discoveries. In the case of the Espirito Santo 123 it's important to discover the oil has 40 degrees API. We plan to implement a new production system in fact in the early production season and to have the first year oil by 2006. We are finalizing the studies. The studies go to the Board at the end of this year and we expect to anticipate the production in Espirito Santo to achieve 100,000 barrels of oil per day by 2007. So this is the plan for Espirito Santo 123.

Regarding Sergipe, our goal is 100. We plan to implement our longer duration test there. This system will have a capacity of 20,000 barrels of oil per day. These specific drivers is basically the same at 41pi and here we are planning to restart the production by 2006.

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**Q - Marc McCarthy** {BIO 1542384 <GO>}

And Santos?

**A - Marcos Menezes**

Regarding Santos, Santos as you know we had huge discoveries in terms of natural gas. We are now implementing the valuation process in BS400 and BS500. So we need to drill more wells and test these wells to have better figures. But we plan to conclude the evaluation exploratory process in one year to two years.

**Q - Marc McCarthy** {BIO 1542384 <GO>}

Can you talk a little bit about not only did you find the gas. But there was a considerable 400 million barrels of also light oil there as well? Are you talking about doing further appraisal drilling for oil or are you thinking to bring in some temporary equipment?

**A - Marcos Menezes**

Yes, we are studying. There is a possibility as well to implement a system to produce the light oil there you are correct. The figure is about 400 million barrels of light oil. But you know as the area has much gas we need to confirm the test and analyze in total the natural gas and the light oil in relation to Santos Basin.

**Q - Marc McCarthy** {BIO 1542384 <GO>}

I know that you've been finding more gas, or at least there's been some comments to that regard. Can you touch upon the 14 trillion cubic feet is that inclusive of the additional gas that you've found or how much more gas have you found? If you can kind of give us a feel for numbers?

**A - Marcos Menezes**

Well Marc we need to continue with the evaluation process to confirm the result. But the best figure now is that we have there 14.8 PCS in Santo Basin.

**Q - Marc McCarthy** {BIO 1542384 <GO>}

Okay and all inclusive here in light of the P52 plans to start up, it seems as though this level does fully replace, -- I'm sorry P51 were cancelled. It seems as though you have nearly the same amount.

**A - Marcos Menezes**

No, no, no. We are not really canceling. We have decided that we are not going right now to go for the P51 in the conditions that we had in the bidding process. Not a final decision that we are going to cancel it.

**Q - Marc McCarthy** {BIO 1542384 <GO>}

What I'm referencing is your ability to replace that production and actually still achieve your targets?

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## A - Marcos Menezes

Okay, okay good. Well as Mr. Gabrielli said considering the anticipation of light oil we can, we are very confident to achieve the goal for 2007. There is 2.22 million barrels of oil. So we think firstly it's important to mention that it is not a long delay. But we can compensate part of these delays with the anticipation of light oil. So we are confident the goal for 2007, that is 2.22 million barrels of oil.

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

I will ask you Marcos to mention the five different platforms that we have on pipeline that can start production 2006. Then we can give the details on this.

## A - Marcos Menezes

Okay, it's important to say that in the next 20 months we will come in line with five new platforms in the Campos Basin. The first two ones we will have the start up by June of next year. It is at Marlim Sul. It is now under construction in Singapore and the capacity will be 100,000 barrels of oil per day and the works are going very well.

The second new one is P43. P43 will produce in Barracuda field in Campos Basin with 106,000 barrels of oil day. We are planning to come in line with this platform in the last quarter of 2004.

In the same quarter P48, Caratinga, with a capacity of 106,000 barrels of oil per day and in 2005 we will have two new platforms; P50 in Albarcora Leste. The capacity will be 108,000 barrels per day. The works are going very well in Singapore and we plan to have the platform in Brazil next year and to start the production by the beginning of 2005 and then adding 108,000 barrels of oil per day. We have 90% of share in this project.

As well in 2005 the fourth phase of the development of Jubarte field. Jubarte today is producing 20,000 barrels of oil per day but it's a long duration test and with this fourth phase we will add more 60,000 barrels of oil per day by 2005.

So in total we are considering an additional capacity of 620,000 barrels per day up to June of 2005. So we are considering our goal of 1.82 million barrels of oil per day by 2005 and 2.22 million in 2007.

## Q - Marc Mccarthy {BIO 1542384 <GO>}

That's very helpful Marcos. Gabrielli if we could just go back to the Capex question. You mentioned that I guess your previous targets were based upon a different currency. Does that mean to say that we can use the Third Quarter Capex level as your run rate as a \$1.5 billion as a level that we can anticipate going forward or is this going to be heavily influenced by the timing of these projects?

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

Yes depending on the time of the project. But we are a little bit behind the schedule of our investment in Reais. I don't know if you are in dollar terms. But we think that we are going to adjust the investment plans to the end of the year and we are going to do most of the investment that we have planned for the year.

**Q - Marc McCarthy** {BIO 1542384 <GO>}

Okay. So the \$21 billion Capex is not really a useful number any more?

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

Yes. So it really depends very much on the exchange rate.

**Q - Marc McCarthy** {BIO 1542384 <GO>}

Okay. Thanks guys.

## Operator

As a reminder, if you do have a question please press the number '1' followed by '4' on your touch-tone phone at this time.

Our next question is coming from Frank McGann from Merrill Lynch. Please go ahead with your question.

**Q - Frank McGann** {BIO 1499014 <GO>}

Just two questions. One is my understanding is you are turning in some older platforms and reconstructing newer platforms of a higher quality but at a similar cost. I was wondering to what extent you're doing this and what the effect will be on efficiencies and the level of production perhaps from some areas and what other changes it might have in operations?

Then secondly perhaps you could comment on the status of negotiations with the State of Rio for the ICMS tax related to equipment imports?

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

You mention the P34, which I am pleased that you mentioned because I couldn't not get really what you mentioned by turning down old platforms and bringing new ones. I don't know what you mean.

**Q - Frank McGann** {BIO 1499014 <GO>}

My understanding in talking to some of the oil services companies is that you are re-contracting some platforms. You're basically turning in some of the older platforms and looking to replace them with newer higher quality platforms. I just want to confirm that that is actually happening and what if any effect that might have on the (drilling platforms)?

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

I really don't know. Drilling platforms. Maybe there's some small movement because I am not aware of this movement.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. Well we can follow up later on.

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

Yes. In relation to the ICMS we are continuing our discussions with the government of Rio de Janeiro. Our interpretation is that the current interpretation of the ICMS law in Rio harms some of our projects and we think that we can reach an agreement with Rio. I don't know when. I cannot say to you the schedule for the conclusion of the negotiations with Rio de Janeiro. But we are keeping the talks with Rio and we hope that we can get the result as soon as possible.

**Q - Frank McGann** {BIO 1499014 <GO>}

Okay. Thank you, very much.

**Operator**

Thank you. Our next question is coming from Emerson Leite of Credit Suisse First Boston. Please go ahead with your question.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Jose Sergio could you comment on the current discussions, internal discussions, about expansions in the gas business? Some time ago Ildo Sauer was commenting about the possibility of Petrobras drilling an LNG plant in Rio or somewhere in the Brazilian coast in order to make the exports into the US. This is a long-term project. But I understand it could be a very important one for Petrobras. Would you have any comments on that front?

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

Emerson as you know we have now some group problems because we have good possibility to develop light oil production and we have a very good possibility to also develop the reserves, potential reserves, that we have in gas. We are starting our revision of our strategic plan. We plan to finish this by the First Quarter of 2004 and we have to consider different possibilities. We are considering and we are discussing different projects. We have no decisions on this. But we are considering different possibilities.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Jose is there anything already decided on potential areas of cutback, increase? For instance the chance for the gas not to work linking in the south east gas pipeline to the north east gas pipeline and some other initiatives that could result in increasing Capex over the next several years?

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

We are discussing. We are starting a more precise evaluation of the connection between the south east and the north east gas pipeline. Our project is called (Basini), which is beginning of a more concrete evaluation of the economic conditions for the project. We are considering different possibilities. But we don't have a clear definition on what we are going to do.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Okay and one question to Marcuso. On the B51 assuming that you don't get good terms with Rio de Janeiro State on the ICMS, what would be the options to replace B51 with different systems?

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

Marcuso mentioned five different platforms that are underway right now, which can increase our capacity by around 600,000 barrels a day until 2005. We are considering discussing with Rio. We can have different possibilities to solve the problem of the P51. It's not completely out of consideration. But right now given the current tax situation it's not viable for our evaluation.

**A - Marcos Menezes**

To add something, it is important to stress the new discoveries in P60 besides Jubarte and Casalot we had in B60 five new discoveries and so these are possibilities to increase the production. As well it's important to add that P51 was discovered to start production in the second half of 2006. So we have new options, new opportunities. The majority are in Espirito Santo Basin. This is to compensate the production for 2007.

**Q - Emerson Leite** {BIO 4003528 <GO>}

One thing that I am a little bit concerned is if you will have to move around the Rio de Janeiro State borders in order to get the production growth because of these restrictions with ICMS. For instance the Marlim Sul project, it will not be at full speed or at full potential without the P51. So you will have to go to other projects eventually outside of Rio de Janeiro State because of this specific restriction. So looking into the future it's concerning that you have to look at other areas and not get the full potential for areas inside Rio de Janeiro State.

**A - Marcos Menezes**

Emerson this is a concern you are correct. But we are confident in our Board in discussing with the Rio de Janeiro governor. So we are guessing this problem will be solved in the next few days. Maybe Mr. Gabrielli can add something?

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

Yes Emerson, we are in discussions with Rio. We hope that we can reach an agreement with Rio de Janeiro and we are still confident that we can get a result. I cannot go beyond that.

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**Q - Emerson Leite** {BIO 4003528 <GO>}

Okay. Thank you, very much.

**Operator**

As a final reminder if you do have a question please press the number '1' followed by '4' on your touch-tone phone at this time.

Thank you, ladies and gentlemen there are no more questions at this time. Mr. Gabrielli you may proceed with your closing comments.

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

We would like to thank all of you for being in this conference and I hope that we can have the next quarter as good news as we had in this quarter. Thank you.

**Operator**

Ladies and gentlemen. your host is making today's conference available for replay starting one hour from now. You may access at IR website or this replay by dialing 001 973 341 3080 lasting through November 21st. That number again is 001 973 341 3080. At the voice prompt enter the access code 4300321. The replay will be available approximately one hour from now. This concludes the Petrobras conference call for today. Thank you, very much for your participation. You may disconnect. Thank you.

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