# Q4 2006 Earnings Call

## Company Participants

- Almir Guilherme Barbassa, CFO, IR Officer
- Eduardo Alessandro Molinari, E&P Strategy Manager
- Unidentified Speaker, Unknown

## Other Participants

- Christian Audi, Analyst
- Marc McCarthy, Analyst
- Paul Cheng, Analyst
- Unidentified Participant, Analyst

## Presentation

### Operator

Ladies and gentlemen. thank you for standing by. And welcome to Petrobras conference call to discuss Fourth Quarter '06 and year-end 2006 results.

(Operator Instructions)

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

or Portuguese. Additionally on the webcast registration screen you may download and print the presentation, and download the financial market report. Also, you can send your questions to us by Internet, clicking on the icon, Question to Host, anytime during this event.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Petrobras management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Petrobras, and could result --

could cause results to differ materially from those expressed in such forward-looking statements.

Finally, let me mention that this conference call will discuss Petrobras' results prepared in accordance with Brazilian GAAP. At this moment we're unable to discuss any issues related to U.S. GAAP results. The conference call will be conducted by our CFO and Investor Relations Officer, Mr. Almir Guilherme Barbassa. He will comment on the Company's operating and financial highlights, and the main events during this quarter. Afterwards he will be able to answer any questions you may have. Mr. Barabssa, you may begin.

## Almir Guilherme Barbassa {BIO 1921476 <GO>}

Good afternoon, ladies and gentlemen. It is a pleasure to be hear with you. And have the opportunity to talk about Petrobras' Fourth Quarter and 2006 fiscal year results.

Starting the usual disclaimers have been presented by Raul. We have many forecasts that may not realize. But let's go on. Our production in Brazil increased by 5.6% during the year 2006 when compared with 2005. And the platforms, the production units, P-50, FPSO Capixaba and P-34 gave the most of the contributions we had to increase these productions.

Looking at the total production of Petrobras, including gas and international, we had an increase of 3.5% since the end of last year. And in the last quarter we had 1.4%. And the main sources of production for the increase were the same units [ph]. But in the international arena we have some problems in Argentina with strikes (technical difficulty) in December due to a pipeline problem that were caused by the rain during last April. And there were less demand for gas at the end of the year, gas that comes from Bolivia, so a smaller production was done in Bolivia at this time.

E&P oil prices. As you can see we had second and Third Quarter high prices, and the Fourth Quarter a big reduction in price. And these has caused us some problems in the Fourth Quarter, as you can see following the presentation. Our inventories that were used during the Fourth Quarter were (inaudible) with price of second or Third Quarters. So the cost of goods used to produce oil products during the Fourth Quarter were more expensive than the market price. And at the same time, all the oil produced by E&P were sold by the Fourth Quarter price, because this is immediately sold.

In the refining and sales, we had a reduction on the domestic production of oil products, and these reduction was mainly due to the programmed stoppage of the REVAP and the REFAP and the REMAN (inaudible) to large refineries in Brazil. (inaudible) but REMAN was stopped during most of December.

These were programmed but this caused us a reduction on the production, as well as in the utilization of the installed capacity, that fell to 85%. We had during the year a very good average of the stalled capacity utilization. But at the end of the year last quarter it happened, but it was -- is smaller.

The volume of oil sold was less than in Third Quarter due to a seasonal change. The Third Quarter it is the period that most of the agriculture is -- the use of fuel for agriculture is greater during the Third Quarter. So First Quarter is not as big, and then reduced the volume of sales.

The domestic crude oil as a percentage of the total oil processed in Brazil reduced in the end of year, mainly because the relative price of crude oil -- of fuel oil, sorry -- of fuel oil due to the fact that the winter came late to the United States and Europe. Less fuel oil were used, so fuel oil price were depressed when compared with diesel oil, for example. And we need diesel oil in Brazil and we export crude oil. In this situation it was better not to process the Brazilian (inaudible) that yield lots of fuel oil, and instead imported the crude -- light crude to produce more diesel in the domestic market. This was a switch that we did exchange from have the crude national oil for light crude imported to produce more diesel and less fuel oil.

The average realization price, we remain stable since last price increase of diesel and gasoline in September of '05. And this has shown that we have sold during the year 2006 the oil products in Brazil in line with the prices that was in place in the United States. And as you can see, later on the profits of the Petrobras is in line with other big oil companies. In the Fourth Quarter we had oil price in Brazil in line with the American -- the U.S. market.

Income statement of the Fourth Quarter compared with the Third Quarter. In terms of revenue we had a decrease in the Fourth Quarter. And this is due to two facts. One is price, and the second is volume. So there were a slight reduction of 5% in the net revenue. And the cost of goods sold, they remain in line with the Third Quarter because we had the transposition of inventory costs to the Fourth Quarter.

The EBITDA had an impact on the increase of operational costs. And we're going to explain the operational cost in the next page. And at the end we had a decrease in the net income reaching to $5R.2 billion. The operational expenses, we had the sales expense in line with the previous quarter. But G&A, we have an increase the First Quarter usually. They take all the personal expense due to the collective negotiation of salaries that happens in September. And this cost comes to the cost accounting at the end of the year when the negotiation (inaudible) is concluded. Beside that, we had an increase in number of employees during the year, what caused us an increase in G&A as well.

Beside that there is the exploration costs. Exploration costs, the write-off of dry wells and noncommercial wells, and seismic costs as well. And this happens in the Fourth Quarter mainly in the U.S. and Bolivia, what increased the total exploratory costs to reach $800R million in the quarter.

Taxes. We had a slight increase. Not so slight. 35% is a large increase, but this is due to the fact that we had the opportunity to pay out many debts we have with the states in Brazil, where good opportunities were offered to Petrobras to pay this debt that was being, most of them, under litigation.

The quarter to quarter change of E&P results can be -- it is quite clear here the price affects of the production of E&P is sold by the current price, either to export or to the refining segment. So they feel their price change immediately.

There were some reduction in the cost of goods sold, but not big enough to compensate for the price effects on the net revenue. And volume has increased, as we had shown, by 1.4% in the First Quarter. It still gave us some extra earnings, but not enough yet to keep the same operational profit of the Third Quarter in the Fourth Quarter.

In the downstream, the changes are bigger, but the net -- after all the net affect of price and average costs was the reason of change in the operating profit of the revenue -- of the downstream area. And of course, there were some effect as well due to the reduction on the sales on the Fourth Quarter, but the price has reduced as well. But the price was the main reason of price and costs. But costs reduction due to the reduction of the crude oil gave to downstream the main portion of the operating profit, additional to the Third Quarter.

The net profit quarter to quarter is basically the reasons were -- what we have explained -- a smaller realization price in the Fourth Quarter and cost of the crude oil was not lower enough to compensate for the reduction on the income. Operating expenses as well had some increase, was partially compensated by the financial expenses that was smaller during the Fourth Quarter. Just to remind you that in the Third Quarter we pay out part of our international debt, buying back some of the more than $1R billion debt, and the excess over par is because our loss during that quarter. In the Fourth Quarter there were no this kind of losses.

Looking at the sources of this profit. When compared third and Fourth Quarter the biggest loss came from E&P, and this is true to the price reduction. Downstream has catch up somewhat, but not enough to offset the loss caused by price reduction. And international had some losses as well because we have explained international suffered from the oil price as well as E&P. But there were some cost recognition, mainly in exploration.

The commercial balance of exports and imports of Petrobras had a surplus of 93,000 barrels of oil per day exports greater than imports. But we had at the end of year our record of exports, 669,000 barrels of oil and oil products exported (inaudible) during the Fourth Quarter. And most of it was crude oil. As I said, we exported more crude oil because we reduced the use of crude oil in our downstream activity. And this caused us to import more of crude oil -- light crude oil, that shows here also in the Fourth Quarter an increase on the light oil imports.

We have here the follow-up of our cash balance. How is the cash balances distributed among different kinds of currency or investments. And it is always tied to our obligations. So we use our cash to hedge our obligation position. We have increased our position outside Brazil of dollars. Part of -- so the special part of our cash at the end of year was outside Brazil.

Leverage keeps the track of decreasing in the last three quarters. It has lost 1% every quarter, reaching 16%. We have already approved share buyback program that shall be implemented during the current year. The amount of $2R billion to buy preferential shares. And they will be (inaudible). And with what the cash balance we had at the end of the year, $27R billion, part of it was used during January 1 when we paid $4R.4 billion in interest on own capital part of the dividends that is going to be paid during this year.

The cash flow statement shows that, regarding the volume of CapEx, capital expenditures, we're going to show the table later on, was a very big volume of capital expenditure during the year. Even though we had free cash flow that we saw financial operations could help us increase the cash balance to almost $28R billion.

Investments, we reached a new record of investments in the Company, $33R.7 billion. This means 31% more than 2005. And we still keep our main destination of investment at the E&P, the exploration and production. Most of the exploration and production is development of production where we have most of 50% -- most of the total proved reserves is still to be developed. So more than 50% of our proved reserves is undeveloped. So we are investing most of this capital to make these reserves make money to monetize the reserves.

And we are dedicating a large portion as well, there is a good increase on the exploration expenditure. Looking for the future, trying to find new oil fields to keep our reserve ratio, reserve production ratio, and keeping the Company growing for the future.

Next the costs. Costs as a result of government participation. There were an increase of 9% on the Fourth Quarter over the third one. And this is due to the what are all the industry is feeling at this moment. The industry is very active, so prices goes up, drilling rigs, specialized services and materials, and personnel as well.

And we had decided that new platforms going on stream. And these platforms until they reach the big production, the average cost of production is platforms they are higher than the average of the Company, what makes the average higher for the period. But I believe this cost increase we have had during the year is in line with the international cost that all the industry is experiencing.

When we have the government participation with the production (inaudible) costs of the Company, we see that the total cost in the First Quarter is slightly smaller than the for the period. The fourth is smaller than the third. And this is mainly due to -- it is due to the government participation that in Brazil is calculated according to the international oil price. For us the oil price of fell down, the participation also had a decrease. Then we had a reduction on this lifting plus government participation. But, yes, the lifting cost they had recommended.

Refining costs. We had the same level of increase from third to Fourth Quarter. We had here a bigger impact on the personal expenses due to the fact that the main power weighs more on the downstream in the refining process. And the First Quarter is always the quarter that carries more the cost due to the fact that the decision on salary increase happens in September.

Finally, just for comparison, Petrobras had a very good performance in terms of profit, net income during the year of 2006, with an increase of more than 22% over 2005. And when compared with the other oil companies that have already released the data, it shows a very positive, very good at the top of the rank in the net income increase year-to-year.

When we look at the quarter, last quarter we had a not so good performance. And this was in fact an impact due to the criteria we used for inventory cost, and some other special points that we have raised during the presentation.

That is it with what we have to present to you. And we're here to answer any questions you may have. Thank you very much.

## Questions And Answers

### Operator

(Operator Instructions)

Christian Audi, Santander.

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

I had a couple of quick questions. First, on the lifting cost charge that is shown by Barbassa [ph], showing the increase quarter over quarter, is it possible for you to give us a sense of that increase, or how much had specifically to do with the salary adjustments?

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

Okay. I will have Molinari from E&P will help us with this information.

### A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

We had an increase of $0R.60 from the First Quarter to the Fourth Quarter. The lifting cost of $0R.32 were due to personnel. So most of them who have the increase was due to the personnel cost.

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

Do you have the rest of the other items, if you have a breakdown, because that is always very helpful?

### A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

It was mentioned by Almir. Services, drilling rigs, maintenance and (inaudible) in reals that was $0R.15. Then we have other items of $0R.12. This is most of the $0R.60 increase.

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

Great. Since I have you on the line, Molinari, because my second question had to do with production. Given the update you provided us with in terms of where the different platforms, what level they are producing at this point, do you think it is fair to say that although we're going to see an improvement in the First Quarter in terms of production, that a bigger improvement will really take place more in the Second Quarter as opposed to the First Quarter, given how the ramping up of the different platforms you are currently working on is looking like?

## A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

We are expecting an increase in production in February and March in this quarter. Generally we have a decrease of 4,600 barrels per day due to the stoppage of P-37, a planned stoppage for maintenance of FPSO P-37 in the Marlim Field.

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

Yes. But the platforms that has been -- was downstream recently, the P-34 at (inaudible) and Capixaba, they shall reach peak production by middle of the year. So up to the middle of the year we shall have production increase, because we have the Piranema that probably starts producing before the middle of the year.

## A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Yes, the end of May.

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

The end of May, so it will help somewhat that we have the field of Monatee [ph] that came on stream last week. So this first half of the year will be -- we expect to have production increase during all the time. Then there will be the new platforms by September the P-52 and the P-54. Two are to be installed in Roncador. They shall be starting in September.

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

On the topic of inventory costs, you explained the reasoning why they had a big negative impact this quarter. Given what you have seen so far in January, in other words if market conditions as it relates to oil prices and gasoline prices in the Gulf, is it fair to say that part of that negative impact could be made up, or has already been made up at the very beginning of the First Quarter of '07?

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

(inaudible) can you help us in this question?

## A - Unidentified Speaker

It is correct. We can expect an improvement in the cost of goods sold in the First Quarter of 2007, because we have the opposite movement that we had this quarter. Considering that dependent that we don't have this quarter, we will have in the next quarter. In other words, the decrease in costs will appear here in the next quarter.

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

The very last question. As it relates now to import costs, Barbassa, again given your explanation as to why they went up in the Fourth Quarter, so far in January you had been following the same strategy, which would result in import costs continue to increase into the beginning of the First Quarter of the year?

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

Yes, at the beginning of January we were still following the same fashion, because it was economical advantages to import light oil for shares [ph] and make diesel instead of processing the domestic oil to make more fuel oil. But as you will know, the winter came on later, but came on beginning the middle of January. And this made the market react and increase the fuel oil cost went up. So at this point in time I believe it is no longer economical to do what we have done at the end of the year. (inaudible), do you have anything to add to it?

## A - Unidentified Speaker

It is correct onto the direct percent. The price of the heating oil went lower the Fourth Quarter, but now the price is already going up because of the winter. So it will be better for us to present our oil here, and then we will need less of crude oil import.

## Operator

Paul Cheng, Lehman Brothers.

## Q - Paul Cheng {BIO 1494607 <GO>}

A number of quick question. Earlier there you were talking about the negative impact from the liquidation of the high-cost (inaudible). Do you have a number you can share? How big is that negative?

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

Yes, the cost occurred over from third and Fourth Quarter due to the higher cost of inventory that was formed in the Third Quarter -- was about $1R billion.

## Q - Paul Cheng {BIO 1494607 <GO>}

$1 billion?

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

Yes. This is the best estimate we have, $1R billion.

## Q - Paul Cheng {BIO 1494607 <GO>}

It looked like that you did not have any tax benefits on the interest on capital in the Fourth Quarter. I just want to make sure that that is the case. Historically that in the Fourth

Quarter that you do have some tax benefit. I don't think that you declared anything in the Fourth Quarter.

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

Yes. We did declare half of what we declared in the Third Quarter. So the fiscal, the tax advantage, the tax gain in the Fourth Quarter was half of what we had in the third one.

## Q - Paul Cheng {BIO 1494607 <GO>}

So Fourth Quarter have nothing, because everything is declared -- was declared in the Third Quarter, right?

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

No. We declared -- how much we did declare in the Fourth Quarter was -- (multiple speakers) The benefit in the Fourth Quarter 670.

## Q - Paul Cheng {BIO 1494607 <GO>}

670?

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

Yes, 670. And the Third Quarter was double that. (multiple speakers).

## Q - Paul Cheng {BIO 1494607 <GO>}

You earlier mentioned about the contract negotiation, or the terms negotiation in Argentina impacted your production. Is that a onetime impact or that is going to be on an ongoing basis? Are we going to see the reversal in the First Quarter?

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

The negotiation Argentina. Yes. There were two consequence on that strike we had there. One was the salary increase. And this is permanent. The second was production loss, a production decrease, and this is onetime.

## Q - Paul Cheng {BIO 1494607 <GO>}

How big is the production loss related to that?

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

Just a moment. We're going to check a much what it. (multiple speakers). We lost an average 2,500 barrels of oil per day during the quarter.

## Q - Paul Cheng {BIO 1494607 <GO>}

For the quarter 2,500?

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

2,500 per day.

## Q - Paul Cheng {BIO 1494607 <GO>}

We have seen in the industry a sharp rise in costs across the entire supply chain, whether it is in the upstream or downstream. And some of your international competitors that have indicated as a result they will slow down their investment program, particularly in the downstream side. I was wondering have you guys looked at that? Does the cost pressure in some way that impact your investment program outlook for the next two or three years?

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

We have established already our investment program in the downstream, and it is mainly directed to increase the complexity of our refinery to process more of the Brazilian crude in Brazil. And this is one of the best alternatives we have. And of course we are investing also in quality. This we cannot stop, because we cannot fall behind in the industry in terms of quality, either to sell in Brazil or transport.

## Q - Paul Cheng {BIO 1494607 <GO>}

I'm sorry. I understand what your objective is in your investment. I guess my question is that in light of the tremendous cost pressure some of your competitors have decided slow down their investment program to compact that. I just wanted to see is that consideration have went for you guys, or that you think, despite the cost increase, your investment program that you have laid out from several months ago in your five year strategic plan, you would just go ahead and not going to have any change on that. Indeed, I think you recently raised the capital spending for this year.



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

Yes. Okay. We are following this cost increase of course. And when it affects our project we are still -- whether conselling [ph] as we did with the two platforms that we have conduct leading process. And the price to build the P-55 and P-56, were we are well above what we were expecting, then we cancel that process. And we are reviewing and looking for other opportunities, either technical or economical. And so we are following closely costs. And we do not approve a new project if it is not economical under our scenario of price.

## Q - Paul Cheng {BIO 1494607 <GO>}

Two final questions, if I could. One, if you can give us an update of where we are in terms of the trend, JV refineries -- the new refineries that you are planning with PDVSA in Brazil, I am wondering that are we anywhere close? Is it still a go?

The second one is that now you are an investment-grade Company, what kind of cash balance level, or the balance sheet level that you will feel comfortable on a sustainable basis? Do you really need more of the cash currently sitting on the balance sheet, or will you feel more comfortable that you have somewhat of a more reduced level? Thank you.

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

Okay. Regarding the refinery, we are still under negotiation with PDVSA. We did not finalize our agreement with them. But it is still going on the negotiations. And we are, as well, going on with the basic designs of the refinery. It is the stage of the construction of the refinery. We are in the base -- working on the basic design. And negotiations with PDVSA, there is no final agreement as far as now.

And regarding the cash balance, the cash balance we feel comfortable is much lower than what we have today. And this is why we approved the share buyback last December. And the balance we have today was not the balance we were expecting. It was much better, of course to have last year's balance, but in this is the price (multiple speakers).

## Q - Paul Cheng {BIO 1494607 <GO>}

Is it possible you can share with us that what may be the comfort zone? Is it $10R billion, or a bit less, or $15R billion? Any number you can share?

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

I would say that it is about $10R billion, the minimum cash balance we need.

## Operator

Marc McCarthy, Bear Stearns.

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

I have three or four questions. Thanks for making the efforts to explain all the inventory again. On the offstream, my question, Almir, is really as it relates to your planning. Lifting costs are far higher than you guys ever envisioned. Some related to the real, some related to the industry. You guys are going to revise your strategic plan in a few months. Will we see a number below $7, I guess is the question? That is the first question.

The second question is as it relates to the inventory balances and what you are suggesting to have -- would all make sense that you have higher cost of inventories flowing through -- higher feedstock costs from the Third Quarter flowing into the Fourth Quarter. However, your refining margins went up during the quarter, which was great. No question. It was very helpful to stabilize your cash flow.

But my question is really, can you give me a sense of how your level of inventory changed during the period? Were you able to in effect work through your inventory from the Third Quarter faster and capture some of the benefit of lower feedstock costs in the Fourth Quarter, effectively working through your average?

I don't know if that question is easy to answer or difficult to answer. And I might ask really just going forward if you can provide us with more color as to the number of barrels you have in inventory going forward?

The third question is as we relate to international, what happened at the Pasadena refinery? Can you -- it seems like it lost money. Was there a charge? Did it lose money? And what is the outlook there in terms of margins and upgrade plans?

Then you had significant dry hole costs within international. Can you tell us where they came from? I know that this is your area of risk capital, but you had huge exploration charges, but you didn't identity necessarily where they came from. I know you mentioned about Argentina and this and that. But I don't think that is really a dry hole. I will stop there.



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

Okay. So many questions. Let me try to see if I recall of them. Let's start from the end. The dry hole costs came mainly from the U.S. in the Fourth Quarter. The U.S. we feel the expense of wells, and we had a dry well in Bolivia, not Argentina. I don't know if we had any one -- as I said, Argentina earlier, but I meant Bolivia. And there were some costs outside as well. So this is the main source of dry hole.

Pasadena. Pasadena, the average cost of refining in Pasadena is $2.71 per barrel. And we expect to increase the complexity of the refinery to be able to make it able to process (inaudible) crude.

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

Did the Pasadena refinery breakeven during the quarter, or you can't really tell from the consolidated numbers?

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

No, it presented a slight loss. But we still have some information to be confirmed, because the beginning of the operation a new partner, and we have to fix all the procedures of information and supply. And we don't have all the information for the quarter for this refinery. In due course during this year we will be producing a better figure. I believe at this point we don't have enough of the information we could give you on this details. But, of course, when we bought it we have appraised all these questions, and we expect the refinery is going to produce some profit.



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

Just going back to exploration on there, the number was $423R million from dry holes internationally. Right? That is half -- almost half of the total global -- almost $1R billion of dry holes. This is from how many wells that were dry in the U.S.? I only know of Blackbeard.

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

Let me see here if we have this information. (multiple speakers).

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

I guess my question is really is there anything in West Africa?

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

No, there are many -- Corpus Christi, 743, Garden Banks, 243, number 1, and South Timbalier, (inaudible), and Garden Banks 329, and number 1. The three in fact, yes, there are four. And there's more amount for Garden Banks, 247. I don't know if this is well or is other kind of cost. But dry holes costs here according to this list is mainly Garden Banks and the Blackbeard. But Garden Banks 329, number 2. And at Garden Banks, number 1 as well.

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

Is that something else going on there? The Garden Bank well was for your share was something like $30 million or $40 million.

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

Garden Banks. It was about $80R million. And Garden Banks -- 329 number 2 is $120R million, $56 million.

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

Right. You have total losses in 2006 of $400 million.

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

$400R million, not dollars.

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

No, this is -- dry hole is $920R million for 2006.

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

Total, including Brazil.

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

No.

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

Including Brazil.

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

Total is $2R billion for the total year.

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

Oh, for the full year.

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

Or just the quarter is $400R million for international.

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

This 400 is the one I told you for the year -- the year, 400. Yes. This is for the year. We don't have (inaudible) quarter. (multiple speakers) The number I told you it is for the year.

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

Right. I thought Blackbeard was in the Third Quarter.

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

Yes, for the quarter. But there's no number of -- no wells here, just -- for the dry wells 235 in the Fourth Quarter international. And geology and (inaudible) in seismic 150 out of the 480 [ph] for the Fourth Quarter.

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

Got it. Thanks Almir.

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

And inventories, what was the question?

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

Basically my question was, you provided a very good recap about why you should have suffered a squeeze, or why the refining margins were not as good as they could have been, I suppose is really the answer.

But as you mentioned, you are carrying through feedstock costs from the Third Quarter which were much higher, and your price realizations in the Fourth Quarter were lower. And yet you didn't actually suffer a squeeze at all. In fact, refining margins went up from Third Quarter to Fourth Quarter. And I'm curious as to, if you worked through your inventories quicker in order to avoid being squeezed as much as you could have been?

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

Yes. The margins went up in the Fourth Quarter, but it should go up much more, because prices in Brazil were kept the same as before, except for the larger buyers -- NAFTA and (inaudible) and jet fuel. But for gasoline and diesel had no change in price in Brazil. So the downstream should have done a very good profit on the Fourth Quarter due to that. Yet they did not get all the increase because of cost of inventory. Otherwise the results of downstream in the Fourth Quarter would be much better than in the margins were supposed to go up much more.

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

Then the last question was about lifting costs. Your outlook really for the strategic plan revision, will we see something below $7?

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

This is a difficult question. But of course we take into consideration the cost when we approve the new budget. And all the new projects have to be profitable. And hurtle prices. And as cost increases, these will be -- we will have (inaudible) on our future plans, and will be taken into consideration. But so far we have no decision because we're not at this moment reviewing our plan. This will happen more towards the middle of the year.

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

I will come back with some other questions.

## Operator

(Operator Instructions)

Paula Kavorsky [ph], (inaudible).

## Q - Unidentified Participant

The first question relates to Petrobras debt equity ratio. For a Company with investment-grade ratings, wouldn't that be a way too timid position? And the Company would be giving up on the possibility to improving worth [ph] by having a higher debt rate.

The other question relates to production. Petrobras presented higher production growth over the last four years against its international trade of peers. And this is indeed a major achievement. But this notwithstanding, the impression is that -- the impression that the Company leaves with the market is that they are never, never achieving their target. So last year we had 100,000 barrels below the target.

My question is wouldn't that suggest that the targets should be set in a different way? What is going on is that the Company is being punished by not achieving targets and not being recognized by the achievements in themselves.

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

This is a good question, but we use to establish our goals as a challenge. Always in the top or the maximum we could reach. But we keep growing. And we are breaking many records by doing that. I don't know if we had changed in giving to the market more conservative figure would be better. Really this is a point to be analyzed. And sorry, I forgot the first question was about --?

## Q - Unidentified Participant

Debt equity ratio.

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

Yes.

## Q - Unidentified Participant

Isn't it too timid for Company with investment-grade ratings? Aren't you giving up on improving the Company's worth by having higher debt in your balance sheet?

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

Yes, this is good point, and we are working on that. The share buyback will help us to reduce the leverage -- to increase the leverage. We're looking for other opportunities. But this cash flow generation was really very strong. And even increasing our CapEx we still have leverage that is not our ideal. We would like to have as much near 30% of leverage. This would give us a better worth [ph]. And maybe with investment-grade now we could work with some facilities that could be provided by the banks, as other oil companies have outside Brazil. But we still do not have this kind of facility available. And we have no cost up to the moment of use. This will help us to reduce the cash balance.

## Operator

Mark Asine [ph], RBC.

## Q - Unidentified Participant

I know the last year is just about some of your debt buyback, and also you completed (inaudible) exchange transaction recently as well. But are you done with your debt buyback? And my second question is, are you planning to issue any dollar-denominated bonds this year?

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

Regarding the debt buyback, we are not done. We would like divide all the old debt. But as you -- if you have any, bring offer and I can buy what you have on the market price. And even if you wanted to make an exchange, we can do, or any other investor on these bonds.

But the liquidity of these assets is lower and lower as we take part from the market. Maybe after the end of the year we will be able to do something else. But we don't have at this moment anything programmed and approved. And the second question was --?

## Q - Unidentified Participant

If you're planning to issue?

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

No. Regarding the issue, we may issue in Brazil. And we are doing near -- maybe in one month's time we will be bringing to the market the CRI [ph] -- a kind of Brazilian bond that is related to building -- building construction. And we have many of them happening in

Brazil. So we intend to use this facility, or this financial facility, to finance. It is convenient for the Company. And it is a new way to tap the market. Internationally we don't have plans at the moment. It all depends on the oil price. If oil price will keep as it is today, probably we will not be tapping the market until the end of the year.

## Operator

Gustav Rogatas [ph], UBS.

## Q - Unidentified Participant

I have two follow-up questions here. One on P-37. Molinari mentioned the maintenance in January. I just want to know if that maintenance is going to take one month, more than a month, if it hits the February numbers as well?

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

Molinari, can you help us?

## A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

Yes, the maintenance of P-37 ended the 3rd of February. It started the 19th of January. Then we had the partial stoppage for some days. Then we had a full stoppage until 31st of January, and a partial stoppage until the 3rd of February. The result was we lost 46,000 barrels per day during --.

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

In January.

## A - Eduardo Alessandro Molinari {BIO 21023582 <GO>}

From 19th of January until the 3rd of February.

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

So about 12 days, 14 days.

## Q - Unidentified Participant

Second question that, I had on your message to shareholders you guys mentioned a number of changes on the E&P program from now until 2011. The two most notable ones being the cancellation of the bidding process for those big FPSOs there were going to come online in the end of the period. There is no change as of now on the production guidance that you're giving. I just wanted to have a feel. Have you not mentioned this point, because it will be touched on in the future, or are you guys still sticking on the number for 2011?

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

(multiple speakers). We are keeping the target to 2011. The production target for 2007 is 1,919,000. I will miss [ph] that in the morning. From 2008 to 2011 we're keeping the target from this strategic plan.

## Operator

I will turn the floor back over to Mr. Almir Barbassa for any closing remarks you may have.



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

Thank you, ladies and gentlemen. for being here with us. And I hope that next quarter we can have as good results as we had at this time. So hoping to meet you next time. Thank you very much.

## Operator

Thank you. This does conclude today's Petrobras conference call. You may now disconnect.