

Q4 2010 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO & IRO
- Hugo Costa, ANP Representative
- Theodore Helms, Director IR
- Unidentified Speaker, Company Representative

Other Participants

- Christian Audi, Analyst
- Emerson Leite, Analyst
- Fernando Vale, Analyst
- Frank McGann, Analyst
- Lilyanna Yang, Analyst
- Marcus Sequeira, Analyst
- Paul Cheng, Analyst
- Sergio Torres, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Petrobras conference call to discuss the Fourth Quarter 2010 results. (Operator Instructions)

Today with us, we have Mr. Almir Guilherme Barbassa, Petrobras' CFO and Investor Relations Officer. And his staff. At this time, I would like to turn the conference over to Mr. Theodore Helms, Investor Relations Executive Manager of Petrobras, who has some additional comments. Please go ahead, Mr. Theodore.

Theodore Helms {BIO 15433381 <GO>}

Good afternoon, ladies and gentlemen. Welcome to our conference call to discuss Fourth Quarter and 2010 results. We have a simultaneous webcast on the Internet that can be accessed at the site www.petrobras.com.br/ri/english.

Before proceeding, I'd like to draw your attention to slide number two. We may make forward-looking statements which are identified by use of the words will, expect and

similar that are based on the beliefs and assumptions of Petrobras management and our information currently available to the Company.

Finally, let me mention that this conference call will discuss Petrobras' results prepared in accordance with the International Financial Reporting Standards, IFRS. And Brazilian legislation. At this moment, we are unable to discuss any issues related to US GAAP results.

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

Almir, please begin.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Thank you for joining our conference call to discuss Fourth Quarter and full year results. 2010 was a year of milestones, as we execute our long-term business plan. We completed the largest capitalization ever, while acquiring the rights to produce an additional 5 billion barrels of oil.

We saw six new production systems, including the first pilot system in the Lula fields. In December, we set daily mostly production records. And for the first time, our daily production in Brazil exceeded 2 million barrels per day. We had more than half of (inaudible) the complete modernization of our existing refining product. And are now constructing two new refineries. We had all but complete our natural gas infrastructure. And we entered the first production system in Gulf of Mexico. Next, please.

Each of our business segments contributed considerably to our 2010 financial results. Results for the year were strongly influenced by the rising oil production and international oil prices, strong domestic demand. And the strengthening real. And stable product price in Brazil.

The balance and integration between our Upstream and Downstream operations. And our pricing policy that kept prices stable in Brazil while increasing internationally, resulted in Upstream Brazil operations meeting our (inaudible) goals[ph]. Gas and Energy grew on our -- on the strength of increasing demand in each structure, while International Operations benefited from a higher price in (inaudible).

The Consumer Price Index in Brazil was 5.91% in 2010, causing an increase in costs throughout our operations. Volumes transported and sold grew by 11%, leading to higher (inaudible) costs, even as the unit costs were stable. For the year, our annual operating income was up 4%, while our net income was increased by 17%. Next.

For 2010, Oil and Gas Production was 2.4 million barrels per day, up 2% for the year. We had set a target of 2.1 million barrels of oil in Brazil per day. But did not reach that target.

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So these are for the shortfall, were unplanned stoppage requested by the Brazilian National Petrol Agency, ANP. And the need to reduce production in Marlim Leste field to recover the pressure of the reservoir. And delays in the start-up of production systems, such as Guara and Tiro-Sidon.

It is worth highlighting the gross natural gas production of 5% in 2010. We expect to grow even more this year as we complete important connections to our gas network in (inaudible). These will allow us to incorporate normal associated gas production from (inaudible), including gas from the (inaudible). Our international production increased 2%, primarily from Nigeria.

This year, Cascade International[ph] in the Gulf of Mexico will start up and contribute to results. Next.

For 2011, we had separate target of 2.1 million barrels of oil per day in Brazil. We are confident that we can achieve this target, based on the same production of 2.1 million barrels per day. And assuming an average decline of 10%, we must replace 210,000 barrels per day of decline.

As you can see from this slide, we expect to meet this target on a number of our (inaudible). Developing (inaudible) in Campos Basin will contribute 120,000 barrels per day. (inaudible) from the last year. And the installation of P-56 in July next year, will add another 85,000 barrels per day. We have (inaudible) in the pre-salt production in Campos Basin. And are expected to contribute 60,000 barrels per day.

Additional, (inaudible) 265,000 barrels per day should compensate for the decline, as well as for the (inaudible). And any other contingency that may occur.

(inaudible). It is worth highlighting the discoveries we had in making[ph] the carbonates reserve in (existing concession) in the Campos pre-salt. The last two years, we had discovered approximately 2 billion barrels of recoverable oil in the (inaudible) in the Campos Basin in carbonates reservoir located on (inaudible).

We are beginning to tie that reservoir to existing productions system. The late (inaudible) is (inaudible), where we just announced a long term task in which one well is producing 23,000 barrels per day. In December, we announced (inaudible), initial capacity of 24,000 barrels per day. We have two additional wells planned for carbonate in (inaudible) and (inaudible) for later this year. Next, please.

In the pre-salt, we continue to progress with results meeting or exceeding our expectations. On this slide, you can see the accomplishments of 2010. Some of our accomplishment includes acquisition of the rights to produce an additional 5 billion barrels of oil in the Santos[ph] pre-salt, the startup of Lula Pilot, the startup of Guara extended well test. And eight additional wells drilled.

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For 2011, we expect a number of key developments. We have reached working the area by the end of the year. We are drilling another (inaudible) wells, double what we had been so far. We have said that we will be completed. Two of the wells we will be drilled in areas we acquired rights last year, producing 5 million barrels of oil.

For production, we had the Lula Pilot ramping up, while two platforms[ph] producing three extended well tests during the year. Next.

Our production continues to be supported by the incorporation of proven reserves. This year, we placed 240% of our production, the 18th consecutive year we have replaced more than 100% of Brazilian production.

On the (inaudible) basis, we now have a reserve production life of 18 years. As you can see, our greatest success has been finding oil in deep and ultra-deep waters, including the pre-salt. 2010, the first year we began booking Santos results reserves, which contributes 1.07 billion barrels to our proven reserves.

Onshore and shallow water, proven reserves has been mainly stable, given (inaudible) share of price. International reserves, particularly those in Latin America, have declined.

Speak of rigs, during the last several years, the lack of (inaudible) rigs has been the single greatest limitation to increase our production. We addressed this problem by incentivizing the construction of new rigs with long-term contracts signed in 2005 and 2008. Only now are these rigs arriving in Brazil. The slide shows the increase of the contracted fleet of (inaudible). We have increased our fleet capable of visiting water deeper than 2,000 meters from three in 2007, when we discovered the pre-salts, to 15 in 2010, with another 19 to be delivered through 2012.

So there are needs of this critical resource, even important milestone on our part, to doubling production by 2020. For our long-term needs, we are taking steps to develop our rig industry in Brazil. We have concluded the first phase of this process, awarding construction of 7 drilling rigs to Estaleiro Atlantico Sul. The USD\$662 million plus of each rig when equated into equivalent daily rate is competitive with existing market rates. The financing of these rigs is already well underway, with commitments from third party equity investor sources in 2010, to participate initially with 10% of the equity of the new company that is going to form this new rigs.

Still to be concluded are the (inaudible) package in which operators are bidding for long-term contracts to be supplied by rigs built in Brazil. Discussions with these potential operators are now ongoing. Next.

We already had success with developing the capacity to build, actually, a source in Brazil. (inaudible), literally no such capacity ten years ago. But Brazil now has a number of new shipyards. And a supplier network that are internationally competitive. And rightfully adjacent to our operations.

The shipyards have the additional value to support in our ongoing operations, particularly with respect to maintenance and aftermarket activities. Today, we have seven units under construction in Brazil at five different shipyards. There are another 13 shipyards under construction in Brazil. In addition to the seven units under construction, we have the infrastructure of eight replicant[ph] (inaudible) for the pre-salt.

We continue to make gains in increasing the capacity of local suppliers to meet the demand of the Brazilian oil industry. Since 2003, local content has increased from 57% to 74%, given that total investment spending has increased more than USD\$20 billion.

2010 was a breakout year for Natural Gas and Power, as growing industry and commercial demand combined with peak thermoelectric generation. As you can see, in all, demand for Natural Gas was up 38%, while thermoelectric generation, (inaudible). But average do not tell the whole story. As far as the (inaudible) mainly during the dry season from all (inaudible). During that time, thermoelectric generation was as high as 6.5 gigawatts, with natural gas consumption reaching 86 million cubic meters per day. It's clearly demonstrated that our Gas and Power infrastructure has now been built with the capacity to enhance our ability to perform at its peak demand.

By the First Quarter of 2011, we will have essentially completed our Gas infrastructure. The last remaining project will connect Natural Gas production from (inaudible) to (inaudible). And Lula Pilot to our grid.

When completed, we will be able to deliver another 17 million cubic meters of domestically produced Natural Gas in the market. In doing so, we will certainly see to it in that regards for Natural Gas we currently import, given the (inaudible) vertically integrated business with an average realization price of -- to the distributor, of nearly USD\$7 per million BTUs in 2010. National Gas will becoming a growing component of Petrobras operating income. Next.

During 2010, we saw tangible results from our investments in Downstream. With the expansion of REPLAN, we will be able to increase throughput by 650,000 barrels per day. And increasing output of jet fuel. We have vast coke modernization, with a special increased production of low sulfur[ph], (inaudible). And reduce our output (inaudible).

We have (inaudible) acquisition will enable us to double our throughput of the (inaudible).

During 2010, the strategy of the (inaudible) require[ph] us to put increase from 79% in 2009 to 82% in 2010. It's no major turnaround (inaudible). Utilization rates and domestic throughput are expected to remain near these levels throughout the year, helping to reduce costs and expand margins.

Turning to our national[ph] results, we begin with volumes and prices, which are the key developments of our results. For the full year, Brent increased by USD\$18 per barrel, or 29% over -- in 2009, while the value of our own crude increased by USD\$20 per barrel, or 38% during the year.

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Due to our pricing policy of minimizing the volatility of international markets, increased international price was not fully reflected in domestic price. During 2010, (inaudible) US and (inaudible) price declined from average of USD\$13.40 per barrel in 2009, to USD\$4.50 per barrel in 2010. This had the effect of reducing declining margin. But stabilized our consolidated cash flow.

During the Fourth Quarter, our average realization price for products was relatively flat, which reduced the gap between Gulf Coast price and the Brazilian realization price. Oil price moved up faster at the end of the Fourth Quarter, combined with our record production. However, this positive effect was absorbed by the revenues that are associated with our short-term adjustment oil products, export and international sales.

In December, gross[ph] cost prices slightly exceeded prices in Brazil, the first time since November of 2008 that these have (inaudible). We continue to monitor price closely. And remain committed to international parity in the long term. Next.

Accelerating Brazilian GDP growth is reflected in higher product sales. For the full year, product sales were up 11%, reflecting the exceptional growth of the Brazilian economy. Of note is growth such as fuel, up 19% year-over-year. And growing income, as growing income and the stronger real stimulated (inaudible).

Gasoline consumption increased (inaudible) 17%[ph] year-over-year as the (inaudible) impact, combined with higher sugar price increase, the ethanol price, reduced its competitiveness. Natural gas consumption grew by 33%, reflecting growing (inaudible) demand. But more importantly, a greater reliance on gas fired thermoelectric power for Brazil power (inaudible).

From the Third Quarter to the Fourth Quarter, total product sales were up 1%, as seasonal (inaudible) sales largely offsetting higher gasoline and jet fuel sales.

Lifting costs, expressed in reais, lifting costs before government take, declined by 6% in the Fourth Quarter. Lifting costs in the Third Quarter had been affected by the charges related to the (inaudible) collected by (inaudible), (inaudible). And (inaudible).

For the full year, lifting costs in reais were up 2%, while in the US dollars, the increase was 14%. The increase in dollars lifting costs was largely attributable to the value of the real, valuation of the real, which rose by 12%.

For the year, total lifting costs were up 20% in US dollars. And 10% in reais, largely due to increased production tax[ph] related to the higher international reference price of (inaudible) volumes[ph].

The growth in domestic consumption was led largely by imports of products. Over time, as production refinery capacity in Brazil increased, we will be able to capture the margin there today is (inaudible) imports. Next.

FINAL

Turning to financial results, revenue. On the full year -- for the full year of 2010, were higher largely because of growing sales volume this year. Our pricing policy means that revenues did not keep pace with the higher costs associated with import of oil and products. Higher production tax due to the high international reference price and domestic inflation.

Cost of goods sold also increased with the growing orders (inaudible), particularly LNG, to meet higher demand.

(inaudible) increased largely because of costs associated with higher volumes. Literally, all the increase related -- is related to LNG regas[ph] terminal by (inaudible). And other (inaudible) costs which will in domestic market.

Increase in general and administration costs of 8% is due to cost of inflation, largely attributed to increase in personnel costs, which grew a slight level of inflation rate. Our workforce grew by 3% last year, very reasonable, considering all we have accomplished. Next.

Net financial results, including tax and minority interests, contributed to the 17% increase in the net income in 2010. There were several reasons for the increase. The real was (inaudible), 5% (inaudible) the dollar in 2009. But only 4% in 2010. Since Petrobras has a net liability position in dollars, the benefit was less than (inaudible).

Offsetting this benefit, Petrobras had another (inaudible) company launched denominated in dollars in 2009. These were (registered) as US dollar assets in Brazil. When the dollar weakens versus the real, (inaudible). The need to extend these loans were substantially reduced, thereby limiting the expense on the valuation of the dollar.

Higher balance of interest bearing government securities added to income. The net (inaudible) movement caused an increase in the net financial results of BRL2.4 billion (inaudible) versus 2009.

Minority interest expense declined, due to the reduction in income from subsidiaries with minority interest, primarily because of lower earnings from the net financial results in 2010. Next, please.

Comparing Third Quarter to Fourth Quarter, net revenue went down slightly due to flat prices and a 1% volume increase. Revenues would have been higher, except for revenue from cargos of crudes and product export related in the quarter not yet recognized. The higher cost of goods sold was a result of high international price for imported volume and oil products and natural gas. Higher costs were actually offset by lower expenses, particularly in those associated with those collected by (inaudible). (inaudible) average (inaudible) Fourth Quarter results by lowering cost of goods sold by BRL543 million.

Average (inaudible) was upward of (inaudible) of products in the Third Quarter, with change of the lower costs. The lower revenues, combined with higher cost of goods sold,

reduced broad[ph] income by 4% over the Third Quarter.

Except the decline by 11%, largely as a result of fewer extraordinary items, particularly those related to the collection by timing[ph], the termination of the Barracuda project, finance and (technical difficulty) --

Operator

Thank you. The floor is now open for questions from investors and analysts. We remind you that each participant will be allowed to ask two questions only. (Operator Instructions) (technical difficulty)

My apologies. The presentation will be continuing momentarily. Thank you. Please proceed.

Pardon the interruption, ladies and gentlemen. We are having technical difficulties. Please hold the line.

Please go ahead. Sir, you are in the conference. You may please proceed.

Unidentified Participant

(spoken in Portuguese)

Pardon the interruption, ladies and gentlemen. We are have some technical difficulties. Please hold the line. Thank you.

Thank you for waiting, ladies and gentlemen. We do have the speakers back in. Please proceed.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Okay, sorry for (inaudible). But just concluding here, the slide on net income, comparing Fourth Quarter to Third Quarter, we have a (inaudible) result stable. Income tax declined as a result of declaration[ph] of interest on (inaudible) and minority interest declined by BRL531 million. The final result was an increase in net income from the prior quarter of 24%. Next, please.

Turing to CapEx, capital expense totaled BRL76 billion during 2010, an increase of 8% over -- from the prior year. Capital expenditure by Brazilian exploration production increased by 5%, largely related to increased spending in the pre-salt.

The Upstream spending grew by 70% as an investment for upgrades, regulatory spending. And the logistical is peaking, while spending only the (inaudible) refinery ramps up.

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Gas and Energy spending declined, as regards infrastructure reached completion. Our international segment also was reduced. Our capital spending remained focused on integrated operations in Brazil. Next.

For 2011, our budget (inaudible) for in our annual business plan is BRL93.7 billion. This amounts to 5.8% of all of what was approved last year. This budget is similar to the level of investment forecast for our 2011. In the 2010-204 business plan, we've got a small increase to reflect initial exploration of the Transfer of Rights acreage. The allocation of investments for 2011 follows the pattern of 2010, with increased spending in Brazilian Upstream and Downstream. And continued reduction in Gas and Energy, with stable spending internationally.

We are now planning to give a full update of our business plans for 2011-2015 in the Second Quarter of this year. Next.

The capital raised in 2010 has given us a very comfortable position with respect to the liquidity and leverage. We ended the year with net debt to net capital of 7%. And net debt to EBITDA of 1X. These are well below the limits we have established for the Company.

We ended the year with cash and equivalents, including government securities, with maturity above 90 days, of BRL55 billion. Our bonds continue to be well received by the debt capital markets, where we issued USD\$6 billion of 5, 10 and 15 years, 30 years maturity, in January. For the remainder of the year, we will tap[ph] our international allowance source, as well as the non-dollar[ph] capital market.

With that for the review, we will now be happy to answer any questions. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. We remind you that each participant will be allowed to ask two questions only. (Operator Instructions)

Our first question comes from Lilyanna Yang from UBS. Please go ahead.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. Good afternoon. Thank you. My question is on Downstream. We still have very little profitability visibility on your greenfield project. And I understood from the (inaudible) that you were working with an assumption of USD\$7 per barrel margin in the future.

However, I would like you to please break down for us how much of your -- let's say, how much is the CapEx for the Premium 1, Premium 2 or the compared refinery complexes in your budget? And more specifically, of the USD\$30 billion[ph] CapEx in refining of this year, how much it is for each of these greenfield projects? Thank you.

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

I'm going to ask Gilberto[ph] to pass on the answer. Please, Gilberto.

A - Unidentified Speaker

For the Premium 1 (inaudible) refinery, we have a design competition project undergoing. This design competition is a new approach that we are revising our refinery -- how can I say? The refining[ph] scheme. And all the things in this (inaudible) to just -- to try to have balance. And more efficient refinery. And lower costs.

(inaudible), we don't have the results of this designing competition yet, which compares the (inaudible), to give you about -- this (inaudible). We expect that within the next months, we're going to have this result, this (inaudible). And (inaudible) we -- we are in -- we have better conditions to answer your questions.

That's why, in the morning, I did not have (inaudible), I did not answer it -- the question of (inaudible), about the total investments of our portfolio. I expect -- we are expecting the results of this designing competition (inaudible).

Q - Lilyanna Yang {BIO 14003234 <GO>}

So I understand that you have zero of Premium 1 and Premium 2 CapEx in your USD\$38 billion[ph] CapEx budget for 2011? Is that right? And (inaudible), for instance, which is, I understand there is already half underway. How much of the USD\$15 billion total budget is in the 2011 budget? I believe you probably have these numbers, right? Because it's a big (inaudible). Thank you.

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

We have the breakdown of the values. We do not release this information.

A - Unidentified Speaker

We usually don't.

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

Yes. So sorry. But we don't have the breakdown of the values[ph].

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. Thank you.

Operator

Our next question comes from Frank McGann from Bank of America, Merrill Lynch. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

FINAL

Okay. Good afternoon, everyone. Just two follow-ups on the whole refining spending theme. As you're looking forward over the next couple of years, you obviously are going to be finishing a lot of the upgrading projects. You do have a lot of new spending coming in for the Premium refineries. But you were trying to reduce those costs somewhat.

I'm just wondering, in terms of the weight of spending for refining. And the total amount of spending as we look out at 2011, 2012 and 2013, once we get beyond this period, is refining spending likely to decline fairly noticeably? I mean, how are you looking at the overall mix of spending as you move out over the next couple of years and beyond that?

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

Gilberto?

A - Unidentified Speaker

Okay. (technical difficulty)

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

Frank?

Q - Frank McGann {BIO 1499014 <GO>}

Yes? Hello?

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

Are you hearing?

Q - Frank McGann {BIO 1499014 <GO>}

I cannot hear you, no. I'm sorry. Maybe it's the phone line I'm on, I don't know.

Operator

Pardon the interruption, ladies and gentlemen, we are having some technical difficulties. Please hold the line. Thank you.

Please hold the line. We are having some technical difficulties. Thank you.

Sorry for the delay, ladies and gentlemen, but we are having some technical difficulties. Please hold the line. Thank you.

Pardon the interruption. But we do have the speakers back. Please continue with the presentation. And Mr. McGann, you are still in the question queue, sir.

Q - Frank McGann {BIO 1499014 <GO>}

Bloomberg Transcript

Okay. Great. Thank you.

A - Unidentified Speaker

Hello, (inaudible)?

Q - Frank McGann {BIO 1499014 <GO>}

Yes, can you hear me?

A - Unidentified Speaker

Mr. McGann, can you hear us?

Q - Frank McGann {BIO 1499014 <GO>}

Yes. Now we can, yes.

A - Unidentified Speaker

Okay. As far as (inaudible), Frank, about the overall Downstream expenditures for just -- for the next few years, what we see is that the overall spending on modernization projects and the current assets we have are going to be reduced gradually, from now until 2013, 2014, though now actually, if you consider, for example, the average spending in modernization, what I mean, quality and conversion projects, if you take the average from 2010 to 2014 and compare it with the average spending after 2015, until 2020, you're going to see that business -- amount, the total amount is going to be reduced by kind of, 70%, 80%.

So we are going to pretty much be done with the upgrading of our current refineries by 2013, 2014. Most of it are just going to be ready.

But on the other hand, the new capacity we are adding now, mostly now due to the northeastern refinery and comparatively the first module of refining capacity, we are going to spend more gradually until the startup by 2013. So what we see that it's going to be -- there is going to be a shift from modernization spending to new capacity additions.

But the answer is yes, the overall spending is going to be reduced, mostly due to the reduction, the significant reduction we expect to have in spending in the current assets.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Great. Thank you very much. Actually, if I can just add one more question, I don't believe -- and maybe I have missed it someplace. But the amount of the cargoes that were not booked in the Fourth Quarter, that look like they'll probably be in the First Quarter, has that amount been released?

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

FINAL

Yes. We did (inaudible), about 42,000 barrels per day through the quarter. That's about 3.3 billion barrels (technical difficulty).

Really, the connection is bad.

But yes. But we thought that during the Fourth Quarter, the total exported was about 140,000 barrels per day. So -- but only 100,000 was reported. It is about 40,000, 42,000 that was not included -- was not recorded on the account. That is going to happen during the First Quarter of this year, exports[ph].

Operator

Our next question comes from Paul Cheng from Barclays Capital. Please go ahead.

Q - Paul Cheng {BIO 1494607 <GO>}

Hi, guys. Two questions. One, the dividend and the interest on capital. This, for 2010, had gone to about 35%. I think historically, you guys are roughly about in the 30%. Is that the new percentage guideline that we should use going forward?

The second question is on the --

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

(inaudible).

Q - Paul Cheng {BIO 1494607 <GO>}

Yes?

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

Yes. Not exactly. What happened is that according to the law, the regulation in Brazil, there is -- the (inaudible) shares, we have the right to receive at least 25% of the net income, or 5% of the value of the (inaudible) share in the capital of the Company.

And indeed here. And this is the case of 2010, 5% were greater than the (inaudible) 5%. So we could -- we had to pay the minimum of 5% of the value of the shares as dividends. And not to pay a different value to the voting shares. We made the same[ph] for all of them.

In this way, we had to pay a dividend, 35%. But as soon as there is a reason, it will not happen again. We will be -- go back to the 25[ph].

Operator

Mr. Cheng, you seem to have been removed from the queue. Please press *1 to ask your follow-up. In the meantime, our next question comes from Marcus Sequeira from

Bloomberg Transcript

Deutsche Bank. Please go ahead, sir.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Hello. Good afternoon, everyone. So just to follow up, I couldn't hear the amount of the shipments that were not booked in the quarter. And also to ask, I'd like to ask, I believe this is a fairly common thing, right, to have shipments booked from (inaudible) the order. But what this an unusual high amount in this quarter, or it will -- how much -- you know, you saw at the end of the Third Quarter. And you booked in the beginning of Fourth Quarter? Just wanted to have an idea if really, the shipments will have a meaningful impact.

And second, on the CapEx, could you give us a sense of the impact of the -- of just higher industry costs in your CapEx increase, or if it had already been contracted and therefore the higher industry costs had a limited impact in your CapEx for 2011? Thank you.

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

Let's have Marcel[ph] from the Downstream to explain about what is the value of imported (inaudible), exports that were not recorded. That means volume of exports in the Fourth Quarter that were not delivered to the buyer.

A - Unidentified Speaker

Okay, let's talk about the numbers of shipments, (inaudible). Oil, 100,000 barrels per day. And Oil Products, 43,000 barrels per day. So we had, in terms of volume, 143,000 barrels per day. And talking about deliveries, Oil, 90,000 barrels per day. And Oil Products, 11,000 barrels per day. So basically, we have a difference of 42,000 barrels per day. And we are talking about the -- those shipments and deliveries.

Is that good enough?

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

Marcus, could you repeat the second question, with regarding CapEx?

Q - Marcus Sequeira {BIO 4622700 <GO>}

Yes. So just a follow-up to the first, I believe that this is -- this mismatch between selling and accounting probably happens in the other quarters as well, probably is a common thing. I just wanted to know if this -- in this quarter, it was unusually high. And the second question was, if the industry costs, (inaudible) costs for the oil service industry, what was the impact of that in your CapEx for 2011?

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

I give your second point to check the (inaudible) information regarding the inflation costs on the industry. And (inaudible) effect on the 2011 -- I don't have this now.

FINAL

Q - Marcus Sequeira {BIO 4622700 <GO>}

That's fine, thank you. Then again, on -- just replacing the question, on the transfer of the 5 billion barrels you talked about in the Portuguese call, that your CapEx should be around, I think (500 million). Do you guys have an idea of -- I know, we have a few (inaudible) wells this year. But do you guys have a plan, of when you guys would like to prove commerciality of this field?

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

We are working to do this as soon as possible. And as we said, we are going to drill two wells in the blocks[ph] that we are assigned to produce the 5 billion barrels. We have to do a minimum exploratory work in each of these fields. And this includes deep[ph] wells and (inaudible) designs[ph], (inaudible). And for Third Quarter[ph], this large initial production, we need to do an extended well pad[ph] as well.

So we have to complete the work for each area. And at the end, we will declare each one as commercial, viable. But we do not need to wait on the completion of all seven. As we finish the work, minimum work, we are going to declare as commercial. And we can (inaudible) that we establish the final price and entering the new phase of development.

Hugo, you want to add something? No? That's it.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you. Thank you very much, guys.

Operator

Our next question is Paul Cheng from Barclays Capital. Your follow-up, sir -- please go ahead.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you. Two questions. One, Almir, is in the CapEx sales data, I think in the oil industry, most of the oil surfaces contract are being dominated in US dollar. In your case, that when you sign a contract, or that procure equipment, do you base on reais as the nominal price, or it is based on dollar? Or they maybe give as a percentage? How much is your contracts for the surface that you're procuring is based on US dollars. So we know when the exchange rate change that, how that impact on your CapEx? So that's the first question.

And I may have a lot -- missed it. In your current budget of BRL93.7 billion, how much of that is relate, additional spending associated with the new Transfer Rights, the 5 billion barrel operation? Thank you.

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

Okay. Regarding the Transfer of Rights and the BRL93 billion, we are going to drill two wells. Hugo, are we doing any (multiple speakers)? Yes.

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A - Hugo Costa {BIO 16095791 <GO>}

The total is -- yes, (inaudible). The total reversalment[ph] for 2011 in this Transfer of Rights will be close to BRL900 million, which is, more or less, USD\$500 million.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. So it's less than BRL1 billion. So the bulk of the increase is actually related to this?

A - Hugo Costa {BIO 16095791 <GO>}

No.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay. And Almir, how about the FX change and how that impact on your CapEx? How should we look at it?

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

Just (inaudible) into the previous question. What we -- we have the USD\$224 billion for five years. And if you take the 2011, that is around USD\$55 billion. If multiplied by 5, it will give you a larger number. It means that we are planning not to do this same level of activity year after year.

There are years that has a larger volume of spending CapEx than others. And just, now, the best what I can tell you is to wait for the next five year plan, that will meet (inaudible) all the years to come. And see how it's going to perform.

Regarding the effects of inflation cost on our CapEx, we have, in the Upstream, a larger portion of dollarized[ph] goods and (inaudible) and material, than in the Downstream. The average of the Company is about 50/50. And we take this into consideration when we do our calculations. We produce together with the (inaudible) and the five year plan will (inaudible) the exchange rate we are using. But the total in the Company is about 50/50. And it's increasing. The volume of reais was greatly[ph] (inaudible) content, in development, in the country.

Q - Paul Cheng {BIO 1494607 <GO>}

So Almir, can I -- would it be correct, (inaudible) the way, based on what you say, is that if we look at the original budget, just BRL88.5 billion, that is, assuming 2 reais for 1 US dollar. So that get you to about USD\$45 billion. And you say half of your CapEx is dollar based. And half is real based. And if reais appreciate to about 1.6, 1.7 to a dollar from the 2. So that half, from real terms, should be lower, probably, by -- I'd say, about 15%. So that means that everything (inaudible) on reais term, your budget should be maybe more like in the 82, 83[ph]. And now that you're in 94[ph]. So that is that you increased by about 12%, 13%, comparing to your annual plan? Is that interpretation correct, (inaudible)?

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

This not -- I cannot tell you that it's wrong. Yes. If you take the 50% dollars and 50% reais, the current exchange variations is going to be offset -- one is going to offset the other. So the growth in real in the CapEx from 89 to 93[ph], this is the comparison you have to do. That is about 5 or 7[ph].

You can say that this is real or equivalent to real, because of course, the real is (inaudible) largely valued (inaudible) compared to US dollar. It depends on where you are taking the real (currency).

But turning back to the point, the real, in various -- I mean, reais, next to volume of CapEx being done for projected, for 2011, then we beat our 2010.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you.

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

But do not compare that with the amount we actually spent as CapEx, because we can reach, at the end of the year, with a smaller volume of (inaudible). I explained earlier.

Q - Paul Cheng {BIO 1494607 <GO>}

Thank you.

Operator

Our next question comes from Sergio Torres of JPMorgan. Please go ahead.

Q - Sergio Torres {BIO 7078415 <GO>}

Gentlemen. Good afternoon to all. I have a question about -- first of all, congratulations on the results of the (inaudible). About that, could you please tell us how much of those discoveries were made -- can you just break them down between 2009 and 2010, the 1.1[ph] for post-salt. And the 0.8[ph] billion for pre-salt? Can you just tell us how much of that was made in 2009. And how much in 2010?

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

Hugo, can you tell us?

A - Hugo Costa {BIO 16095791 <GO>}

Yes. If you -- really, we took this number of discoveries from the press releases, general, we took all the press releases. Just the idea was to show, to change the view that the investors have about the old Campos Basin as a major basin. Then we took all the press releases. And if you take -- maybe a few (inaudible) to recover it, to see how of the -- which ones were maybe in 2009 and 2010. But it is just a compilation of the information available in the website about the discoveries.

But basically, the idea was to prove that the Campos Basin, they still have, even the -- all the existing fields, the existing consortium, still have a strong and important exploratory potential. It's basically this. I will take this with (inaudible), to see which one are from 2009 and 2010. But they're available on the website.

Q - Sergio Torres {BIO 7078415 <GO>}

Okay. All right -- understood. Thank you. Thank you, Hugo.

Operator

Our next question comes from Fernando Vale from Citi. Please go ahead.

Q - Fernando Vale {BIO 3303435 <GO>}

Hi. Good afternoon. I just wanted to ask a quick question on refining. According to your press release, your refining costs went up by 22%, discounting the effects for year-over-year. And you took the debt to higher expense in the maintenance and personnel. And I just wanted to understand a little bit on how those changes, what exactly those costs were. And if that's going to be recurring.

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

Marcel, can you help us?

A - Unidentified Speaker

Yes. Okay. Let's talk about the costs in the Fourth Quarter. Compared to the Third Quarter, materials, we have (inaudible) represent more than we have on the Third Quarter, basically because of (inaudible). We expect to keep it (inaudible) on (inaudible). Personnel, as well, (inaudible), has been (inaudible) by that because Third Quarter, we had some unusual effects. And probably, we're going to keep them the same amount of money that we are in the Fourth Quarter.

Talking about maintenance, we had some related, especially into refineries, (inaudible) and (inaudible). And it's not going to be all those (inaudible), it's going to reduce that for the next quarter. And talking about turnaround, there is much less than we had on the Third Quarter. So this is (inaudible) % less than we had on the Third Quarter, because basically, all the units were running. And the idea for the next year is that -- to go ahead (inaudible), had on the 2010. So we expect to keep (inaudible), less (inaudible) money on turnaround.

Q - Fernando Vale {BIO 3303435 <GO>}

Okay. Thank you.

Operator

Our next question comes from Christian Audi from Santander. Please go ahead.

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Q - Christian Audi {BIO 1825501 <GO>}

This is a follow-up on production. I don't know if Hugo is still around. When we look at the target, the production target for 2011, of 2,100, one of the main thrusts behind it will be the P-57. Can you tell me where production is, at what level has it reached? As of the end of January, for example, what -- how much P-57 is producing?

A - Hugo Costa {BIO 16095791 <GO>}

Okay. P-57 is in the very beginning of the REVAP[ph]. It starts producing only seven[ph]. And there is a lot to come. But yes, in the average in the whole year, at the end of the year, we expect to have the -- pretty close to the limits of the platform, with a contribution that may be bigger than 55,000 barrels agreed today in the annual average. And I -- I think it is important to remember that there is also the (inaudible) counting the REVAP and other projects coming. And also, (inaudible) at the end of the next year. So I'm excited about that. There is a lot to come.

Q - Christian Audi {BIO 1825501 <GO>}

Sure. But -- so I -- I just couldn't hear. So you said it's more or less at what levels, currently?

A - Hugo Costa {BIO 16095791 <GO>}

Currently? Excuse me, just a second.

Q - Christian Audi {BIO 1825501 <GO>}

Thanks.

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

You have any other question?

Q - Christian Audi {BIO 1825501 <GO>}

Yes. So the other question was, in addition, in your view, in order to reach your target, in addition to P-57, what would be the other two key platforms in order for you to be confident that you can reach the 2,100 target? What would be the other two key platforms, in your view, in addition to P-57?

A - Unidentified Speaker

Christian, let me give you some -- there is something important to say. The pilots (inaudible) Lula, Lula Pilot, is very important next year. And we are coming back with the (inaudible), which is (inaudible), the field below (inaudible), that is coming back in (inaudible), the field that was producing half of the potential last year in order to record the (depression) (inaudible) to allow them to drill more wells.

Now this year, we expect to -- (inaudible) to give us a contribution close to 40,000 barrels a day. It's one of the (inaudible) that we will be producing this year.

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Then, this will be some of the most important contribution for the next year, P-57 and the (inaudible) with the FPSO (inaudible) that is producing this field. The Lula, the (inaudible). And the (inaudible). I think these are the main contributions for the next year, based on (inaudible) this year to give (inaudible). And some (inaudible) that will come from (inaudible). But mainly, the main contributions are this one.

Q - Christian Audi {BIO 1825501 <GO>}

And P-56, right now you have -- it's slated to begin in July, I believe, 2011. How is that date looking? Any chance for that -- to start beforehand, or any risk of delays? As we stand here today in February, how realistic is that startup of P-56?

A - Unidentified Speaker

The number -- the main important problems that (inaudible) in this kind of big systems is in the final commitment, final commissioning process, where we get (inaudible) some final, discover some problems. Up to today, considering the (inaudible) and the wells and the equipment, everything is on schedule. But we are taking care to see at the end, it -- if everything will be okay to put this field on-stream, okay?

Q - Christian Audi {BIO 1825501 <GO>}

Okay. And Barbassa, the last question for you, related to CapEx. I know you can't talk about any quantitative points about the five year CapEx for the -- that you announced later in the year. But qualitatively speaking, is it correct to say that in the past two or three years, you had important structural changes to your five year CapEx such as the addition of pre-salt, the introduction of these new refineries which caused those big increases in CapEx to occur? But now, looking out to the next five years. And we don't see any fundamentally major structural changes to the plan. And therefore, although we could see an increase, maybe, not to the same degree as we've seen in the past two or three years, is there a -- is that a fair or correct way to look at this trend?

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

I think yes. But you may see we are expecting a (inaudible) that result is going to grow more and more in time, contributing to more production as well, as other areas will not have the same percentage of CapEx as they are taking today or in the last years. But I believe that there is a very important information here, regarding the Transfer of Rights. According to (inaudible) in North America, published in their report, we were (inaudible) together. And not taking our numbers but their numbers, all the 5 billion barrels of oil will be self-financed. What we are going to see is for the first platform to be installed. Then, they can finance the second and so on.

And this is going to be a very important contribution to the production of the Company in the future. What we are going to do, production, no demanding of new capital. The additional cash flow generation from that same source is going to be self (inaudible). I believe this is the most important, when you look forward in -- concerning with the CapEx and the possibilities of the (inaudible).

A - Unidentified Speaker

I have the information about P-57. It's close to 60,000 barrels a day.

Q - Christian Audi {BIO 1825501 <GO>}

Okay.

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

(multiple speakers). All right.

Q - Christian Audi {BIO 1825501 <GO>}

All right. Thanks. Thanks, Hugo. And thanks, Barbassa.

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

You're welcome.

Operator

Our next question comes from Emerson Leite from Credit Suisse. Please go ahead.

Q - Emerson Leite {BIO 4003528 <GO>}

Thank you. Good afternoon, everybody. Good afternoon, Barbassa and Hugo. I have two questions. First is associated with the whole pre-salt development. I would like to split it in two. In terms of the drilling rigs the (inaudible) for the first seven rigs on the 28 (inaudible) package, for Atlantico Sul shipyard, was considered remarkably low by more established operators in this business.

So my question is, are there any provisions in the contract for cost overruns in this -- in the construction of these rigs, meaning, if the shipyard ends up building the rig by a much higher -- at a much higher cost, who will bear that cost? It's going to be Petrobras, or it's going to be the -- you know, the shipyard?

Then, associated with that question, I would like to know, if you are already negotiating for the next package of seven rigs, or if you, at some point, will go to the open market to contract some of the remaining 21 rigs that have not been contracted yet?

That's the first question.

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

Emerson, the seven rigs just finished their bidding process. They are going to be owned by a company which private investors -- so they are going to be like any other rigs, that really (inaudible) from the market. As we are going to have 10% on the capital of the new company, to give comfort to the investors. But not to take any overrun costs.

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So if there is -- there are some variances[ph] in rates for performance that can cover delays on the delivery, not cost overrun. So if there is any cost overrun, the shipyard helps to bear. And they are, of course, they are built not by the shipyard. But the company that is part of the shipyard, they are building (inaudible), exactly like the design they are going to build in Korea, right now. And they had the opportunity to get the engineers and people trained to improve the costs on the construction.

And more than that, they are not building one unit. They are going to build seven units. So they have time to invest and to improve their efficiency, to reduce costs. All over, put together, to deliver innovate (inaudible) costs repaid by the owner of the rigs. And (inaudible) by the shipyard.

So no possibility of cost overruns to be beared[ph] by the owner of the rigs. This -- there is a second question. Ah.

Regarding the remaining 21, we are still waiting for some of -- some operators of new ships that perhaps proposed to us some leasing[ph] on rigs to be built in Brazil. They present us a higher cost, a higher price, than we were expecting. So we are negotiating with them, see if we can reach to the price we are comfortable. Otherwise, we will really assess the process of higher contracting, new rigs to be built in Brazil. There is no. So far, nothing that points to having international built rigs to supply our needs here. It's only one remaining rig needs to be built in Brazil.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay, Barbassa, thank you. And second, on the replica (inaudible) Sol[ph] should be built in the Rio Grande shipyard. What's the latest in terms of the -- of the bidding process for the topsides and the overall schedule of events? It seems that the process is a bit delayed. And I would like to hear from you what's the status. And if things are on track or not?

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

Let me have Hugo to help me on that.

A - Hugo Costa {BIO 16095791 <GO>}

Okay, Emerson. The design of the facility, it still required some information regarding the water injection, water injection, the results to see the size of the facility. Then, it's much more in terms of design to see, to set the (inaudible) and to design the right design for the facility, then we will be ready to move forward.

Q - Emerson Leite {BIO 4003528 <GO>}

Okay, Hugo. And maybe one final question. One thing that I've been watching closely is the level of depletion in the production of the Campos -- or, the central part of Campos Basin fields. And the data from ANP suggests that the depletion in the main fields is running at 15%, 1-5. I always had in the back of my mind the number of 10%, which has been the guidance of Petrobras for a while.

So I'd like to understand what's going on with those fields, if depletion is accelerating, if you are concerned with that. And how should we think of the current base of production, how much is depleting, in order to model the future production? I think that it's a very important point to be accurate in the estimate. So if you can give more clarity on what's going on there, it would be helpful. Thank you.

A - Hugo Costa {BIO 16095791 <GO>}

Okay, this is always the very important part for us in managing production and the decline, decline rate. And the depletion is one of the most important indicators of the opportunities, the remaining opportunities to improve recovery (inaudible). And to keep the production as flat as possible, optimizing the use of this (inaudible).

Then, the behavior of this big giant fuse[ph], they do not behave as a linear decline like 10% or 8%. In general, in the very beginning of the production, it's a higher decline. And as a (inaudible) nature of -- after a few years, a very low decline rate, which means that it tends to be much more hyperbolic than linear, or (inaudible) explanation.

But in the case of these fields, there is always an opportunity to drill more wells. And to keep exploring more opportunities close to the field, in order to keep them producing as late as possible, with the lowest decline rate as possible. That is what we are doing, with a combination of -- we call it (spoken in Portuguese) now, we call that the explanation (inaudible), also combined with deep (inaudible) drilling and the management of water injection, taking a number of factors to manage this depletion and the decline rate.

In some fields, we can experience rates bigger than 10% in the beginning. That -- I am assuming that's what you could see in the data from ANP. But we are not concerned with this figure, (inaudible) number for these fields, because it's part of the management, to manage. Sometimes we don't have (inaudible) to reduce the decline rate, because sometimes it's because of the water production.

Then the liquids in the platform can be the same with some declining oil and replace it by water. We cannot do anything. And sometimes in the beginning, we can face higher decline rates in some fields, which is, in general, compensated by a low decline rate in other fields.

That's why in the average, we have this 9%, 10%, sometimes 8% decline rates at an average for the Company. We get (inaudible).

Q - Emerson Leite {BIO 4003528 <GO>}

Okay, Hugo, thank you very much.

Operator

Our next question comes from Lilyanna Yang from UBS. It's a follow-up. Please go ahead.

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Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. The government (inaudible) to approve the production (inaudible) agreement. Barbassa, would you please give us an idea when you expect the first auction to happen. And how you should delever[ph] around the concessions coming? Thank you.

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

Regretfully, I cannot help you. It's not on our range of (inaudible). And from the government. We are looking also to know when it's going to happen. And there are some news. But I cannot say more than there is in the newspapers, really. Maybe in the second half there is something. But not in different (inaudible), in the market. We are waiting for this -- signs[ph] of the government[ph].

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. And regarding the business plan, can we still expect that you'll be disclosed sometime in April, or you think May is more likely? And I wonder if you would be able by then to give us more clarity about the CapEx unit costs, mostly for the Downstream business. Thank you.

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

Marcel, can you tell us?

A - Unidentified Speaker

Usually, we don't show that (inaudible) information, by refinery.

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

And probably, we are not going to change our procedure.

A - Unidentified Speaker

Yes.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. So -- and we still could expect it to be reviewed and disclosed -- I mean, the whole business plan for 2011-2015 by April of this year? Is that right?

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

Yes. We are expecting end of April, beginning of May. Working to see as soon as possible. But it's a very complex work to be done. So we'll release that during the Second Quarter for sure, we will be (inaudible).

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. Great. Thank you.

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Operator

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

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

Thank you very much for being with us in this exciting results of the year and the quarter. I hope to meet you in the next quarter with even better results. Thank you very much. Bye.

Operator

(Operator Instructions) This concludes Petrobras' conference call for today. Thank you very much for your participation. You may now disconnect.

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