

# Q2 2002 Earnings Call

## Company Participants

- Joao Nogueira Batista, Director of Finance
- Lucianna
- Suzanna

## Other Participants

- Brian Singer
- Carlos Dalion
- Christian Audi
- Emerson Light
- Frank Meagan
- Isabelle Veirra
- Mark Mccarthy
- Myles Mcdougall
- Patricia Lenecords
- Paul Ching
- Richard Woo
- Unidentified Participant
- Yoge Caty

## Presentation

### Operator

Ladies and gentlemen. thank you for standing by and welcome to the Petrobras conference call.

At this time all line are on a listen-only mode, later there will be a question and answer session. Instructions will be given at that time.

If you should require assistance during this call, please depress star zero, as a reminder this conference is being recorded.

At this time, I would like to turn the conference over to Isabelle Veirra [ph], from Topps and Financial Corporate Group [ph]. Please go ahead Ma'am.

### Isabelle Veirra

Good morning, afternoon, ladies and gentlemen.

Welcome to Petrobras's conference call to discuss Second Quarter, 2002 results. There will be a played episode, if visitors call.

For instructions on accessing the playback, please contact us in New York at 212 807 5016.

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

Finally, let me mention that this conference call will discuss Petrobras's results, prepared with accordance with Brazilian Gap. This moment Petrobras's executives are unable to discuss any questions related to U.S. Gap results.

With us today is (inaudible) is Mr. Joao Nogueira Batista, CSO and Investor Relations Director. First, Mr. Batista will comment on the company's performance during the Second Quarter of 2002.

After that, he and his team will be available to answer any questions you may.

Mr. Batista, you may begin.

### **Joao Nogueira Batista** {BIO 17222124 <GO>}

Thank you, Isabelle. Good morning to everybody.

First of all, sorry for almost 15 minute delay, basically due to technical problems in telecommunications. So I will do my best to shorten my introductory comments. So that we can have more time for the Q&A session.

The; let me say first of all that we at the company are very happy and satisfied with the results that were achieved in the Second Quarter of the year, in line with what we had expected and what we have discussed with our investors and stakeholders. And we are showing a strong performance, both in terms of production, with production rates which are above the performance of the average of the industry, combined with a strong cash flow generation and a very consistent rhythm also of incorporation of new reserves [ph].

As you have noticed with the recent discoveries, as we have (inaudible) that we were basically last year, while calculating and this year we have more results in terms of the new reserving [ph] corporation. So I think, all the results, in terms of operations are moving in the right direction.

And we have its effect on the financial side. And we have recorded net profits, which are 135% higher than we had registered in the First Quarter. And this is, of course, a direct result also of the margin improvements in the oil industry as a whole. Exactly the opposite (inaudible) going to happen in the First Quarter.

We, if we compare our (inaudible) with the same period of last year, there was a 35% reduction in our profits which was absolutely inline with the international market since the, basically, the oil prices, the level of oil prices are substantially different, in both periods.

Nevertheless, there have been some specific, very specific impacts, domestically. And basically, what we can mention is the reduction in, the (inaudible) % drop in sales in the domestic market, which have basically been directly the result of the reduction in (inaudible) in sales of fuel oil.

Results from (inaudible) from substitute products, such as natural gas. And of course, the effects of the recession of the smaller growth in Brazil (inaudible) effected the manufacturing industry. Gas (inaudible) consumption of gasoline has also been reduced as a direct result of the sensitivity to price increases from consumers.

These factors, in addition to these basic factors, I think the main element, which has effected our net profits is the 22.4% devaluation of the Real [ph] against the Dollar. Compared with 6.6% in the same period of last year. This is offset by, all of these factors together are offset by the 16% increase in total production, again mentioned at the beginning.

The steady increase of our oil exports, (inaudible). And the reduction of the average costs of our projects (inaudible) reflecting increasing productivity. The (inaudible) had mentioned a 20% increase in EBITDA nor cash flow compared with the same period of last year. At (inaudible) river a strong cash generation which has enabled the company to maintain it's, it's investment program absolutely in place together with the funding and the execution of our (inaudible) program which Brasileiro expect the Trivalentos [ph] of the market has been completed pretty much on schedule. (inaudible) investments have increased 50% when compared to 2001.

I'd like to at this point make some explanatory remarks on the income statement this addressing already basic questions that we had received since Friday when we released the figures so this (inaudible) (inaudible) is not on the rough cast first of all I'd like to make a correction the first (inaudible), the column to the right, the first column on the right is not Second Quarter 01 but First Quarter 01. Okay. The headline, the numbers are correct, the headline was a mistake so were comparing Second Quarter with this year with First Quarter of 0

## Unidentified Participant

(inaudible) (inaudible).

**Joao Nogueira Batista** {BIO 17222124 <GO>}

With Second Quarter this year.

## Unidentified Participant

(inaudible) (inaudible).

**Joao Nogueira Batista** {BIO 17222124 <GO>}

Yes and the, while I'd like to highlight the point I would like to high light here is first of all there was a higher equity income in the Second Quarter of 2002 compared with the First Quarter of the previous year was basically due to exchange gain on the net equity of over seas Subsidiary's. Second in terms of either operating expenses there was a reduction in the Second Quarter of 02 compared with the previous quarter basically due to the following factors.

There was a difference of 126 million (inaudible) in the accounts contractual consequences with (inaudible) power blanks which is basically a reversal of expenses relating from the First Quarter of 02. This amount was reclassified to accounts receivable. We, in the second, in the First Quarter of 02 there were expenses relating to the incentives for the migration of the retired employees from the old pension plan, plan on BB basis to the new plan on CD basis in an amount of seven, nine million (inaudible) the Second Quarter there were no such expense only (inaudible) (inaudible) spend over one time expense in the First Quarter. The additionally there was a reverse of (inaudible) reverse of provision for exchange losses recorded in the previous period basically last year amounted to 193 million Petrobras which were not incurred and we reversed these, this provision.

These provisions were basically in Internationally Subsidiary but Petrobras was basically provisions against appreciation of the Petroleo affect the equity value of these Subsidiaries and we have reversed these (inaudible) this year. There were also profits on (inaudible) operations, product (inaudible) operations of 16 [ph] million only in this quarter, in the Second Quarter and finally there was some adjustment on payment of taxes by that anchor fees which were over paid in 2001 and

we have finalized all the setting off in periods of these announced and have resulted in positive effect of 61 million only in this quarter, positive adjustment.

The increase in income tax and source for contribution payments in the Second Quarter of '02 compared with the previous quarter was basically due to higher profits than in the previous period. It should be remembered that if we compare the Second Quarter of '02 with the same period of the previous year, the increase in this amount is due to the fact that Petrobras brought forward the payment of interest on capital in 2001.

Thereby reducing constackable [ph] income. The next slide is just to refer what we have discussed at the beginning, the evolution of our prizes compared to the trend of the evolution of the prices, the (inaudible) price. The upper graph clearly shows the improvements in margins which took place in the Second Quarter of this year and in our early showing we have included the month of July and we show already the reverse effect of July, the direct result of the fact that we are holding back the pass through of this.

Still structure (inaudible) of the foreign exchange. The recover of the average price for Brent [ph] can be noted in the comparison with the previous quarter, increasing from roughly \$21.7 per barrel inaudible [ph] in '04 per barrel, 18% increase and the average realization price increased about 20% over the previous quarter from 23.2 to 27.74 per barrel.

However the average price on the market. But also the AIP [ph] posted a drop of around 8.5% in comparison with the same period of previous year. As I have mentioned already, during this quarter the reale [ph] devalued 22.4% against the dollar with the average exchange rate rising from 2.32 to the dollar to 2.84 to the dollar.

This sharp evaluation at the end of a period has a reestablishing effect since it directly impacts the embediness [ph] and tries corresponding increase in the assets. This always happens when there's a rapid de-valuation occurs at the end of our period. Over a long period of analysis, this always tends to be compensated but on that snap shot photo on a specific date with this (inaudible) does have the distortion, implicit distortion which is a non-cash effect.

On the next slide just show the performance on a dollar basis of the Bobesta [ph] we compared Petrobras books to be the performance of our PAs based on the apex or Alumax.

And what we just wanted to highlight, here is that based on the last December 2000, we have still out performed or reversed the index although it was sharp, a devaluation of 33% to 33.7%. And, that is interesting to highlight here, to show that if we look at it since December, of last year, or last quarter of last year, we had the initial phase of our performance of our shares being more correlated to the performance of our piers. And not so much linked to the performance of (inaudible) in this case, reflect in Brazil risk.

And, we sort of started our decapitating from the Brazil, that this lasted not long enough. And with the increase of this more sharpening of this risk of global risk of version process, since the end of the First Quarter of the year, we again see our performance of our shares coming closer to a (inaudible) with the Brazil risk than with the risk of the industry. Coupled with the feathered finonomence [ph] basically the discussion of pricing control during the electoral campaign. And had another specific facts. But basically what we see here, not only the industry but Petrobras and the Brazil rate of shares is, with this downwards trend of a direct result of disglobal process of risk aversion.

And, comparing just to give an idea of what performance as we did in the First Quarter, with some of our major piers of this year, the gap in our case and the others US cap, this is, gives an idea of how we are performing compared to the industry, with the exception of reps of big influence of non operational profits basic to the sale of assets, the sales of assets are down.

We have outperformed the other majors. This showing that our results in the Second Quarter is effectively a very good result. And that is also seen in terms of margins gross margin and net margin, our gross margin is in line with our peers and the net margin is the highest in the group, as well as in the First Quarter.

And this is a direct result of our very good competitive constructor. And this is also explained by the evaluation of the real, since 40% of our costs are in our eyes and are positively affected in this case by the devaluation.

We have as I mentioned already an outstanding performance in terms of increasing production with our 16% increase only exceeded by (inaudible) and so this maintains our performance in terms of production in line with a historical growth performance. Our total production with the basic [ph] market was up 17% in the Second Quarter of this year compared with the same period in '01.

Basically, as a direct result of the performance of P40 which initiated operation in Marlozo [ph] in December of last year and has reached a total production of 150,000 bales per day in June this year.

As well as operating efficiency and productivity achieved in the other Marlene [ph] and other quarter fields. Increasing production was accompanied by a moon % reduction in lifting costs was a very important in Brazil.

Before government participation in the Second Quarter of this year compared to the same quarter of '01. Also (inaudible) effected with not only by gains in productivity but also with the gains of resulting from the devaluation.

In terms of (inaudible) we have achieved record of exports of oil over the result of higher domestic production and increased in heavy oil prices in the international market, which made exporting more attractive in this first semester of the year.

Other exports have increased 170% over the same period in 2001. So we are exporting oil more oil and reducing our imports as a result of higher domestic production and the trend of reducing our trade balance will continue as we have highlighted in many opportunities.

The lower (inaudible) in comparison with previous quarter and with the same period of last year is a direct result of the lower international refining margins which has a consequence made it also possible to increase exports.

The refining margin on grant in the American Gulf fell from \$5.65 per day in the first half of last year to \$2.08 per day in the first half of this year. This is the second lower margin recorded in the last 15 years. The effect on refining costs due to through good production was basically off set by the also the benefits of the devaluation of the (inaudible) in terms of our costs.

The next slide just highlights again improvement in our trade balance we are steadily moving ahead to become an exporter instead of net importer and once again I always like to highlight that this is not no longer the position of the country as of with the deregulation we have no longer the obligation the legal obligation to supply the whole market and that has been changing although we are in the initial phase of deregulation, it's happening quicker and on a very good pace and will be probably as soon as next year becoming a net exporter.

Alone in this year until June we have exported \$1.7 billion against \$1.9 billion of imports. Concerning our leverage here we have also the temporary its not for defect of the sharp devaluation of the Real at the end of the period. And we see that our leverage ratio in terms of increased to 38%, 37.6% basically with the reduction of our cash and cash equivalents we had payments of the

biggest payment in the period was 2.3 billion payments in dividends which reduced the cash equivalent and the 22.4 devaluation that severely impacted on our net debt to the impact on the dollar (inaudible) net portion of our debt which is roughly 75 (inaudible) dollars.

But if you've a non cash effect and it tends to be soft and (inaudible) a long period of time this is a snap shot effect and our overall (inaudible) to the capital structure remains very comfortable. And one very important thing to highlight here is the fact that we are now facing this severe crisis here in Brazil with the (inaudible) the difference to the '99 crisis at the beginning of '99 after the Asian crisis that we now have a short term debt of only 21% of total debt compared to that time the beginning of '99 of roughly 52%. So we have absolutely no roll over risk.

Our short-term trade debt is stabilized at a level of 600 million, which is absolutely causes no problem in terms of roll over. So we are even though we have executed basically one billion, 1.2 billion of our funding program for this year ever before the crashes and we are now finalizing oil subsidization transaction and we are also doing we will be starting to road show next week ending at closing by the end of this month a ten year for 16th and transaction in the local market in Reanas, showing that the capital market in Brazil is also has also developed and is showing a very robust situation where institution investors have the appetite for a very selectively have appetite for our bonds on a very long term basis; ten years.

Also direct result of the risk evasion we want to diversify away from SF concentration in treasury bonds (inaudible) first class Petrobras bonds. This shows that the company and the local capital markets are alive although there are a lot of short-term speculation.

On this note I would like to open for Q&A and sorry if I took more time than either I think we can if we have if we need more time I think we can spare more time to cover all the questions that may still need to be covered. Thank you, very much.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen we will now begin the question and answer session. If you have a question or comment please press the star key followed by the one key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press star two.

Please restrict your questions to two at a time. Our first question comes from Carlos Dalion [ph] from Deutsche Bank.

### Q - Carlos Dalion

Two questions actually. First question is regarding your most recent oil discovery in Brazil. I wonder if you could just update us on the time frame, which you plan to access and develop this particular field?. First question and secondly I wonder if you could give us the companies view on the future of refined product pricing in Brazil and how real the possibility is of government intervention in this process going forward?

### A - Joao Nogueira Batista {BIO 17222124 <GO>}

Okay. In relation to your first question, the discovery in the compass [ph] basic is about 80 kilometers away from the coast and it seems, it's a very important discovery, it hasn't been the test for us to become (inaudible) formality as it reserves and commercial reserves should be completed by the end of this year.

We expect that as a result of the final tests that will be made that this will lead to new reserves of roughly six hundred million and but maybe Suzanna [ph] can give you more details on this. Suzanna

[ph].

**A - Suzanna** {BIO 6826872 <GO>}

No that's basically what is there. We have a long-term test starting now and it will take at least six months and after that we have all the visibility started and with positive results this could really be a commercial and maybe at three, most four years time we will have protective to top [ph] and just to clarify, this is (inaudible) but actually it's (inaudible).

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

80 kilometers from the coast to the center which is not of Rio de Janeiro. And in terms of the pricing policy moving forward, for the time being we are keeping to our strategy of being local file in terms of pricing. From the corporation point of view, our judgement is still that the foreign exchange is very volatile, the movements are very abrupt and it's very hard to operate an adequate pricing policy in this environment and that if we were to just simply proceed to an automatic pass through of all the productivity up and down, we would only; the benefits would be doubtful because we would probably be creating so much excitement around the subject that there's an opposition from our society as a whole, not only from politicians but from society as a whole that we would endanger the model and the survival of the model moving forward.

So, I think it's reasonable to be prudent and to try and wait until we have a better picture, short-term picture of the extra great movements. The Brazilian government has just announced end of last week an agreement with the monetary front, which is a very important agreement, both politically and in terms of substance, monetary substance and we have to give the market some time to digest this news and we hope that some stability will be reached in the near term and maybe (inaudible) move.

Our pricing (inaudible). But for the time being we have, we have to be prudent, I think this is the widest thing to do.

**Q - Carlos Dalion**

Thanks (inaudible).

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

No doubt, just there is no risk of government intervention for the time being and as a result of the elections, as we have always said, we, although we can't say there is zero risk, we don't think it is, is a logical that any government coming in will change the model. And I think they have rather more serious things to do and to manage such as fiscal limitations and balance of payments roll ability.

And I think that changing the oil and gas model will not help any of these two goals.

**Operator**

Thanks for your question Sir. And now this question comes from Myles McDougall [ph] from ABN AMRO.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Hi Myles.

**Q - Myles Mcdougall** {BIO 1499636 <GO>}

Hi. Just a couple of questions.

First of, can you explain the to compare the very low numbers for non-operating brother expenses and perhaps indicate, no break that out a bit if there is any positive numbers in there?

And secondly, explain the re-increase I guess in the petroleum account number in the balance sheet, thanks (inaudible).

### **A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Okay. The other operating expenses the effects again as what I, as I had mentioned during the introductory remarks. Basically, had a positive effect of 126 million in the contractual contingencies related to timber power plants.

Basically, if you recall the First Quarter, we had a total negative impact of roughly, if I'm not mistaken, something like a 120 or a 130 million we hired, coming from the term of our plants, basically the merchants power plants, a little of both and (inaudible).

And while we have subsequently clarified is that in our contracts, with these East General Power Plants, they have the right to collect amounts from the spot market and agency and discount these receivables at the subsidiary required, that the development bank created to monetize the securities and therefore they reimbursed us for these expenses in the First Quarter and this has caused a positive effect of 126 million which has all been accounted for in the Second Quarter. So this was a positive effect.

One of the reasons, one of the explanations for the small amount in the other operating expenses. And another important factor is the fact that in the First Quarter, we had registered as an expense of 79 million related to the Center for Migration of the old pension fund scheme to the new pension fund scheme, which have not been completed yet. But this 79 million was a one time effect in the First Quarter. And not in the Second Quarter. So this again is one of the reasons behind the sharp decrease in these further operating expenses.

And also there was an important effect of 193 million Reals [ph], which results from the reversal of a provision for exchange losses, foreign exchange losses, that were (inaudible) during '01, during last year. (inaudible) basically an international subsidiary.

And we have now cancelled this provision, that this was a provision, basically, related to eventual appreciation of the Real [ph], which has a specific effect on the assets of these subsidiaries outside Brazil, when translated into Reals [ph]. So, it had again a positive effect of 193 million.

A number of other smaller adjustments. We achieved final recovery of (inaudible) medical fee's, taxations which were overpaid last year and we recovered this year, 61 million Reals [ph] etcetera. So these are the basic reasons behind the reduction, the sharp [ph] reduction in the other operating expenses.

And your second question was?

### **Q - Unidentified Participant**

(inaudible)?

This was basically only the formal accounts procedures related to that press release we issued in June. As a result of the legislation [ph] that was in act of being discussed in Congress in Brazil, which came to the conclusion of special commissions in Congress and discussions with the government came to the conclusion that there was a potential, still a potential claim to the benefit of the alcohol sector producers in Brazil, related to years of crossed subsidies.



And that this potential claim could be, at the maximum, I think, 580 or 600 million Reals [ph]. This has such potential, because it is subject to audit. And so there's a special group charged with the due diligence of this account (inaudible), headed by the de-regulatory agency. And they have to (inaudible) their audit by the end of this year. And the claims will then be judged correct or not correct. And there will, the final balance will be if it's in the favor of the company, we will be paid in government securities. But this time we will be paid with (inaudible) securities. And in an amount sufficient to cover any negative effect on our accounts.

So, our accounts will be basically, protected from any market to market effects. So this is basically, this is just the formalization on an accounting basis of that press release, which we released some two months ago.

## Operator

Thank you for your question sir. Our next question comes from Christian Audi [ph] from Morgan Stanley.

**Q - Christian Audi** {BIO 1825501 <GO>}

Hi Joao. Two questions.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Hi Christian.

**Q - Christian Audi** {BIO 1825501 <GO>}

The first one. Given the current volatility on the currency, that you've already touched on, how comfortable do you feel, in terms of keeping your capex plans, not only for '02. But for '03 as well?

And secondly, any updates on how the due diligence with Petrobras is going and how the potential position is coming along?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Okay, I think this, we are referring to the effects of the devaluation, we hope that this short term or this turbulence moment that we are living today, which entails a strong effects quality will not last very long. But even if it were to last long, you must stress a scenario where we will have no big problem in carrying out our cap-ex program this year and also next year. So, we are showing that we are able to move somewhere in the stress scenario, we are also finding our interesting opportunities in terms of funding in the local market, we will be concluding by the end of this month, our ten year bond issuance in the local market. So this is a very important fact, a ten year funding compared to levels to what pricing what would have been possible if the International capital markets would be open. So, we have our basically the big chunk of our, of our capex program is linked to the (inaudible) activity. And there we have the project financing, finance contracts already in place. And signed, with the diversments caduales that are occurring without any problem. So, we therefore don't see any problem in executing our capex program.

And then there is (inaudible) in (inaudible) we will be probably releasing a press release very shortly, basically the negotiations are concluded finally, we are finalizing small aspects and so this is to be announced very shortly, perhaps this week, if not, maybe the beginning of next week. And then the pace compact, the diligence is moving ahead very well, we have a big team in Brasileiro and a lot of external consultants in our business fields, already starting the appraisal of all the business and assets not only in Argentina but also throughout Latin America. And that to now, we have only had very good news. And the information that we have received is first class, confirming what in line what we had expected and confirming the assessment that the mark has and not only in the financial markets but also the industry has of the high class management of the company. So,

we are very happy with the outcomes until now, we don't expect on the basis of what we have seen, we do not expect to find any problem at all. And through negotiation of the debt of Petrobras from what we hear from this year forward, I heard yesterday that the visit here in Rio of the CFO Bank Carlo, who have discussed our many many many things business plan et cetera and how was basically the evolution of negotiation and bonds were concluded very successfully; we exchanged offers last week or the week before and the bank rescheduling [ph] is moving ahead also very positively. So that they hope to have this concluded very shortly.

## Operator

Thanks for your question sir, our next question comes from Frank Meagan [ph] from Merrill Lynch.

## Q - Frank Meagan

Good morning. Good afternoon; just a question on production levels; production levels have been coming in I think a little bit ahead of plan and I was wondering if there were any changes in your expectations or your plan for productions for 2002 and 2003 and then maybe you could also comment on the status of the temporary platform for Hackadoor [ph] and when that is actually going to actually start up production and what the production levels you expect there through the next 18 months or so?

## A - Joao Nogueira Batista {BIO 17222124 <GO>}

Okay, hi Frank how are you? The production as you said is all doing much [ph] very good; good moves and good surprises. I think that we'll be reading our records on a daily basis and we I think it's without wanting to be very optimistic or over optimistic we will probably exceed our target for this year.

In relation to the target for '03 it is early to say we are initiating just now we are revision the annual revision of our strategic planning and we will also be revising these annual targets but it's earlier to say what will happen in '03 but in relation to '02 I think it's fair to say that we will probably if nothing happens to boast our target for this year and we are of course we have been do a lot of maintenance stops which will of course reduce the average production until the end of the year.

But as you mentioned Hackadoor [ph] will be starting there's a new platform that will start operation I think in October with an initial production I think of 10 thousand liters per day; so that will compensate priory [ph] mentioned maintenance stops so that; that's why we are very comfortable with the very sharp increases in the First Quarters to beat the annual target for this year and I think we had peak; the peak production for this temporary platform I think will be something like 80 or 90 thousand barrels per day in approximately 18 months.

## Operator

Thank you for question sir or next question comes from Brian Singer [ph] from Goldman Sachs [ph]

## Q - Brian Singer {BIO 4404674 <GO>}

Hi good afternoon; two questions; one.

## A - Joao Nogueira Batista {BIO 17222124 <GO>}

Hi Brian.

## Q - Brian Singer {BIO 4404674 <GO>}

On a follow up to the last question could you also talk about the Barracuda Carratinga [ph] platforms which I believe are planning to come on line early in 2003 and also separately could you

give your expectations for your timing of dissentainments [ph] and dividend declarations for the rest of this year?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

First of all I'll pass on to Lucianna [ph] so that she can use her E&P expertise to answer your first question.

**A - Lucianna** {BIO 20039962 <GO>}

Yes regarding Barracuda Carratinga [ph] production now tops for 2003 so there's nothing else to say about that by end of the year date might be in productions; both units.

**Q - Brian Singer** {BIO 4404674 <GO>}

Okay. So it's more of the year-end 2003 or are you planning on, do you know when in 2003 is the plan to bring those on line?

**A - Lucianna** {BIO 20039962 <GO>}

Well I say that by the end of, I couldn't say right now exactly when but by the end of the year.

**Q - Brian Singer** {BIO 4404674 <GO>}

Okay.

**A - Lucianna** {BIO 20039962 <GO>}

And the other question was?

**Q - Brian Singer** {BIO 4404674 <GO>}

Dividend payments, what you're timing for both payments and declarations for the rest of this year?

**A - Lucianna** {BIO 20039962 <GO>}

Basically nothing different from last year. Dividend payment will be made, the final dividend payment will be made in May next year relating to this year and there will be an anticipation of interest on capital some time during the Third Quarter of the year or before year end.

If it is same schedule as last year.

**Q - Brian Singer** {BIO 4404674 <GO>}

That interest on capital if it's done in the Third Quarter would just cover about half of the dividend payment and there would be another interest on capital in the Fourth Quarter or would you be planning on taking the entire dividend payment in the Third Quarter?

**A - Lucianna** {BIO 20039962 <GO>}

It would be a partial payment on the anticipation on the basis of interest on capital and then the final payment some time in May, beginning of May of 2003.

**Q - Brian Singer** {BIO 4404674 <GO>}

Great thanks.

**Operator**

Thank you for your question. Our next question comes from Paul Ching [ph] from Leeman Brothers.

**Q - Paul Ching** {BIO 16212054 <GO>}

Hi. On the parking strategy you indicate that you're probably going to grow on the low profile. Can you quantify what kind of financial impact in the Third Quarter is going to look like because of that?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

I'm sorry I didn't understand your question, could you repeat that slowly?

**Q - Paul Ching** {BIO 16212054 <GO>}

I think you have to indicate in terms of the product sales price, the pricing strategy your going to adopt, it's going to take a mow on mow [ph] profile, in other words, the incremental costs or the incremental costs due to the fluctuation in currency to the consumer. Is there any rough estimate that you can share with us what kind of financial impact you guys may look like for the Third Quarter because of that?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

It's too early to answer your question depending how long this period will last, this low profile period will last and what will happen (inaudible) available. It's too early to answer but if there is a stabilization of the exchange rate of a certain level we can then maneuver our pricing policy to try and recover part of these previous non-realized results but, it's early to say what the final impact will be cause if it does turn how long we will have to wait until we find improvement enough to move ahead.

It's early to say at this stage.

**Q - Paul Ching** {BIO 16212054 <GO>}

On yearly census, why not freeze your product sales price at this point or are you still making some adjustment?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

For the moment we are making no price increase. We had a adjusted our prices already to a level of two, an exchange rate of 285 on average and this we consider more or less since during the month of July, there has been no material change in the average prices of products. We have been containing the movement of the exchange rate from 25 to the whatever the FX level is in the market so that is what corresponds to our non realized revenues but we have to wait and see what level this is going to stabilize.

**Q - Paul Ching** {BIO 16212054 <GO>}

Great, just one last question on the second earning do you have a (inaudible) what is the momentary gain on loss associated with the different segment in the Second Quarter?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Could you, I didn't get your question exactly, what was that.

**Q - Paul Ching** {BIO 16212054 <GO>}

In your press release you have break down what is the segment earning by the ENT by the refining in (inaudible) do you have a corresponding break down, what is the momentary gain or loss that you record in each of the segments for the Second Quarter?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Okay, I find this

**Q - Paul Ching** {BIO 16212054 <GO>}

(inaudible)

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

the segmentation per business area.

**Q - Paul Ching** {BIO 16212054 <GO>}

Right.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

The momentary, the losses result for the devaluation of de Real [ph] the record at corporate level and not, we do not split that among the business units so we do not do that break down.

**Q - Paul Ching** {BIO 16212054 <GO>}

Okay

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

The results of (inaudible) the de Real [ph] are accounted for at corporate level, they are all in the corporate segmentation.

**Operator**

Thank you for your question Sir. Our next question comes from Mark McCarthy from the Bear Stearns.

**Q - Mark Mccarthy** {BIO 5634411 <GO>}

Hi Joao.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Hi Mark

**Q - Unidentified Participant**

Hi Mark

**Q - Mark Mccarthy** {BIO 5634411 <GO>}

Mark McCarthy, I wanted to go back to the cap-ex question, given your current target of just over 6 billion even excluding the Paris transaction it would suggest the cap-ex needs to steadily rise through the second half and I think that the question was already asked but I was wondering if you could give us some sense as to how much you've spent in the first half and how much you anticipate spending in the second half and then if you could specifically orient that cap-ex to EMP?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

In the release you have the break down of the consolidated investments.

**Q - Mark Mccarthy** {BIO 5634411 <GO>}

Right.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

And we invested in 2002 5.7 billion Reals [ph] Okay, that was roughly 50% more than in the same period of last year, first semester and of which roughly 50% were in EMP alone and the other big chunk of investment was in the downstream of the refineries had a big increase as a direct result of the investments and up grading.

**Q - Mark Mccarthy** {BIO 5634411 <GO>}

Well I think that works out to just almost \$2.4 billion.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Roughly, yes, Okay and a, we will not be as a direct result of our strong, strong cash flow generation and the funding that we have able to raise, we will not be, up to now we have not seen any need to revise the cap-ex plan and moving into 2003 answering the question that Christian had asked at the beginning, if this stress [ph] scenario takes longer, what we can basically start revising capex more to the end of next year. And we can always step on the brakes on other business areas before we step on the brakes on EMP.

Since the investments in EMP are the ones that bring the highest return, they will be left for the last, to be the last ones to settle from any capex shortage. We do not force CMNE [ph] to do that at this stage, even considering the acquisitions.

**Q - Mark Mccarthy** {BIO 5634411 <GO>}

Is it fair to say that we shouldn't; we should no longer be using the \$6 billion number for this year, given the circumstances?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Oh no, I think you can, nothing indicates that we will not be, that we will be not reaching the \$6 billion, although we have to wait and still see what also the impact of the foreign exchange devaluation has on the total capex. The biggest part of the capex is dollar related expenses anyway. So, we don't expect any material deviation from the budgeted plans.

In gas and energy, there will be a step on the breaks. I think, if I'm not mistaken we had something like \$1.2 billion, for this year, if I'm not mistaken. And this is going down sharply. But, we had planned 6.6 for this year. So if we close at six billion, I think that's basically a direct result of stepping on the breaks on gas and energy.

**Operator**

Thank you for your question. Our next question comes from Richard Woo [ph] from Morgan Stanley.

**Q - Richard Woo** {BIO 18716592 <GO>}

Good afternoon. A couple of questions.

Can you give us a sense on whether you're planning to adjust LPD prices, given concerns about the significant premiums being placed on this product?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Well, we are waiting for, again, as I refer to my general comment on that, on the strategy of having to be low profile in terms of pricing. LPG is the most sensitive of many of the prices because it effects, in an electoral year, it effects not only the reaction of all the political parties in Congress. And it also affects directly the lower income people. And so we have to be more careful there.

And we are; we will not do any, undertake any individual action while we are waiting for the decision of the regulatory agency, ANP, that is finalizing their studies on the breakdown of the. And the analysis of the different moves of all the players in this business. Because we are not the only player here, there is many other players in this business which have increased their margins, their respective margins this year as a result of the reduction of the subsidy.

If you may recall the LPG during the, we are charging today, in average, less than we charged last year. Basically because there is a strong subsidy that was passed on to all consumers of LPG in Brazil, which is socially not correct. And the government has decided to go along with the regulation, eliminate the subsidiary at the beginning of the year. And implemented a direct subsidiary to low income classes, with payments, cash payments of 7.50 per month.

The problem that has arisen as a result of this change in this subsidiary is that the lower income population does not make a direct link of this cash subsidiary with the acquisition of LPG. They get the cash and they spend it somewhere else. And they go approaches the LPG, they feel that the direct impact of the price increase and so that is exactly what the regulatory agency is analyzing and discussing the conveyance of introduce change in the subsidiary mechanism. Would you not expect any negative raw material decision that might effect negativity of the company. But for the time being, we have to be more careful than any other price with the LPG price so we will not be moving there. And the LPG, if you take away, not consider the imports is 4% of our revenue. So its not material from that prospective.

## Operator

Thank you for your question, sir, our next question comes from Emerson Light, from CSSB.

## Q - Emerson Light

I have some further questions, two questions actually, why the Afexcies [ph] income tax rate, was so high, either in the First Quarter and now again in the Second Quarter of this year, close to 50% and should we expect this should be recurring the next quarters. And the second question is about the lifting cost, the lifting cost improved significantly in this quarter. And should we expect this to be recurring and also did you change your targets lifting costs for this year, which I believe is close to \$3.30 per barrel, given the occurrence in depreciation?

## A - Joao Nogueira Batista {BIO 17222124 <GO>}

No, starting with the last question, the lifting costs has very good results in the Second Quarter, the direct result of productivity and larger production. But also, the effect of devaluation, if we consider that's 40% of the costs, I realize, that there is a direct benefit in terms of costs of revised depreciation.

So, we're not changing the target, lifting costs for this year, as we are aiming at 2005 to reach 2.8 if I'm not mistaken. And this has to be seen on a longer term horizon. So, I think we are moving well, in both of terms of production targets and FND and lifting costs and of course reserve replacement. So I think in terms of upstream operations we are very much in line with the targets. And again, we will be finalizing our annual revision of the strategic plan towards the end of the year. And in this process, these things will be discussed. And if there is a consolidated trend of a sharper average, reduced average of lifting costs, we might deem it appropriate to change the targets but for the time been it's a little bit early to talk about, discuss any change in annual targets and the next question was the first question what was it exactly again.

**Q - Emerson Light**

On the (inaudible) (inaudible) income tax rate is (inaudible) high in the first and now in the Second Quarter again.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

But of (inaudible) (inaudible) to explain that you, Okay he is just Okay he the increase in the income tax in the Second Quarter compared with the previous quarter was as we discussed earlier due to the higher profits than in the previous period Ok that's a higher profits and (inaudible) higher taxation right and this was clear, a clear effect with compared with the First Quarter to the Second Quarter and if we could compare the Second Quarter with the same period in 01 the increase is as a result of the fact that we had brought forward last year, we had brought forward the payment of interest on home capital so that reduced the taxable income in the same period last year.

**Q - Emerson Light**

Yes. But.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

But that what affects when you compare the same periods.

**Q - Emerson Light**

Yes. But you know I'm not particularly concerned about the increase (inaudible) their quarters but actually on the absolute figure, I mean are they operating profit to loss 3.2 billion Petrobras on the income tax and social contribution was 1.5 billion Petrobras so almost 50% of the operating profit why the income tax rate was so high.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Let me ask you (inaudible) my (inaudible) just a.

**Q - Emerson Light**

(inaudible)

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

(inaudible)

**Q - Emerson Light**

(inaudible) packaging (inaudible) the operating profits the (inaudible) (inaudible).

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

(inaudible)

**Q - Emerson Light**

(inaudible)

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

(inaudible)

**Q - Emerson Light**

(inaudible)



**Q - Unidentified Participant**

Okay, this is Hyisen Dea [ph] you can't (inaudible) you can't (inaudible) directly the (inaudible) absolute terms what the 1.5 is represents 50% of the operating profit because the (inaudible) for determining the taxable income is not, is not the same the basis for taxable income is different, right so am this is not the operating the taxable operating income is not 3.2 there are other items that affect the taxable income which I don't have on, with me now but we can fax you or we can put on the web site later on the exact brake down of the taxable income because you can't take the operating profit and make that (inaudible) which you are doing now.

**Q - Emerson Light**

Okay, that will be fine if you don't be causing any and I understand the difference but in a normal issue look at the fact at least it was like a (inaudible) of the time if you look at 25 to 30% it's an acceptable (inaudible) contract rate was probably that were some more items that we cannot access (inaudible).

**Q - Unidentified Participant**

But we (inaudible) we have other impacts of credit which are (inaudible) credits from the (inaudible) etcetera which affect the profit which is taxable so we don't have to give you the breakdown and draw and will be better to see the breakdown on the web site shortly. And if not today the latest tomorrow.

**Q - Emerson Light**

Thank you, very much.

**Operator**

Thank you for your question. Our next question comes from Yogi Caty [ph] from Bernstein Investment.

**Q - Yoge Caty**

Hi I have two questions first one was on the cash flow statement.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Could you speak louder please

**Q - Yoge Caty**

I have two questions the first one on the cash flow statement for the cash used in financing activities there is 3.75 billion Riag. You mentioned about 2.3 was paid as dividend I wanted to get what other items were in that were included in that the cash used in financing activities.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Just give me one second. Again looking at the model I think that the most important element that comes to my eyes is the cash investments in E&P for example along the in the Second Quarter 2. roughly 2.3 billion we invested in E&P. And then we have other we have another 420,000 in refining and marketing.

**Q - Yoge Caty**

I was asking about the cash used in financing activities not the capital expenditures.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Financing activities.

**Q - Yoge Caty**

Right.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Besides dividends.

**Q - Yoge Caty**

Right.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Okay I think we will try to explain to this I don't think there's any other material financial effect besides the dividend.

**Q - Yoge Caty**

Okay because the cash used in financing activities is 3.75 billion whereas dividends are about 2.3 right.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Right, because in our cash flow our (inaudible) is indirect naturally now that we've conceded the variation between true accounts and between two periods in the First Quarter and Second Quarter. There's no payment here related to financial its simple operational and between two periods in the First Quarter and the Second Quarter and two accounts related to financial obligations. We don't have any payments about liebiards and some specifically obligation that's a specific operation between two periods because our masses are indirect masses.

**Q - Yoge Caty**

I see. Okay.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Is that Okay.

**Q - Yoge Caty**

Maybe I get some more clarification off line. The other question is

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

There was no in this period there was no material effect of any there was no cash effect of any reduction of payment of debt. Okay.

**Q - Yoge Caty**

Right that's what I heard all I didn't know where the rest of the 1.4 billion rent? What did that apply to?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

There was no financial effect besides the dividend Okay? You're talking about the First Quarter, Second Quarter. In the First Quarter there was payment of extra taxes on the (inaudible) but that was the First Quarter not in the Second Quarter Okay. But you can discuss this with our people afterwards offline.

I think it's easier to get to the detail there.

**Q - Yoge Caty**

Right Okay. The other thing was a clarification regarding the other expenses. You provided a lot of detail about the one time items which was great so, if I back those out would going forward with a normal level be around 400 to 450 million? Is that kind of on the recurring basis? Do you think that's the kind of level we should use?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

I don't know, hard to tell. 400 to 450 is too high. On an average for other expenses, it seems a little bit high to me but it's hard. For example, if we take the contingencies [ph] on the term of power plants, if we on an average basis we move forward if these power plants are not generating, their just on a stand by basis they will have an impact of roughly 30 million per month.

The rest is hard. These affect situations in an environment like ours where there is a lot of volatility. It's hard to predict what's going to happen but I would say if your looking from a negative standpoint I think to be conservative, 400 to 450 might be a good approach to be on the safe side.

**Q - Yoge Caty**

Okay, all right great. Thank you.

**Operator**

Thank you for your question Sir. Our final question comes from Patricia Lenecords [ph] from Salomon Smith Barney.

**Q - Patricia Lenecords**

Thank you, it's Patricia Lenecords [ph].

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Hello Patricia [ph].

**Q - Patricia Lenecords**

Hi. Couple of questions following up on, first of all on prices for LBG [ph]. Do you have an idea of when your going to be hearing from AMP [ph] in terms of an indication of what they are likely to be doing and who's going to be actually implementing some of these changes in prices? At what parts of the chain, if it's going to be the (inaudible) or the distributors or the retailers? Do you have any indication as to the time frame?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

No but it has to be quick. They have been working on it I think for at least a week now if I'm not mistaken and we expect that they come to a conclusion soon. I think might be by the end of this week or at the latest next week. But, I have no specific date for you.

**Q - Patricia Lenecords**

Okay but one of the things that you mentioned is that a likely change is to the way that they are subsidizing the product right now. Do you think there is also going to be some pressure on distributors and on the under the resigning side too not be able to pass through any further de-valuation?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

It's hard to predict. I think one thing that I think seems clear by now is that contra to what was the initial, the initial impression that was passed to the population and to the media that the sole responsibility lies on our backs, I think has been demystified and I think that the AMP is correct, is proceeding already. But the other agents and players in this business which have their own agendas and have their own share of the responsibility.

So, I think there will be no decision which will be only directed on Petrobras, I think that properibility is very low at this stage. My %, my personal perception and so. But it is still hard to predict what the receivables is going to be.

### Q - Patricia Lenecords

Okay. Another follow up on the issues of the debenchers [ph] that you are planning on starting marketing next week. It's the amount is still (inaudible), right?

### A - Joao Nogueira Batista {BIO 17222124 <GO>}

Right.

### Q - Patricia Lenecords

What are your plans for the use of proceeds of that issue?

### A - Joao Nogueira Batista {BIO 17222124 <GO>}

That is part of our funding excess, we had planned since the beginning of the year to issue about 2 billion from 1.5 to 2 billion in debt this year. So this is part of the program, we have raised a little bit, something like 1; 1.1 billion up to now, we have a 200 million oil negotiation, already mandated, being organized in the international markets and this local exercise will complement our sources of funding. But it's, we'll have more specifics stamp directed to any specific pocket, it's just partially overall financing of our activities.

While (inaudible) of that extending out the duration of our debt.

### Q - Patricia Lenecords

There is a portion of this going to go to reduce your short-term exposure, you short term debt exposure?

### A - Joao Nogueira Batista {BIO 17222124 <GO>}

Yes. But although our fortune exposure is already at a very comfortable level. But if you were living in a stress scenario for, if, this has not happened yet. But if we have to be pretty short term debt, which is maturing, yes, we would use that.

That and other sources to do that. But at this stage, we have had no pressure at all to shorten trade lines. On the contrary, only last week, we renewed \$50 million in one-year trade line at the same pricing, that we had being practicing.

Another (inaudible) exception, other companies in Brazil have been facing harder times, fortunately we are still able to do that. I bet your (inaudible).

### Q - Patricia Lenecords

Okay. Is that a question, you mentioned about the drop in demand in volumes for diesel and for gasoline. Can you give us an idea, what type of a drop for those two particular products, you sold relative to last year?

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Ms., it is pointless for me to say that I can't do that. But, we don't have those, we don't disclose them. I have an up team (inaudible) forbidding me to do that.

**Q - Patricia Lenecords**

Okay.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Okay.

**Q - Patricia Lenecords**

Okay. Well thank you very much.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Thank you.

**Operator**

Thank you for your question. Mr. Batista, there is no more questions at this time, you may proceed with your closing statement.

**A - Joao Nogueira Batista** {BIO 17222124 <GO>}

Well, at this stage I just like to thank everybody for taking the time to listen in to this discussion, I hope it has been useful. And I hope it has made everybody as satisfied as we are with the Second Quarter results.

We are very happy with them, as I mentioned at the beginning. And if we on top of that associate that to the very brilliant results in terms of our production and reserve replacement. And competitive costs, I think we can easily conclude that the company is on a very good track to continue to perform in accordance with it's very recent past track record.

Thank you, again. And if you have any additional questions, please feel free to address them either to me or to our (inaudible) department.

Thank you, very much.

**Operator**

Ladies and gentlemen. your host is making today's conference available for replay, starting one hour from now and lasting through August 20th. You may access the replay by dialling 1800-858-5309. That number again, 1800-858-5309. At the voice prompt enter the access code, 40469 followed by the pass code, 97898. International participants may access the replay as well by dialling 334-323-7226. And entering the same access code and pass code. The replay will be available approximately one hour from now.

That does conclude our Petrobras conference for today, thank you very much for your participation, you may now disconnect.

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