Q2 2004 Earnings Call

Company Participants

- Jose Sergio Gabrielli, CFO and IR Director
- Raoul Campos, IR Exec. Mgr.

Other Participants

- Bryan Singer, Analyst
- Frank Mcgann, Analyst
- Frederick Jamo, Analyst
- Margaret Culver, Analyst
- Mark Mccarthy, Analyst
- Paul Cheng, Analyst
- Unidentified Speaker

Presentation

Operator

Ladies and gentlemen. thank you for standing by and welcome to Petrobras conference call to discuss this Second Quarter results. At this time all lines are in a listen only mode. Later there will be a question and answer session and instructions will be given at that time. (Operator Instructions)

As a reminder this conference is being recorded.

Today with us at Petrobras Sao Paulo we have Mr. JosÃ© SÃ©rgio Gabrielli, CFO and IR Director and his staff. At this time, I'd like to turn the conference over to Mr. Raoul (inaudible) Campos [ph], Investor Relations Executive Manager of Petrobras, who has some additional comments. Please go ahead Mr. Raoul.

Raoul Campos

Good morning, ladies and gentlemen. Welcome to our conference call to discuss the Second Quarter 2004 results. We have a simultaneous web cast on the Internet that may be accessed at the site wwwPetrobras.com.VR/ARI/English.

Additionally on the web cast registration screen, you may download a print presentation and download the financial market report.

Before proceeding let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of Petrobras' management and other 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 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 are unable to discuss any issues related to U.S. GAAP results.

The conference call will be conducted by our CFO and Investor Relations Director Mr. JosÃ© SÃ©rgio Gabrielli Azevedo. He will comment on the Company's operating and financial highlights and the main event during this quarter. Afterwards he will be available to answer any questions you may have. Mr. Gabrielli please begin.

JosÃ© SÃ©rgio Gabrielli: Good morning, everybody. First I would like to introduce you to (inaudible) operation of the Company that was helped.

On slide No. 1 we are trying to show the behavioral exchange rate the Brazilian exchange rate real to dollar change rate. We had a complete different situation comparing the first month of '04 in relation to the first month of '03. The first semester of '03 we have a movement of appreciation of (inaudible). Mainly during the Second Quarter in relation to the First Quarter.

The slide shows that taking every dollar price, dollar average price (inaudible) change rate and average. And the dollar at the end of the period, we have an appreciation around 14.5% in the Second Quarter of '03 in relation to the First Quarter of '03. This is a complete different position (inaudible) position in the Second Quarter of '04 in relation to the First Quarter of '04.

This year we had a depreciation of the real of 5.5% in relation to our average exchange rate and 6.8% and the exchange rate at the end of the period. This will affect very much the net income of the Company.

The second thing is in slide No. 2 is the different situation of the internal market, the domestic market in Brazil. We are taking a proxy of four Brazilian production -- the monthly industrial, fiscal production in Brazil where you can see that the first half of '03 we had a reduction after the production which reflect into a reduction of our sales to this domestic market.

In 2004 we have an opposite position with a very clear increase in the domestic market. The growth of the Brazilian economy affecting the behavior of the Brazilian economy and this is having some positive impact on our sales.

The third slide shows how the international price were changing also from the First Quarter of '03 to the Second Quarter of '04. We have these large numbers, very high-priced that we have in the First Quarter of '03, a reduction of the Brent [ph] Price in the Second Quarter and a continuous increase in the price of oil since then.

The yellow line shows the behavior of the price of oil that we sell in Brazil and outside of Brazil which shows that we kept a very stable relationship between our price of oil and the Brent Price. On page 4, on slide number 4, we highlight the (inaudible) impact on our results. If you take the operating profits in the First Quarter of '03, this Second Quarter '03, the First Quarter of '04 and the Second Quarter of '04, we are keeping our profit in a very stable position.

We moved from a 6.6 billion reais to 7.2 billion reais and 7.1 billion reais in the three-- two quarters of '04. However, if you take the monetary and foreign exchange corrections [ph], liabilities, and if you take the average income, the monetary and foreign exchange corrections for assets, we can see we have a completely opposite situation. And Second Quarter of '03 we have a very large 4 billion reais of monetary and foreign exchange corrections liabilities.

And we have compared to a -1.6 in the Second Quarter of '04. Also if we look at the equity income and monetary and foreign change correction, we have a reduction of 2.5 billion reais in '03 and an increase in 1 billion reais in '04. Which shows very clearly completely different impact on our numbers.

But even though at the same time we have this impact of foreign change variation as we have this impact of domestic group of production, we could keep the net incomes in the same level. We had 3, 827,000,000 reais of net income in the Second Quarter of '03, 3,972 in the First Quarter of '04 and 3 billion 835 in the Second Quarter of '04.

On the -- in relation to production in operational numbers this slide No. 5 shows that we have a reduction of Brazilian domestic oil production from 1,512,000 barrels a day to 1.461 million barrels a day by Second Quarter of '04. This reduction, in oil production, was not -- did not affect very much our domestic oil product production. Our refineries have a throughput of 1.605,000 barrels a day in the Second Quarter of '03 and we had 167 -- 1,670,000 barrels a day in the Second Quarter of '04.

In order to keep this production, we had to use more imported oil. As you can see under the bracket we had a 82% of national oil in our throughput production. In the Second Quarter of '03 and this number reduced to 73% in the Second Quarter of '04. This will show also an increasing amount of oil import. The green line shows that our oil imports moved from 269,000 barrels a day to 493,000 barrels a day in the Second Quarter of '04.

At the same time we have a reduction on our oil product import. We are reducing the refined products and imported and we are increasing our imports of oil products to blend with our own oil and put through our refining system.

On slide No. 6 these also show that we have an increase in our exports of oil product and a reduction on our oil product oil back force. We are reducing our crude oil export and increasing our oil product export.

On slide No. 7, we shows some numbers of our VNP [ph] activities. We have an increase in our operating profits from $4 billion -- $4.5 billion to $6.6 billion considering the two quarters of '03 and '04. These were result basically on the second price in the net income. We have an increasing price. And also that was rated in the net revenue in relation to the price, the effective price in our cost of goods sold. In such a way we had an increase in our operating profit from our (inaudible) activities.

At the same time we had a reduction in our oil production. We have some stoppages and we had some delays of some of our projects that reduced our average production of oil. Our unit price, unit price of oil sold from $25.21 to $32.80. Compared to the two quarters.

On page 8, we showed the behavior of our lifting cost that have an average number in the second -- in the year 2 '04 that is greater than the year '03. However in the last quarter we have a reduction compared to the First Quarter of the year.

We have, in the First Quarter of '04 a lifting cost of 4.22 reais, $4.22 and a Second Quarter of '04 of $4.09 per barrel.

Our lifting cost was covered but sufficient also at increase but at lower rate than in the past.

In our supply we have a reduction on our operating profits. We have a squeezing of our margins. However we have effect of price in our revenues that was greater than we have to add the effect of price and the effect of volumes in our revenues as the result of an increase of the domestic market.

However when we had an impact of increasing in our cost of goods sold, we have also as we increased production it impacts on the COG debts. And we have also operating expenses that increased. The result of all of these is that we had a reduction from 1.6 billion reais to 729-- 24 million reais in the two quarters.

It's important to compare in order to compare the Second Quarter -- semester of '04 in relation to the second semester of '03, the first half of '04 in relation to first half of '03. We have to highlight the difference in the First Quarter of '03. This No. 10 showed that compared to the First Quarter '03 in relation to the First Quarter of '04 we have a reduction in that revenue's (inaudible) net income.

We show that the First Quarter '03 was a very unusual quarter in numbers. When we compare the Second Quarter of '03 with the Second Quarter '04 we have an increase in net revenues an increase in cost of goods sold, an increase in operating profit and only the reduction on net income where we have a very important impact of the exchange rate.

When we compare the first half of '03 with the first half of '04, we have a minimization of the impact of the Second Quarter and the balance backed up the First Quarter of '03 in the numbers. (inaudible) on page 13, we had reduction on our (inaudible) cost but we have an average in '04 number of an average a refining cost that is greater than in '03.

Picking numbers on page 14, on our capital structure we have an increase, more increase in our leveraged ratio as a result of the reduction of the cash balance and as a result of their exchange rate (technical difficulty) depreciation of the real.

Our cash situation, we have a reduction on our cash and cash balance. It's on 21 billion reais to 18.9 billion reais and we didn't have any big financial operation during the first half of '04, however, we have an increase in our net debt from 38 billion reais to 43.2 billion.

On page 15, we have a relation between the source used after the change in our cash balance from comparing the Second Quarter of '03 with the Second Quarter of '04. We have an increased cash balance from 16 billion reais to 18.9 billion reais. And the main reason for that was cash generated by operation activities.

That replaced our cash balances by 25.4 billion reais. We had a CapEx tax of 17.8 billion reais and we paid dividends interest on (inaudible) of 5.4 billion reais which made the changing situation of our cash balance.

On page 16, we show the changes in net debt where we highlight the impact of foreign change effect on controlled companies abroad, some other operational impact and the impact on the reduction of our cash balance.

On page 17 we show the comparison between the Second Quarter of '04 and the Second Quarter of '03 of our net income. In the Second Quarter of '03 we had an increase of 361 million reais as a result of the consolidation of Petrobras (inaudible) but we kept the same almost the same level of net income comparing the two quarters. In spite of the reduction on production from 2. to 155 million barrels of oil equivalent to 1.1 million 986,000 barrels of oil equivalent per day. The main fact that we had was the increase in our revenues as a result of price and as a result of volumes sold and (inaudible) correction as a result of foreign change variation that were bigger than -- greater than the impact on cost of goods sold. Also we had a gain from -- a gain from our international subsidiaries in such a way that we could keep the net income in a nice stable situation.

Take into consideration the value added by the Company we had an increase in the first half of '03, for '04 comparing to the first half of '03. (technical difficulty) percent of the value added that reached 46.3 billion reais in relation to 40.3 billion reais in '03. The main difference that we have between the two periods is the amount of value-added distribution to the financial institution and supply it, basically as a result of foreign exchange rate variations.

Now we are opening the q and a session and we hope that we can answer your questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) Frank McGann, Merrill Lynch.

Q - Frank Mcgann {BIO 1499014 <GO>}

I have two brief questions. 1, if you could just give us an update on the P43 and the P48 both in terms of expected delivery dates as well as any recovery of damages for the delays that you might be able to recover from Halliburton? And, secondly, in terms of the Somerville plant, what is the status of the contingency payments from this point on? Are you still required to pay those or will those now become (technical difficulty) essentially because you'll own the plant?

JosÃ© SÃ©rgio Gabrielli: I'm going to answer the first question and as to the second question ask (inaudible) to answer the question for (inaudible). We have a contract with a merchant that we are required to pay some contingent payment to them that's one of the main reasons why we had these losses in the last two years. As we announced to the market we are proposing a deposition of the control of the Petro boat [ph] from the 17 banks that own the previous -- owned by Enron company the (inaudible). We are -- if we finish the deal that we expect to do by November 1st, then we don't have to pay any new contingent payment and we also we keep the assets for as ownership of Petrobras and then we can use the assets for the life of the (inaudible).

From now, too, the moment that we paid we are finishing the discussion probably we're going to not to continue to pay the contingent payment. But I'm going to ask (inaudible) to talk a bit on the details (inaudible) P43 P48.

Q - Unidentified Speaker

Well regarding P43 it is forecast to leave the shipyard by the end of September or the beginning of October. So the first year oil is forecasted to be in November. In the beginning of November. This is the (inaudible) to date. Before the (inaudible) the plan is that the platform will leave the shipyard in December so in the beginning of December so the first oil might by the end of December beginning of January. Okay?

Operator

Bryan Singer, Goldman Sachs.

Q - Bryan Singer {BIO 3297046 <GO>}

Just as a follow-up to the last points on Barracuda Caratango [ph], what is your sense for your exit rate in terms of production in Brazil? And I have a follow up question after that. Your exit rate for the year.

JosÃ© SÃ©rgio Gabrielli: This (inaudible) for example we are increasing the protection in July. We produced 1.52. This month the plan is to produce this at the same level and in the Third Quarter we are forecasting to increase the production comparing to the Second Quarter production. At least 4% we can meet even 5% in terms of increase of production. The year production we are forecasting to close the year something between 1.52, 1.53. This is where we are forecasting.

Q - Unidentified Speaker

Well we reach some agreement with the regulatory body of Vianet [ph] in Brazil. We signed an agreement with them and we hope that we can accelerate some of our new production systems easier in 2004.

Q - Bryan Singer {BIO 3297046 <GO>}

Can you talk about that and what the nature of the agreement is and specifically?

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

What's called the terms of adjustment of conduct. TAC. That's a regular agreement and this would help us to accelerate some production systems in Trocadero and Marlene. [ph]

Q - Bryan Singer {BIO 3297046 <GO>}

Are there any changes to the gas flaring restriction as part of that agreement?

JosÃ© SÃ©rgio Gabrielli: Part of what?

Are there any changes to the gas flaring rules --?

JosÃ© SÃ©rgio Gabrielli: No no --

Q - Unidentified Speaker

(inaudible) rate we have here, we are, this year achieving 9% in terms of gas utilization. Last year for example, the average was 85%. We increased it to 92%. In accounts (inaudible) we are achieving 86% this year in the first semester.

Q - Bryan Singer {BIO 3297046 <GO>}

One last question on SG&A cost. Could you just provide a little more color on SG&A. Seemed to increase a little bit. Is that something that you'd expect going forward at these levels?

JosÃ© SÃ©rgio Gabrielli: We had the -- I don't know if you have any specific number that you have an official type of movement. SG&A. I don't think that we had any big special type of (inaudible).

Thank you.

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

Maybe I would say that is normal, increasing costs but, no, nothing special.

Operator

Paul Cheng of Lehman Brothers.

Q - Paul Cheng {BIO 1494607 <GO>}

Two quick questions. Do you have a monthly price increase on your product effective churn? What will be the impact on earning if that is effective at the beginning of the Second Quarter April 1st and also your standing intention to change the product prices more timely and intend them with the international market going forward given the sort of unpredictability in the international market prices?

Secondly on the ENT in the -- where's -- you have given versus Second Quarter '03 what is the effect of price on the cost of goods sold for the ENT impact. Do you have that same number for the first vs. the First Quarter of '04?

JosÃ© SÃ©rgio Gabrielli: Well in relation to price we increased price of gasoline by 10% of (technical difficulty) in 15th of June. These represented a little bit more than half of our total revenue and looking back these are mostly the numbers of the Second Quarter but we cannot forecast the number right now. We intend to increase in the Second Quarter. In the second, in the Third Quarter of '04.

But the number that we had increased in that in revenues. We had in our net revenues increased last quarter even though we didn't have change in the (technical difficulty) price of oil the gasoline and diesel.

In relation to the (technical difficulty) I think I didn't get very clear what you -- the impact of what is meant by impact of e and p?

E&P position on your upstream division?

JosÃ© SÃ©rgio Gabrielli: For my division okay -- okay.

Right. In one of your analysis that you show between the Second Quarter '03 to the Second Quarter of '04 what is the change in earning? And one of the items you indicate there that is a bit negative relate to the effect of prices on your cost of goods sold. We have a similar number vs. the First Quarter '04.

JosÃ© SÃ©rgio Gabrielli: Yes. This is the impact of the -- the general question for the industry right now is the increasing cost of the sourced providers for the oil regions. We have completed increase in (inaudible). We had also in the First Quarter of '03, '04, an increase in our personnel. We have an increase in our cost of living for our labor force in the First Quarter of '04. Because we had a union agreement at the end of '03. Basically there's a main reason why you have this (MULTIPLE SPEAKERS)

No I understand and I'm comparing between the Second Quarter of '04 to the First Quarter '04, what is that increase?

JosÃ© SÃ©rgio Gabrielli: Yes we have these numbers and tell you (inaudible) you I don't have this right now because I don't have the number comparing the first and the Second Quarter of -- do we have it here?

No he's asking about the difference between the First Quarter of '03 '04 and the first, Second Quarter of 04.

This number, okay, we have here. We moved our net income from 3.6 billion reais to 4.239 billion reais. Is that right?

Q - Unidentified Speaker

(inaudible)

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

D&A, okay, and we have a price of the impact of price in our cost of goods sold was 629 million reais.

Q - Paul Cheng {BIO 1494607 <GO>}

Okay and related to my first question so you can't tell us if the price increase is effective as of April 1st, what will be the positive impact to your earnings?

JosÃ© SÃ©rgio Gabrielli: April 1st, was June 15.

Yes I know that is what actually happened. I'm saying that what if that the price increases actually as of April 1st what is the impact will be in your Second Quarter with (inaudible)? Do you have that number?

JosÃ© SÃ©rgio Gabrielli: No if my price had been changed in April 1st? Okay well we don't have this number right now but if we have -- I know 65% of our revenues coming from oil and from gasoline and diesel and we increase 10%. I don't have the compilation right now but easy to make.

Will it be possible that you have someone to give me a call or send me an email at that number?

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

Yes, it's possible.

Q - Unidentified Speaker

We will get back to you, Paul.

Operator

(Operator Instructions) Mark McCarthy of Bear Stearns.

Q - Mark Mccarthy {BIO 5634411 <GO>}

I wanted to ask two questions. One about CapEx, I don't know if Marcuso could give us an update in terms of what the full year budget or maybe actually, Sergio, you could give us an update on the old plan vs. where we are so far this year? We seem pretty-- well, I'd use the word behind but maybe we're going to see a big acceleration in the second half and then my second question is more along the lines of just discussing the build and inventories on the oil side and the very substantial increase in imports. And if you could discuss that in relation to how throughput at the refineries will change in the second half as the upgrades continue?

JosÃ© SÃ©rgio Gabrielli: In relation to CapEx it's a very cyclical behavior of a system of behavior of CapEx at Petrobras. The first half of the year, you have a little bit behind schedule and the second half you catch up and reach the target. We are keeping the target around $7.5 billion for this year. Remember, also, that we have a different movement of the change rate this year would effect the impact on some part of the CapEx that is in reais.

But we think that we're going to catch up to this piece of our investment in the second half of this year.

Sergio just to review. You spent only 2.5 billion so far. Is that right?

JosÃ© SÃ©rgio Gabrielli: Our own $3.5 billion. Around 8.9 billion reais, something like that.

Okay that's -- all right. I have 7.6 but I guess you are including part of the finance.

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

Yes.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay.

JosÃ© SÃ©rgio Gabrielli: Okay. In relation to the inventory remember that we have a buildup of inventories in the First Quarter because we need, we knew that we had stoppage for the refinery in Panama. And we had two months of stoppages after July 7th they revised online already. And probably are going to have some reduction on our inventories in the Second Quarter -- the second half of the year.

That would make sense to me if they were imports of refined products but this is --

JosÃ© SÃ©rgio Gabrielli: No because we had a decision that was much better to import crude oil rather than refined product because we could process the light oil in our other refineries and introduce the diesel that we need for the Brazilian market. And we didn't have to pay the new larger refining margins in the international market. Was better economically for us to import crude oil and produce in our refineries.

Understood. Now can you just push that in relation to the second half in terms of you're sitting on even more inventories than even in the First Quarter it seems to me?

JosÃ© SÃ©rgio Gabrielli: No you are probably going to have to see a reduction on our inventories in the second half of '04.

And, therefore, your imports will decline?

JosÃ© SÃ©rgio Gabrielli: Yes and we are going to increase our production. We are increasing already. We announced in July increasing production and we hope the job is going to be the same way.

And how will throughput change the second half with now with RevPAR back on?

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

Throughput is going to be almost the same. We increase our throughput compared to the Second Quarter of last year.

Q - Mark Mccarthy {BIO 5634411 <GO>}

So it will stay around 1.7 million barrels a day?

JosÃ© SÃ©rgio Gabrielli: Yes.

1.65?

JosÃ© SÃ©rgio Gabrielli: Yes. Let me see how much the number here, I don't have -- my mind (inaudible). But our throughput was 1.56, 1. -- no this doesn't get to these volumes sold. We sold to (inaudible) the first Second Quarter of '04 1.565.

Right and you produced 1.67.

JosÃ© SÃ©rgio Gabrielli: Yes we're going to increase our throughput by something 1.7.

Back along the lines of the First Quarter?

JosÃ© SÃ©rgio Gabrielli: Yes.

Operator

Frederick Jamo [ph] of J.P. Morgan.

Q - Frederick Jamo

Really just a clarification on the previous question. Could you just what was your inventory position of petroleum products at the end of the Second Quarter compared to the end of the First Quarter? Did it indeed fall or was it stable or did it increase?

JosÃ© SÃ©rgio Gabrielli: Let me again ask the other people within numbers. Our inventories increased or decreased from the First Quarter. I don't have the number right now. Well our inventory has increased. It's from 11.99 billion reais in the end of this First Quarter to 13.23 billion reais in the Second Quarter of '04. They haven't increased in our inventories.

I was referring more to the volumes.

JosÃ© SÃ©rgio Gabrielli: I'm trying to check the move of the direction. Yes I tried to check the direction. We don't reveal the exact number but we can tell you the direction if it increased or decreased but I don't have the number right now.

That would be helpful. Separately I just also wanted to ask more generally have you considered changing your reporting to LIFO basis?

JosÃ© SÃ©rgio Gabrielli: To what? To what?

LIFO.

JosÃ© SÃ©rgio Gabrielli: LIFO? LIFO. No, no, we are not planning any change in our inventory accounting right now.

Q - Unidentified Speaker

One more moment please (inaudible).

JosÃ© SÃ©rgio Gabrielli: I'm going to ask Raoul to give you the direction of our inventories so you get the number.

A - Raoul Campos

Basically the commercial inventories of crude oil went up between March '04 and June '04 and stayed relatively was more or less the same as far as oil products.

Operator

(Operator Instructions) Margaret Culver of Harding Lovner [ph] Management.

Q - Margaret Culver

I would just like some more clarification on the import situation and the volumes of light oil imports that were represented in the total and whether you had increase in oil imports, partially due to difficulty in the heavy light oil mix? If you could elaborate a bit on the reasons. It sounds as though you made a conscious decision to import more crude and not import as much in the way of products due to margins. And I just wanted to know how the light oil mix fit in with that?

JosÃ© SÃ©rgio Gabrielli: Again I am going to ask Amelio our manager to supply (inaudible) to explain.

Q - Unidentified Speaker

The crude oil selection for our refineries depends on the product price differentials and we, in the first half of the year, the high margins that we saw in the international market for middle distillate gave us an opportunity to improve the selection to our refiners importing more light crude oil and exporting national oil in order to produce here the middle distillates that we are short in.

That's the point. That's why we took the opportunity to process more light crude oil and to avoid import of gas oil.

Q - Margaret Culver

Was that your own light oil then?

Q - Unidentified Speaker

No we bought our light oil from abroad.

Q - Margaret Culver

So that was partly the increase in imports was partly in order to take advantage of.

JosÃ© SÃ©rgio Gabrielli: High margins.

Of high margins on the distillate products?

JosÃ© SÃ©rgio Gabrielli: Yes. Right.

Are you going to be increasing the ability to produce your own light oil and process it? I know you have refinery upgrades scheduled in your CapEx budget. Is that on target?

JosÃ© SÃ©rgio Gabrielli: Yes. We have a plan to increase our light oil production by 2006. And we are going to have anticipation of anticipated production systems in 2006. From the center and basically this is from the basic. In our CapEx for refining we are investing around $1.2 billion per year to 2010 in order to increase our conversion capacity and increase the proportion of heavy oil in our feedstock.

(technical difficulty) target this point?

JosÃ© SÃ©rgio Gabrielli: Yes pretty much on target. Do we have the difference at First Quarter because we are production domestic production of the heavy oil was smaller than we thought.

Operator

(Operator Instructions) Mark McCarthy Bear Stearns.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Two other questions along the lines of more technical questions. First, Marcuso, I was wondering if you could give us an update on Frada [ph]? Is Frada -- what is the plan for it? Is it on the calendar? And what is the timeframe for it?

The second question was, regarding the FPSO leasing tenders. Can you -- if you could give us an update on that and timing in 2006?

And the last question was more of the technical questions about some of the other charges that are always within the results. And I was wondering if some of these charges might not be incorporated within corporate or other as they seem to be more of an ongoing expense rather than a quote 'other expense'. I am speaking mostly about the health benefit expenses.

JosÃ© SÃ©rgio Gabrielli: On the health benefits and on the extraordinary items there are recurrent update our not the same level they are very different levels. Each quarter.

To be honest with you, Sergio, I don't look at them very often but the last two quarters have been somewhat similar. I don't know, again, I don't know how to predict this going forward but been about 320 million reais up about 50% year-over-year from around 210 million reais.

JosÃ© SÃ©rgio Gabrielli: At the moment, we are not discussing any changes in the lines from others to breaking regular expenses. But I'm going to give my (technical difficulty) talk about this.

Q - Unidentified Speaker

First it's important to mention that (inaudible) shares on Texaco but according to the schedule, the first (inaudible) will be 2007. Regarding the big process for our (inaudible) and the other areas of (inaudible) we are still (inaudible) to have the process in the next month. So this for the first trial of the light field seems (inaudible) up to now 2006.

Q - Mark Mccarthy {BIO 5634411 <GO>}

And you're looking to secure one FPSO at 100,000 barrels or more than one?

Q - Unidentified Speaker

More than one. 100,000 each one.

Q - Mark Mccarthy {BIO 5634411 <GO>}

So far as I recall it was three? Right?

Q - Unidentified Speaker

Yes.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Each one for RJ, what is it? 132 (MULTIPLE SPEAKERS)

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

Yes. One for (inaudible) the second one for an area close to Gofino [ph] is ESS 123 and the third one for compost basin RJS 409. This area is located in the (inaudible) field.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Could you just touch upon some -- your plans for appraisal drilling incremental appraisal drilling through the second half? With regard to some of these fields as well as the BS 400 and BS 500?

Q - Unidentified Speaker

We have more wells to drill in BS 400 and BS 500. We have evaluation plans to 2006 and the activity there are increasing and we plan to drill at least more wells to the end of next year.

Q - Mark Mccarthy {BIO 5634411 <GO>}

This is the 400 or 500?

Q - Unidentified Speaker

Both. 500 and (inaudible) and 400 in Sao Paulo.

Q - Mark Mccarthy {BIO 5634411 <GO>}

And what about Golfino and (inaudible) deSanto and Rio?

Q - Unidentified Speaker

This 360 as well we are drilling more wells close to (inaudible). And in the DS 100 close to Gofino and the (inaudible) 123 so we have many wells to be drilled up to next year.

Q - Mark Mccarthy {BIO 5634411 <GO>}

My questions are specifically oriented towards what sort of revisions can we find this year to your reserves from incremental appraisal drilling?

Q - Unidentified Speaker

The plan is to increase the reserves. We plan to increase. Last year we closed 10.4 according to (inaudible); 12.6 according to SP so the plan is to increase the proven reserve, considering we are drilling more wells and declaring commerciality.

Operator

At this time there are no further questions in the queue. I'd like to turn the floor back over to Mr. Gabrielli for any closing remarks.

JosÃ© SÃ©rgio Gabrielli: Thank you. I'd like to thank everybody and say that our numbers are very good for us, given the context in which we are operating. And we are expecting for the next quarter to get better results than the first one. Even better. Thank you, very much.

Thank you, all for being here. Ladies and gentlemen. your host is making today's conference available for replay starting 1 hour from now. You may access at IR website or the three play by dialing 1-973-341-3080, lasting through August 24th. (Operator Instructions) At the voice prompt enter the access code 505-3722. This concludes Petrobras conference call for today. Thank you, very much for your participation. You may disconnect.

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