Q3 2010 Earnings Call

Company Participants

- Almir Guilherme Barbassa, CFO & IRO
- Arlindo Moreira, General Manager of Planning
- Eduardo Molinari, Exploration and Production Coordinator
- Theodore Helms, Director IR

Other Participants

- Christian Audi, Analyst
- Gustavo Gattass, Analyst
- Lilyanna Yang, Analyst
- Marcus Sequeira, Analyst
- Subhojit Daripa, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by. Welcome to the Petrobras conference call to discuss the Third Quarter 2010 results. At this time, all lines are in a listen only mode. Later, there will be a question and answer session. And instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

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

Theodore Helms {BIO 15433381 <GO>}

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

Mr. Barbassa, Almir, please begin.

Almir Guilherme Barbassa {BIO 1921476 <GO>}

Good afternoon. Thank you for joining our conference call to discuss Third Quarter results. This quarter, financial results were characterized by growing domestic demand, flat realization prices, lower import costs. And a stronger real. Operating expenses increased, largely due to non-recurring items. And a charge related to collective bargaining agreement

Production of oil and gas was up 2% for the nine months of 2010, versus the first nine months of 2009. But down 1% from the prior quarter. As a result of these factors, our Third Quarter EBITDA was down 7%, although our net income showed a modest 3% gain.

During the Third Quarter, we completed our public offering for BRL120 billion. And acquired the rights to an additional 5 billion barrels of oil. The offering deleveraged our balance sheet. And has given us the equity cushion we need to continue investing to meet our long-term targets. Next, please.

Upstream highlights since our last call includes the arrival of the Tupi Pilot. And an important discovery in a frontier area, the deepwater Sergipe-Alagoas Basin.

In downstream, we completed our conversion of the upgrade of the Revap refinery. In our Gas and Power business, we have met record demand for gas and thermoelectric power, validating the results of our multi-year investment plan. Next.

In the first nine months of this year, the total oil and gas production was 2,568,000 barrels of oil equivalent per day, up 2% year-over-year. From the prior quarter, Brazilian oil production declined 1%, largely because of maintenance shutdown in P-35 and P-33. These shutdowns occurred one month earlier than originally planned, reducing production by 21,000 barrels per day during the month. Next.

The next slide is a review of units that have been or will be installed in 2010 and 2011. Most of the production increase comes from FPSO Capixaba. For the remainder of the year and the next, we will install another 420,000 barrels of oil per day of capacity. The next unit to begin production will be at FPSO Cidade de Angra dos Reis, better known as Tupi Pilot.

In the Pre-Salts, we continue to progress, with results meeting the -- exceeding -- or, exceeding our expectation.

We acquired the rights to -- next slide, please, yes. We acquired the rights to produce up to 5 billion barrels of oil in the block not previously under license. In this new area, from now until 2014, we expect to invest between USD$6 billion and USD$8 billion in exploratory work and initial development spending. We will give more specific guidance regarding investments and production from this acquisition when we update our business plan, which will mostly likely be in March or April of next year.

I have already mentioned the startup of the 100,000 barrels per day Tupi Pilot. It is worth noting that we have put into place the first commercial system of the Santos pre-salt only three years from discovery. We will be concluding an additional five wells in the pre-salt area by the end of 2010, bringing to 16 the number of wells drilled in Santos pre-salt (this year).

Delivery of deepwater rigs ordered between 2005 and 2008 are going -- are ongoing, with two additional rigs due to arrive this year. These will increase our pre-salt rig fleet to 10. The Guara extended well test is scheduled to start up by the end of November, with the FPSO dynamic producer already in Brazil.

Next. During the quarter, we also concluded the update and conversion of the Revap refinery, at a cost of USD$2.5 billion. With the completion of the new coking unit, we will process an additional 18,000 barrels per day of our own domestic crude oil, while converting an additional 30,000 barrels per day of heavy fuel into diesel, at 55% diesel, 5% LPG, 20% coke. And 20% of cracker units.

This production is then hydrotreated, create an S-50 product that reduce importing high quality diesel while exporting fuel oil. The Suape petrochemical plant represent an investment of BRL1.3 billion, is now preoperational. This plant has the capacity to produce 700,000 tons per year of naphtha-based petrochemical, to produce polyester materials.

The Abreu e Lima refinery construction is fully underway. And we recently contracted with (basic) engineering for the Premiums refinery. Next, please.

We continue to make progress not only with our upstream and downstream operation. But also with our investment in technology and research. These investments, ultimately lead to greater opportunity and higher return. We completed our -- the expansion of our research center, CENPES. And more than doubling its size. Over the past year, we have had many companies announcing plans to establish research centers in Brazil, as they recognize the country's long-term opportunities.

As you can see Schlumberger, FMC, Baker Hughes have already established centers here -- Halliburton, GE, IBM. And others are in the process of doing so. In addition, we are partnering with more than 120 Brazilian universities. All of this is creating one of the greatest concentration of energy research in the world. Next, please.

Let me turn now to volumes and prices, which are the key determinants of our results. As one can see from the graph on the left, the average price of Brent and our own heavy oil declined slightly quarter to quarter. The light has differential is still at historical low levels, which hurts our downstream profitability while increasing our upstream returns.

From the graph on the right, one can see that the average realization price for products remains flat, with most of the increase in price related to the strengthening of the real.

The gap between Gulf Coast price and Brazilian realization price widened during the quarter as a result of a slightly lower international product price, a stronger real. And a stable price in Brazil. Next, please.

Lifting costs, before government take, increased by 8% quarter over quarter, largely as a consequence of the charge related to the annual collective bargaining agreement and volumes negotiated in the Third Quarter, which was responsible for 70% of the increase. Increasing well interventions in our major (basis) fields in the Campos Basin also added higher lifting costs. Next, please.

Accelerated Brazilian GDP growth is reflected in higher product sales. Year-over-year, sales are up 11%, reflecting the exceptional growth of the Brazilian economy. Of note is growth in jet fuel, up 18% year-over-year, as growing income and the stronger real stimulated air travel.

Gasoline consumption increased 16% year-over-year, while the higher price of sugar reduced ethanol supply, causing the flex fuel fleet to consume more gasoline. Quarterly changes to refinery output are largely a matter of the timing and duration of programmed maintenance at distillation units in our refineries.

Diesel and other products recovered from lower throughput level in the Second Quarter, when the (Replan) unit was halted for 90 days for programmed maintenance and expansion. Next, please.

Last year was characterized by a recovery in the economy and an abundant rainfall. This year, the opposite occurred -- a rapidly growing economy and reduced rains. As a result, Brazil's system operator called upon Petrobras to generate electricity from its gas fired thermoelectric plants. The generation increased from virtually nothing one year ago, to as much as 6,200 megawatts in October.

During peak thermoelectric demand, natural gas consumption in Brazil nearly doubled from year ago levels, reaching 80 million cubic meters per day. The increased (virtualization) reflects the near completion of our natural gas system. Petrobras now has the resources to meet internal demand from domestic production, Bolivian imports. And LNG, with the infrastructure to supply and distribute gas molecules when and where needed. Next, please.

Turning to financial results, net revenue were higher, largely because of growing sales volume in Brazil. The higher demand was met largely with incremental imports, which cost less than the prior quarter, because international price were approximately 2% lower. And because of the average appreciation of the real by 2%. The reduction costs on lower imports price was partially offset during the quarter by the effect of inventory averaging, which added BRL580 million of costs in comparison with the Second Quarter.

The higher revenues, partially offset by higher costs of goods sold, increased gross income by 1% over the Second Quarter. Operating expenses increased by 27% from the prior quarter, due to the process associated with annual negotiation of collective bargaining agreement. The termination of the Barracuda project finance. And miscellaneous items added some costs, too. The combination result of these factors led to a 13% decrease in the operating income when compared with the Second Quarter, while EBITDA of BRL14.7 billion was 7% lower. Next.

The 6% appreciation of the real from the Second Quarter to the Third Quarter. And (reduced) financial results from an expense of BRL630 million at the end of the quarter, the Second Quarter, financial results recorded a gain of BRL1.96 billion in the Third Quarter. Income from equity participation and minority interest expense were also affected by the (revaluation), also the net result was flat. Tax increased as a result of higher operating income.

The (net) effect of lower operating earnings and higher financial results was 3% increase in net income.

Operate -- next, please.

Operating income for the Brazilian E&P was affected by the 1% decline in production by a 2% decline in the international crude oil price. Sales volume was higher due to the sales from inventory. Operating expenses increased largely due to the chargeoff, BRL225 million, resulting from the collective bargaining agreement. And a chargeoff for BRL180 million associated with the eliminating of the Barracuda project finance structure. Next, please.

Operating income for all our Brazilian downstream segments improved as the realization price in Brazil increased relatively to international levels. Cost of goods sold declined due to lower import costs and lower international transfer pricing.

The refining costs increased by BRL313 million in the Third Quarter, as an increase per barrel of 22% during the period, from BRL7.03 per barrel to BRL8.55. Of this increase, 8% is attributable to the collective bargaining agreement and programmed maintenance charged to operating expense. Next, please.

Operating income from Gas and Power and International were down slightly from the prior quarter, while Distribution improved. Gas and Power declined due to the lower margin on gas sales to thermoelectric plants. Operating income from Power was down to the higher (acquisition) costs, largely offset by generation income. Income was also adversely affected by several non-recurring items.

The International segment's earnings declined largely on the base of BRL83 million of exploratory expense and BRL127 million of direct holder expenses. Third quarter operating income from Distribution increased BRL526 million from the BRL390 million in the prior quarter. Most of the increase was due to the absence of extraordinary tax provision of BRL110 million taken in the Second Quarter. Next, please.

Capital spending increased to BRL56 billion during the first nine months of 2010, an 11% increase from the same period of a year earlier. Most of this increase was concentrated in refining, particularly for upgrades, regulatory spending. And logistics. Investment in our International segment declined, as capital spending remains focused on Brazil. Gas and Power investments also declined as the major infrastructure is completed. Next, please.

This slide reconciles the resource and uses of cash from our recent offering. As you will see, we raised a total of BRL120 billion, of which BRL5.2 billion came through the exercise of the greenshoe. The greenshoe (proceeds) are not in our cash balance in the Third Quarter statements.

We paid BRL74.8 billion under the assignment agreement, of which BRL67.8 billion was paid with the government securities. And the BRL7 billion was paid in cash. The federal government, BINDS. And the Sovereign Wealth Fund together purchased shares worth a total of BRL8.3 billion. BRL5.5 billion above the value of the assignment agreement.

Including proceeds from the (greenhouse -- sic), we will retain BRL45.5 billion of cash and government securities.

We ended the quarter with BRL58 billion of cash and equivalents, including BRL10.7 billion of government securities with a maturity greater than 90 days. The cash portion of the offering has reduced our net debt to net book cap to a comfortable 16%. And we will now begin to lever up our continued (inaudible) investment plan.

The insurance costs of the offering, were charged directly to shareholders equity. And did not pass through the income statement.

With that, 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. (Operator Instructions) The first question is from Marcus Sequeira, Deutsche Bank. Please go ahead, sir.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you very much. I have two questions, quick questions, one about the refining. We noted an increase in the use of domestic crude oil during the quarter. I believe it was a function of Revap. And also increased light oil production. I would just like to know if -- could we assume that this level is sustainable going forward. And what kind of levels could we expect within the next 12 months?

Then, on Tupi, I would just like to check if the pilot platform will really begin to ramp up after the commerciality is declared. So only early next year. And how quickly you believe that you can bring that platform to a peak production. Thank you.

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

Okay, Marcus. Let me have Arlindo helping me with the first question, please.

A - Arlindo Moreira

Well with the new investments in Revap, the conditions for having more domestic crudes processed in Brazil, the conditions will be given. And then conditions to keep, the upper amount of Brazilian domestic crude being processed in our refineries.

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

Molinari, can you --

A - Eduardo Molinari {BIO 21023582 <GO>}

(inaudible) Tupi. Sorry, sorry, sorry. Regarding Tupi, we planned to reach the peak production of 100,000 barrels per day in the second half of 2012. In 2011, the average production will be 50,000 barrels per day, reaching 75,000 barrels end of the year.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you very much. Would it be possible, just going back to refining, if you have an estimate of how much of your domestic -- what's your goal for domestic crude, using your refineries, within the next 12 months?

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

Okay, Arlindo.

A - Arlindo Moreira

Well the estimates of increased (under) domestic conditions, to increase the domestic processing, the domestic crude processing, would be about 15,000 barrels per day. But that will, of course, depend on the economics of refining and margins, of course. But we expect that this amount will be stable.

Q - Marcus Sequeira {BIO 4622700 <GO>}

Thank you very much.

Operator

Your next question is from Christian Audi from Santander. Please go ahead.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. A couple of quick questions. First, Almir, do you expect projects or the end of project financing, projects like Barracuda -- are there any ones coming up that could impact on a non-recurring basis? For example, 4Q results for this year, or do you foresee any major projects also potentially impacting 2011?

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

Christian, this was an exception due to the kind of structure of the project financing, we don't have the other -- we don't expect to have this happening with the project financing. We just ended the two largest project financing we had, beyond Barracuda. That is Marlin. And Nova Marlin. And we had no extra costs in this. We are ending all our project financing structure. And for the main ones, the Barracuda Caratinga was maybe the last big one.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Then, on the -- can you just remind me, on the collective agreement, how much above inflation was salaries increased?

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

Christian, I am looking to my colleagues here. No one knows how much they were, (multiple speakers).

Q - Christian Audi {BIO 1825501 <GO>}

Okay.

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

They had a salary increase above inflation, (multiple speakers) --

Q - Christian Audi {BIO 1825501 <GO>}

Or just what the overall increase was. Do you have an idea of that? Was it 3%, 4%, 5%?

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

Well I believe this is -- the salary increase was in the range of 9%. And the inflation was in the range of 5%. So there is a 4% (opportunity) here.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thanks. Then, the other question was -- and this is a dash question, dash suggestion, Barbassa -- when we look at your profitability. And the impact lifting costs and refining costs can have on it, there is often volatility added to it because of planned shutdowns of platforms that impact lifting costs, as well as scheduled maintenance shutdowns of refineries that impact refining costs. And we oftentimes don't have any ability to see these coming on a quarterly basis.

So I was just wondering, going forward, if there is any possibility to give us some type of a guidance -- for example, potential quarters where maintenance shutdowns may be particularly heavy in refining, or there may be particularly a bigger number of platform shutdowns. So that we can better assess how lifting costs and refining costs could go up or down. And therefore, impact your overall EBITDA margin.

Is that something you think would be possible to provide the market going forward. So as to better prepare the market for volatility in your EBITDA margin?

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

Christian, let me have Molinari and Arlindo give the answer, information that.

A - Eduardo Molinari {BIO 21023582 <GO>}

As regarding (VMP), we have shut down in P-27, that would be in the Fourth Quarter of this year. The production loss will be 8,000 barrels per day. And P-54, it's a partial shutdown for maintenance. It will be five days, around 50,000 barrels per day loss of production in these five days. And maybe P-40, it's three days. And the shutdown is partially shutdown, (90,000) barrels per day.

Q - Christian Audi {BIO 1825501 <GO>}

That's for the Fourth Quarter, right?

A - Eduardo Molinari {BIO 21023582 <GO>}

Right, Fourth Quarter.

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

Arlindo, regarding the downstream.

A - Arlindo Moreira

Well in the Fourth Quarter, we will have shut down our cat cracker in Revap. And also, distillation and hydroequipment in our producing refineries.

Q - Christian Audi {BIO 1825501 <GO>}

But Arlindo, on that -- are those significant just in terms of quantity of -- or maybe you can give us a sense of percentage-wise, how, as a result of these, how much your throughput would be down by? Would it be a 10% decline in throughput because of these? Are you able to give us some sense of that for the Fourth Quarter?

A - Arlindo Moreira

Let's precisely (inaudible) the impact and interrelations of shutdowns of each project unit in each refinery, the very (inaudible) straightforward. So that's why we don't announce that on a regular basis, to the market because that's not so straightforward.

We can -- what we say is that regarding -- that we have more than ten refineries, more than ten process units in each refinery, each period, we will have some specific units shut down with different impacts. If we find a relevant one, we will work on it. But that's not the case now.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. All right. And then the last question Almir, is, do you have a sense, as it relates to a new strategic plan. And when 2011 targets for production and CapEx would be announced? I know that's a process that takes a while. But what's your best read in terms of when the market should expect some type of an update next year, of the plan?

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

Christian, we are working to have these released end of First Quarter, around April. These are our targets now, we are working on the process (inaudible). But as you know, a large company to review. And we shuffle all these projects. We have more than 608 projects in our five year plan. We have to review all of them, see which is the priority of each one. And how much we are going to -- we have resource available for our investments. And we choose the best return we can get from these investments.

So it's a long job. At this moment we expect to have it done by end of First Quarter.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. And the very last question. Do you have any updates -- I know there was some media noise, or President-elect Dilma talking about Premium I refinery and Premium II. Do you have any updates, or what's the latest in terms of your expectations of when these refineries could potentially come online, or their construction potentially begin?

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

We have not changed our targets. But let me hear Arlindo that is the planning (from the Abast), if he still holds on that.

A - Arlindo Moreira

The scheduled dates for Premium refineries are, Premium I, (inaudible) 2015. And Premium II, '17.

Q - Christian Audi {BIO 1825501 <GO>}

In two phases, Arlindo, or all in one phase?

A - Arlindo Moreira

The Premium I has two phases. The first will be -- first phase of Premium I will be by the end of 2014. So it will be fully productive in '15, first phase. And second phase by the end of '16, it will be fully productive end of '17. And Premium II is -- or, beginning of '17.

Q - Christian Audi {BIO 1825501 <GO>}

Right, thank you.

A - Arlindo Moreira

That's what (was in the) current business plan. And no changes.

Q - Christian Audi {BIO 1825501 <GO>}

Thanks.

Operator

(Operator Instructions) The next question is from Gustavo Gattass from BTG. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes. Why, thank you. I had two quick questions. The first one, in the Portuguese call, there was mention of Project Varredura. And if I'm not mistaken, Molinari basically indicated that you guys can't start up things very, very quickly, because of questions regarding oil quality and whether the oil actually fits with the production units that you have on top.

I just wanted to follow up on that question. And ask you a follow up question on the following terms. As of yet, do you have conviction that the oil quality is not compatible, or is this something that you guys are still testing? That's the first question on that side.

And the second question, just moving back to the reserves and the whole discussion about BG, I just wanted to check one point. BG indicated that they see (K90) reserves of about 5.5 billion barrels on the Tupi structure alone. And I frankly wasn't expecting to see anywhere near that number becoming reserves at the time of commercial declaration.

Can you guys comment on that? Do you guys think it's possible that it might be that big, or is that number a little bit too high?

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

Gattass, I have Molinari speaking about these two questions. But we had released a note about Tupi and the potential reserves and volumes there. We still are concluding two important wells.

And all after that, we'll have some numbers. So it's difficult to say anything from this point. But let's have Molinari on that.

A - Eduardo Molinari {BIO 21023582 <GO>}

Okay. Regarding your first question, really one way to find oil with a different quality than the platform which we have installed nearby, sometimes we have to adapt the platform. We cannot connect the straight -- the well into the platform. That's the case of Carimbe, that will be connected to (P-42). And Nautilus to P-48, to Barracuda and Caratinga, respectively. We have H2S in this discoveries. So we have to adopt the platform to receive these two wells.

In the case of Aruana, that I mentioned, that will start production the first half of 2011, we discovered light oil, it's 24 to 28 degrees API. And we are using the FPSO Cidade do Rio das Ostras, which is producing in Siri, which is quite heavy oil. I think it's 14 degrees API.

So it would be very nice to discover oil of the same quality, that the platform has the capacity to process. But it's not always the case.

Regarding Tupi, we will keep our estimates of (5 to 80 billion) barrels of oil and gas equivalent. And we may book reserves only after the declaration of commercial feasibility. And that's what I can tell you.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

Your next question is from Lilyanna Yang, UBS. Please go ahead.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi, thank you for the opportunity. My question is regarding your CapEx for the Third Quarter. Can you let us know how much of that on downstream is for the Comperj? And if you have any on Premium I, I suppose, no. And if you could give us any more clarification or insight on the CapEx estimated for the Premium I, Premium II and Comperj going forward, if you had any new news versus the latest business plan.

Now just to finalize, would you expect a new business plan to come by March, or maybe by June of next year?

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

The business plan is March or April. It is when we expect to have it released next year. So it will be earlier than this year. And regarding Comperj, I will have Arlindo to explain.

A - Arlindo Moreira

Well in 2010, we have so far spent BRL2 billion in Rnest. And BRL700 million in Comperj. So what -- (inaudible), okay?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Yes. Yes. It should be (inaudible) for what -- I'm sorry?

A - Arlindo Moreira

For Rnest, Northeast -- the Abreu e Lima refinery.

Q - Lilyanna Yang {BIO 14003234 <GO>}

And would you give us an overall budget for Comperj, Abreu e Lima. And Premium I and II, if you can? Thank you.

A - Arlindo Moreira

So if -- in this year, in 2010 so far, we've spent BRL21 -- roughly, approximately (BRL21) billion in both -- in downstream investments.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay. Thank you.

Operator

Your next question is from (inaudible), Morgan Stanley. Please go ahead.

Q - Subhojit Daripa {BIO 3639048 <GO>}

Hi, I think it's Subhojit. Guys, two follow up questions. One is on the production side. The Viadura project -- when I look into the slide 6. And you put out the expected platforms for -- that will be adding production in 2011, I don't see the Viadura project being added here. Could you provide an estimate of how many barrels do you think that it will be adding on average for 2011? All of these are -- prospects are better, Molinari just mentioned. That's point number one.

Point number two is on the refinery side. I think a few months ago, I'm not sure if it was Gabrielli or someone else, was saying that a lot of the cost on the refineries was due to the infrastructure surrounding the refinery, not the refinery per se. So could you give us an idea of how much would be, let's say, the extra refinery costs, if it's 30% of the total, 40% -- how much is related to the lack of infrastructure of the locations where the refineries are going to be built? Thanks.

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

Regarding the E&P question, platform, you mentioned is Barracuda. The production -- Molinari, can you --

A - Eduardo Molinari {BIO 21023582 <GO>}

Yes. Well we have the Aruana, which will start production first half of 2011. And the production will be 20,000 barrels per day. The other two discoveries, Carimbe and Nautilus, that will produce to Barracuda and Caratinga platforms. And we are still in the evaluation, in the conceptual design phase, because we have H2S in the gas. So we have to adapt the platform. I don't have the numbers up there. They will start production within 2011.

Q - Subhojit Daripa {BIO 3639048 <GO>}

And Molinari, these are related to marginal fields? Or this is related to (inaudible) -- this is the same sort of reservoir that you are currently drilling? Or is it a deeper objective?

A - Eduardo Molinari {BIO 21023582 <GO>}

In the case of Carimbe and Nautilus, if there are connectivity between these two areas, the (reservoir) may be quite big, it can reach maybe 300 million barrels of oil equivalent. So we still have to collect more data, maybe start production and see if there is connectivity between these two reservoirs.

In case of Aruana, it is a separate reservoir, you have seen BMC 36 close to Oliva oil field. And it's -- we are producing 20,000 barrels per day.

Q - Subhojit Daripa {BIO 3639048 <GO>}

That's average, right?

A - Eduardo Molinari {BIO 21023582 <GO>}

20,000 barrels per day when we start production. It's not average for the year. It's average for the project. So it will start the first half. I don't know average for the year. I don't have this number.

Q - Subhojit Daripa {BIO 3639048 <GO>}

All right -- okay. No worries. Thanks. (multiple speakers) -- about the refineries?

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

We will have Arlindo answering this.

A - Arlindo Moreira

The infrastructure investments are around from 10% to 20%, roughly speaking.

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

The cost of CapEx for the infrastructure?

A - Arlindo Moreira

Yes, yes, CapEx at the refinery (multiple speakers) --

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

Depending on the --

A - Arlindo Moreira

Depending on the situation and location of the refinery, Pernambuco is one situation, Maranhao is another, (be around there).

Q - Subhojit Daripa {BIO 3639048 <GO>}

Do you think that by March, by April, when you release the new strategic plan, you're going to be able to give us a better -- let's say, a more precise estimate of the CapEx related to the -- all these refineries? Because up to now -- correct me if I'm wrong -- it's still up in the air, right? It's still subject to changes and better accuracy on the estimates?

A - Arlindo Moreira

Yes. The fact is that we are working hard to reduce the costs at those refineries. And so precise information, we hope to have that by (inaudible) when we announce the next business plan.

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

Yes. This is really hard working, we are doing. And trying to bring down the costs of this refinery construction. And we're very successful in doing that, platform P-55 and P-57, that when we received the original proposal, it was much higher than they end up costing us. And that that experience we had is being applied to other platforms, now.

So all our engineers -- that are dedicated to building this refinery who are working with (inaudible) totals to reduce the CapEx costs of these refineries.

Q - Subhojit Daripa {BIO 3639048 <GO>}

Okay, perfect. Thank you.

Operator

Thank you. Ladies and gentlemen. this concludes the Q&A session. Mr. Barbassa, please proceed with your closing remarks.

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

Thank you very much for being here regards this time. And we hope to meet again in three months with good results. Thank you. Bye bye.

Operator

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

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