

Q3 2004 Earnings Call

Company Participants

- Marcos Audoras Silver Menozies, Accounting Executive Manager
- Marcoza Sanrero
- Raoul Campos, IR Executive Manager

Other Participants

- Bryan Singer, Analyst
- Chris Audi, Analyst
- Frank Mcgann, Analyst
- Frederick Jamo, Analyst
- Mark Mccarthy, Analyst
- Pedro Batista, Analyst
- Sam Buge, Analyst
- Sergio Thomashero, Analyst
- Unidentified Participant
- Unidentified Speaker
- Victor Galiano, Analyst

Presentation

Raoul Campos

Ladies and gentlemen. thank you for standing by and welcome to the Petrobras presentation conference call, directly from Madrid's Stock Exchange, to discuss this Third Quarter results. At this time all lines in the conference call 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 event is being recorded.

Today with us at (inaudible), we have Mr. Jose Sergio Gabrielli, CFO and IR Director; Mr. Marcos (Audoras Silver Menozies), Accounting Executive Manager; and myself, Raoul Campos [ph], Investor Relations Executive Manager. And at Petrobras' head office in Brazil we have the Petrobras staff.

At this time, I would like to welcome everyone to this call, and also inform that we have a simultaneous webcast on the Internet, that can be accessed at the site www.petrobras.com.VR/IR/English. Additionally, on the webcast registration screen, you may download a print presentation and download the financial market report.

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Before proceeding let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform act of 1996. 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 US GAAP results.

This presentation will be conducted by our CFO and Investor Relations Director, Jose Sergio Gabrielli de Azevedo. He will comment on the Company's operating and financial highlights and the main events during this quarter. Afterwards he will be available to answer any questions you may have. Mr. Gabrielli you may begin.

Jose Sergio Gabrielli de Azevedo: Good afternoon, everybody. We are starting on slide number 1, trying to show the different behavior that we have in the foreign exchange impact on our numbers. As you can see in this slide, we have an exchange rate variation from the First Quarter of '03 in relation to the Third Quarter of '04.

Sometimes we have appreciation of the real and sometimes we have depreciation, and this has a different impact on our monetary assets and foreign exchange correction also for our liabilities. And this effect very much our net income and our net profit at the end of the day. Also we're having different impacts of the equity income, as a result of the exchange rate variation.

On slide number 2, we show the behavior of the oil price that we sell; comparing our -- the price -- the oil price that we sell to our own supplier segment of the business, and the oil price that we sell to the market. As you can see, our price, cost of price, adjusted also with the sales of oil, crude oil, follow very much the behavior of the Brent price.

And at the -- in the last quarter, the Third Quarter of '04, we have a widening of this spread between the Brent and our price. As you can see in the markets, the difference between the light oil and the heavy oil.

On slide number 3, we have a comparison of the net income that we have in the Third Quarter of '03 in comparison to the net income of the Third Quarter of '04. We have a reduction on the production. We have a small reduction on the production from 2,068 million barrels per day to 2,060 million barrels per day, which is almost the same production level comparing the 2 quarters.

Our net income is almost the same. Our revenues increased by BRL5.3b. Our cost of goods sold has increased by BRL3b. We have pretty much an impact of BRL1.3 billion of

monetary and foreign exchange correction, in such a way that we have net income almost the same between the Third Quarter of '04 and the Third Quarter of '03.

Next slide, slide number 4, we show that on a sequential basis our Third Quarter is much greater than in relation to the Second Quarter of '04. Our net income increased from BRL3.8 billion to BRL5.5b, and this pretty much a result of the increase in revenues, BRL1.8b. An increase now of gains from monetary corrections from the foreign exchange behavior. We have an appreciation of real during this quarter, and some tax benefit that we have because we paid interest on own capital.

Those 3 variables are very important in the results that we have comparing the 2 semesters sequentially. Also, we have an increase in the cost of the goods sold, pretty much as a result of an increase in production and in sales.

And looking at our exploration production on slide number 5, we can see that comparing this Third Quarter of '03 with Third Quarter of '04, we have an increase in our operating profits from BRL4.9 billion to BRL8.4b. And this is pretty much a result of the peak[ph] effect of price on our net income. Also we have some effect of price in our cost of goods sold. However, the main factor, the main variable that we have here is an increase of price in our net income.

Our production decline is very small -- a very small decline from 1.56 million barrels a day to 1.52 million barrels a day. The unit price of oil sold increased from \$28.16 per barrel to \$36.13 per barrel, and we have a small exchange rate appreciation -- depreciation from \$2.93 to \$2.98.

On the exploration production, comparing Third Quarter of '04 and the Second Quarter of '04, looking in slide number 6, we can see that we have an increase in our operating profits from BRL6.6 billion to BRL8.4b. Our price sold, or volumes sold, increased from \$32.88 to \$36.13. Now we have appreciation of the real from \$3.04 to \$2.98, and of our oil production increased from 1.461 billion to 1.523 billion barrels per day.

Our increase in production reflect in the effect of volumes on the net income, that together with the increase effect of price on the net income, more than offset the increase in the cost of goods sold, ensuring that our net operating profit increased in exploration production.

On slide seven we show that our cost, the lifting costs and our production is moving. We have increase in production this Third Quarter compared to the Second Quarter. We didn't reach the highest peak in the Third Quarter of '03. Our lifting costs with the government participation moved from \$10.02 to \$10.65 per barrel. And our lifting costs without government participation increased -- decreased from \$4.09 to \$4.03 per barrel, comparing the Second Quarter of '04 and the Third Quarter of '04.

In slide number 8 we look at our supply side -- the supply segment of the business. We have an increase in volume. This throughput of volumes increased from 1.52 billion barrels a day to 1.676 million barrels a day. Our average utilization price increased from \$35.91 to

\$41.16, and this resulted in a decline in our operating profits in the supply segment of the business.

We have a positive impact of price on our net income, and also positive impact of volumes of the net income because increase of production. However, the effect of price on the price of cost of goods sold that we buy oil products, oil -- crude oil from our -- also from our ANP was a very large increase, that reduced the profit -- the operating -- the net operating profit of the supply segment of the business.

Comparing the Second Quarter and the Third Quarter in slide number 9, we can see that the situation is much the same. We have an increase impact of volumes in our results. The volumes that we sold in the market and the production that we have reached in our refineries are increasing. And we have this BRL1.535 billion roughly increase of our net income as a result of volumes. However, the volume also impact our cost of goods substantially, that we have an almost zero operating profit from the supply side of the business.

On our slide number 10 we show that our refining cost is stable[ph], it's almost the same level, \$1.27 per barrel for the Third Quarter of '04 compared to \$1.21 per barrel in the Second Quarter of '04, and \$1.07 in the Third Quarter of '03. Our throughput has a small increase, as I mentioned before, and this -- in this Third Quarter of '04 we could increase the use of the National Oil in our refineries.

We should see rather a much larger margin on the production, as a whole -- as whole for the Company as a whole. This is the result of the recovery of the Group in the production of oil utilization[ph], when we talked about the exploration production sector.

In our distribution segment of the business, we have an increase. The profits[ph] are almost the same, we have BRL1,087 million comparing BRL1,054 million now in the second -- Third Quarter of '04. We have an increase in sales, volume of sales, from 441,000 barrels per day to 497,000 barrels per day.

Our unit of sale price went up from \$149.62 per barrel to \$167.15 per barrel. Our market share increased from 32.14% to 33%, and then we have also a very large impact of price and volumes in our revenues. But we have a very large also effect of price on our cost of goods sold and this had a small decline, as I mentioned before, on our operating profit comparing the 2 semesters year-to-year.

Comparing quarter-on-quarter; the Third Quarter on the Second Quarter of '04; we have also the very large impact of prices and volumes, that were offset by very large increase in our cost of goods sold and the volumes that we have during this quarter, the Third Quarter of '04. Our net operating profit from the distribution of the business went down from BRL224 million to BRL154m.

On our international activities, on slide number 13, we have increase comparing year-to-year. We have an increase in our volumes, sales volumes, from BRL340m[ph] to BRL417m[ph]. Our unit of volume sold to the price of oil sold went up from \$19.28 to

\$28.03, and we have very large impact of price on our net income, a very -- a small increase of the volumes in our net income. And we have an increase in our operating expense, in such a way that we have an increase our operating profit from BRL344 billion to BRL432b.

Comparing sequentially the price, the result on our international business on the Third Quarter of '04 in relation to the Second Quarter of '04, we have a reduction on production from 460 to 417. This have an impact, basically as a result of the exchange rate variation, of the price of net income, in our net income. In the volumes also, as I mentioned, we have a reduction on the production

And in this sense, we have a smaller (rate of) production. We have also reduced part of cost of goods sold, in such a way that we have a reduction in our operating profit comparing the 2 semesters sequentially from BRL660 million to BRL422m. There's a very important impact of the exchange rate variation here.

On our gas and power, on page -- on the slide number 15, we have an increase in volume sales of gas from 194,000 barrels of oil per day to 218,000. The (inaudible) price for gas sold went up from \$107.22 per 1,000 cubic meters to \$122.35. And we have an increase as a result of these, an increase; a positive increase of price and a positive effect of volumes on the net income.

And also, as we have our reduction on the cost of the goods as a result of price, we had a positive impact also on our operating profit. In the fact that they went up from BRL80 million to BRL220m.

On comparing the 2 semesters of '04, we have also the same kind of behaviors, continues to be the same direction. We have an increase in volumes sold from 203,000 to 218,000 barrels of oil equivalent per day. The price went up, the price of the unit gas price sold went up from \$101.61 to \$122.5, in such a way that we have a smaller reduction of the operating profit from BRL253 million to BRL222m. And as a result, easily offset of the effect of the prices on the cost of the goods sold.

On the capital structure on page 17, we show that we have a reduction on our net debt. Our net debt went down from BRL43.2 billion to BRL39.7b. Our cash balance went down from BRL18.9 billion to BRL17.7b. Our leverage ratio went down from 43% to 40%, and our debt, short-term debt and total debt went down 17% to 16%. Which shows that our financial condition is pretty much stable and a very healthy condition.

Looking at more details of sources any other funds, on page 18. We can see that this reduction in cash was basically used on CapEX and payment of dividends, and interest on nominal capital. We have a BRL24.1 billion generated by our operational activities. We have a BRL19.2 billion of CapEX and BRL5.2 billion in dividends and increase on capital.

On page 19 we are comparing the 2 semesters sequentially and we have a smaller reduction from BRL18.9 billion to BRL17.7 billion in our cash. This is basically as a result of keeping the same level of CapEX of BRL5.49 billion and a smaller reduction -- a smaller

generation of cash by operational activities, such a rate that we kept at the end of the Third Quarter of '04 of BRL17.67b.

On page 20 we show the reduction on net debt. As you can see, we have a real appreciation which is responsible for BRL3.5 billion of this reduction. We have a debt amortization of BRL2.3 billion and, as a result, we have a cash decrease of BRL1.3b. That's it, we can open now our Q&A session. Thank you.

Questions And Answers

A - Raoul Campos

Yes. We now begin the questions and answers sessions at which Petrobras' executives we will be replying to questions from those present at the Madrid Stock Exchange, and from those who are participating both via conference call and via webcast. (Operator Instructions)

Q - Unidentified Participant

(inaudible; microphone inaccessible). I would like to know if (inaudible; microphone inaccessible) and what is the risk? So concerned that your (inaudible; microphone inaccessible).

Q - Unidentified Speaker

We don't have really an asset swap. In Argentina we have a fusion of 3 of our companies that are 100% Petrobras, with our operating company which is Petrobras Internacional[ph]. We are putting Petrobras[ph] and Santocerre[ph]. These are the 3 and Petrobras Argentina, together with Opanza[ph].

The ratio after this -- the Company is fusion, would be 22.18% of all these 3 assets in the total capital of the new Opanza. This is going to be Opanza's structure. This is going to be -- is already presented to the C&C which is the exchange market authority in Argentina, and we hope that by the First Quarter of '05 we can finish the operation. 22.8% not 22.18%.

Operator

Thank you. Our first question is coming from Frank McGann of Merrill Lynch. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Hi. Thank you. Yes, just 2 questions. One, I was wondering if you could give us an update on the situation with the P-53 platform, in terms of what your options are there? If you continue to have a stalemate in the situation which you're in right now.

Then secondly, in terms of looking forward over the next year for the electricity options for new energy. I was wondering what you currently think the timing of that will be, first or

Second Quarter? And how much energy you would hope to place in those options?

Jose Sergio Gabrielli de Azevedo: Hi, Frank. You mentioned P-53, not P-43?

Yes.

Jose Sergio Gabrielli de Azevedo: 53?

Yes.

Jose Sergio Gabrielli de Azevedo: Okay. Well, with 53 we are trying to arrange -- to solve the problem that we have with the bidding process right now. We have some legal action from potential competitors, and we are trying to find ways to guarantee that we can fulfill this time schedule that we have to get the P-53 in production.

We can -- We have -- We think that until the end of this month -- this year, by December of '04, we have to be solved of the problem. We don't have a plan of (full fusion) yet how to do this. We are trying to find ways to guarantee that we can get the platform in operation, in the times that we project them to be operating.

On the electricity side, we haven't -- well, there are some final arrangements on the legal system that is -- are not yet done. We don't have a very clear idea of how it's going to be, the option in the next year. But we are pretty much confident that we can use the possibilities that we have to produce, and try to complete the option. But we don't have the clear numbers of that lot[ph]. We don't have a clear idea of the final details of the system right now.

Maybe I could just follow that up. Do you expect that all of your electricity capacity will be eligible to be considered new energy, and would be -- would the plan be then to try to contract as much as possible that beginning in 2008 and 2009, under (inaudible; line interference)?

Jose Sergio Gabrielli de Azevedo: This is exactly the question, the answer we cannot give you because they are not clear ideas, the final arrangement of the details of the legislation. That's an answer that I cannot give you.

Okay. Thank you, very much.

Operator

Thank you. Our next question is coming from Bryan Singer of Goldman Sachs. Please go ahead.

Q - Bryan Singer {BIO 3297046 <GO>}

FINAL

Good afternoon. 2 questions on costs. First, SG&A costs increased during the quarter and then increased pretty noticeably over the last few quarters. Are the rates that we saw in the second -- in the Third Quarter expected to be similar levels going forward? And can you just talk about how you see the drivers of SG&A?

Jose Sergio Gabrielli de Azevedo: Okay, we have 2 (inaudible) on SG&A. We have the first -- the first is we have a labor agreement last year that increase our labor costs. Second, we have appreciation of the real and some inflation, occasionally the suppliers of the services. Third, we have some staff on the advertisement and the communication of the Company, and also we have a position of the Sophia in the LPG segment.

They are the main reasons why we have an increase. (inaudible; over speaking) software, on the software that does have a meaning here. Although we have SAP, the SAP contract that increase after this first year.

And all those then would be ongoing, as opposed to any one time?

Jose Sergio Gabrielli de Azevedo: Yes, that's ongoing, that's nothing really that can influence complete tendency to say that the continuous increase in energy costs.

Okay. The second question is on service costs. We've seen a pretty substantial increase in North America in terms of service costs, both due to steel; higher steel prices; as well as just higher general oil service costs. Are you similar cost increases in Brazil, and what are your expectations for finding and development costs?

Jose Sergio Gabrielli de Azevedo: Yes, we have the increase in costs. Not only as a result of fuel increases; that's a clear number that we have. But also because we have the market for -- the service providers are trying to get some of the delayed effect of the price of oil. Which means that we have -- we are facing very clearly in the renewal of our contracts some pressure for us to increase costs.

I would say that is something around 30% compared to last year.

Okay. And do you have a sense of where your finding and development costs would be at year end?

Jose Sergio Gabrielli de Azevedo: I don't have the number exactly now but we think that it's -- the overall cost, service cost, is increasing by around 30%. Marcos in Rio, can you answer this question, Marcos please?

A - Marcos Audoras Silver Menozies

The development cost increase about 15% to 20%, mainly due to the increase of the cost in the platform acquisition. But in total we don't consider a significant increase.

Q - Bryan Singer {BIO 3297046 <GO>}

Bloomberg Transcript

Great. Thank you, very much.

Operator

Thank you. Our next question is coming from Mark McCarthy of Bear Stearns. Please go ahead.

Q - Mark McCarthy {BIO 5634411 <GO>}

Hi, guys. Sounds like you guys are truly a global company with everyone all around. I had some easy questions but a few. First of all, can you comment or confirm that the Angola write-down of the bonus payment is -- or can you give us some sense? Is that a dry hole? Is that confirming that the second well did not produce commercial signs and, therefore, it's being abandoned like the first one was?

The second question is, thanks for the update on P-53. Can you give us an update on P-43's launch, start-up plans? Same thing for P-48. Then the third question would be, could we get a specific number for what your average cost of oil inventories was at September 30?

Q - Unidentified Speaker

I will speak. First on Angola, this is a bonus payment. There is no dry hole, that's the bonus payment. On P-43, we are expecting now the first of oil by December 10. The peak of production is going to be between 6 to eight months from now, and P-48 is leaving the dock by the middle of December, and the first oil is expected by the half of January of '05.

In relation to the average cost, we don't have this number right now here. We don't have this number just now of December 30 -- of September our average cost we don't know. We use the rifle[ph] procedure, (right for 54).

Q - Mark McCarthy {BIO 5634411 <GO>}

I was looking to use average cost.

Q - Unidentified Speaker

Average cost.

Q - Mark McCarthy {BIO 5634411 <GO>}

Coming back to Angola. So you're expensing of the bonus payment, can you give us an update on the drilling program? And to the extent that if there is any success, why did your other partners choose to expense, as opposed to capitalizing the bonus payment? Then, the --

Q - Unidentified Speaker

It's for the write-off of the bonus paid for the Block 34, that drew the well last year it was dry. This has been pensioned[ph] to another well this year but now we're not sure about this, so we write off the --

Q - Mark Mccarthy {BIO 5634411 <GO>}

Sorry, can't hear you.

A - Raoul Campos

Okay. Mark, did you hear the answer?

Q - Mark Mccarthy {BIO 5634411 <GO>}

No.

A - Raoul Campos

Okay. No, the question was on concerning the block 34 in Angola.

Q - Mark Mccarthy {BIO 5634411 <GO>}

So the second well wasn't drilled?

A - Raoul Campos

We drilled. We still expect to have some success but the decision was taken to write-off the bonus paid (on it).

Q - Mark Mccarthy {BIO 5634411 <GO>}

So the second well was not drilled?

A - Raoul Campos

The second well hasn't been drilled yet but we're still going to drill it.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay. Raoul, can I just ask 1 other question? That has to do with the SG&A question which is certainly a good one. But there was no reference made to the fact that you seem to have made some reversals of positive eliminations, that occurred in the first and Second Quarter, which seem to add about 10% to the SG&A figure for the Third Quarter. I was wondering if you could comment on that? It's BRL200 million of the BRL2.4 million for the quarter.

Jose Sergio Gabrielli de Azevedo: Well, I -- We need -- really we don't have this clear idea of what you're talking about but if anybody has an idea?

A - Raoul Campos

Arvis[ph], I think it's with you I think.

Jose Sergio Gabrielli de Azevedo: Do you want to talk about that?

Q - Unidentified Speaker

Could you ask me. The question is; Arvis from Accountancy Department. Could you repeat the question?

Q - Mark Mccarthy {BIO 5634411 <GO>}

Sure Arvis. You reported BRL2.4 billion in SG&A during the quarter. If you divide that by the divisions, it works out you had a negative elimination of BRL201m. If you look in the first half, that would be the first and the Second Quarter combined, you had a positive BRL201m. So you've reversed, or the elimination's contributed to the increase in the Third Quarter versus the Second Quarter. It's about BRL300 million of the BRL500 million increase. Just curious as to why?

Q - Unidentified Speaker

No, I don't have any idea about it. We had a specific adjustment between 2 segments; between international and supply segments. It was related to some of operations of offshore transactions, that was crossfired[ph] into the Second Quarter in the international segment, and since this Third Quarter had crossfired these transactions to the supply segment.

The (inaudible) that adjustment in the Third Quarter; the amount BRL1 billion between the revenues and the cost of goods sold of international and supply segments. But there wasn't any effect in terms of the results of these segments because the margin is involved in this offshore transaction is almost zero; it's very low. And this was adjustment that have idea but I don't know if it's the same one.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay. I -- it's very -- Thanks for responding. I think that we're all interested to know where SG&A on a quarterly basis is going to settle. Is it BRL2.5 billion or is it BRL2b?

Q - Unidentified Speaker

It is another point, I don't have an idea about this specific amount.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay. Thanks very much guys.

Operator

Thank you. Our next question is coming from Frederick Jamo of JP Morgan. Please go ahead.

FINAL

Bloomberg Transcript

Q - Frederick Jamo

Hello. Could we turn to P-50 and P-34? I'd be grateful if you could just a little update on where these 2 units are, in terms of the construction process?

A - Raoul Campos

Yes, can you speak a little louder, please?

Q - Frederick Jamo

Yes, I'll speak up. I'm hoping to get an update on where you are on P-50 and P-34, in terms of the progress in terms of construction? And also your current best estimate of first oil for each of those units?

Jose Sergio Gabrielli de Azevedo: Well, P-50, P-34, up to now are under the schedule that we have, we hope that this is going to come into stream on the second -- the Third Quarter of '05, and reach the peak of production by the half of '06. This very important for (inaudible) also under this schedule of the reconversion. It's very -- but up to now.

So no delays on those 2 units as far as you're aware?

Jose Sergio Gabrielli de Azevedo: No, not up to now. We don't know the future, yet.

Thank you.

Q - Unidentified Speaker

Please, this is Arvis from Accountancy Department again. Relate to the previous question. The increase in eliminations between the Second Quarter and the Third Quarter; may be it's related to the increase of oil international markets because we have main productions between ENP and supply segments. There are just increasing prices, together with increase in production and transfer, can explain the increase in the (inaudible) eliminated between these 2 segments.

Operator

Thank you. Our next question is coming from Victor Galiano[ph] of HSBC. Please go ahead.

Q - Victor Galiano

Yes, hello there. In terms of the impact that we see looking at slide number 3, that you've got there with the Brent and the domestic oil price. Can we expect in Q4, given obviously the correction that we've had in the crude price. Can we expect some relief overall in terms of, or some improvement overall, in terms of your operating performance as a result of this? In other words, will the domestic sales price lag the correction that we've seen in crude oil price?

FINAL

Jose Sergio Gabrielli de Azevedo: We have on some of our products, we sell with contracts that have some relationship between different index of different markets, to the price that we sell in Brazil. The other thing that we have, a kind of discrete (inaudible) in price is gasoline and diesel and LPG. We need to have a long-term relationship between this matched[ph] price and the actual price for those products.

Right now for sure we have increased price end of October; I think October 15; I don't recall the exactly thee number, the date that was beginning of October, given the fact that the volume -- the price -- the revenues that we have in Brazil. But that's important also to highlight, that volumes that we sell in Brazil are also increasing very much, and we hope that this is going to continue to increase.

However, it's important also to highlight the gasoline and diesel have some seasonality in those demands, which means that at the end of the year we have a reduction in the demand for gasoline and diesel in Brazil. At the minute, the net effect -- impact of this, we cannot have a clear idea right now. But, for sure, we have a positive impact of price but we don't know exactly to how this amount is going to effect the volumes that we sell in the Brazilian market.

Okay. Thank you.

Operator

Thank you. Our next question is coming from Chris Audi of Morgan Stanley. Please go ahead.

Q - Chris Audi {BIO 16627090 <GO>}

I had a question on the free cash flow. On your press release where you showed free cash flow generation being negative for the quarter --

Jose Sergio Gabrielli de Azevedo: Please, may you speak louder because we cannot hear you very much here.

Okay, my question had to do with, during the quarter in the press release when we look at free cash flow generation, I was wondering if you could clarify a couple of items? There was one that talked about other adjustments where you bought, I think, there was a charge of around BRL2.3b. And the other item was called charges on financing in connected companies, and I think there was around BRL1.4b.

Can you just clarify for us what exactly these are? Are these recurring, or what can we expect going forward on these 2 fronts, please?

Jose Sergio Gabrielli de Azevedo: Could you pinpoint where the information -- the original information that you get, Chris, please?

There is 1 line item called other adjustments, when you look at the cash flow generation, around BRL2.3b.

Jose Sergio Gabrielli de Azevedo: Let me try to find out what it is. BRL3.8b?

It's round BRL2.-- (inaudible; over speaking). It's actually -- The one that I was looking at BRL2.3 billion but if it's easier I can -- If it's easier if you can't find it, I can send an e-mail then.

Jose Sergio Gabrielli de Azevedo: Yes, what I have here is BRL3.8 billion for this other adjustment on this cash flow. These -- Well, the main reason is the (inaudible) of accounts receivable, that's the main reason for this negative thing. BRL2.390 billion other adjustments, right?

Correct.

Jose Sergio Gabrielli de Azevedo: Yes. This is -- Well, this is during the Third Quarter, this BRL3.840 billion is accumulated from January to September. Okay. BRL3.840 billion during January, September. Is this the number that you want?

Right. I was talking about the one just for the quarter, correct.

Jose Sergio Gabrielli de Azevedo: Okay. That's for the 9 month period. We have an impact of the -- The residual value of the assets of we have, this BRL1.2b. We have in the region of (inaudible; line interference). That is made up of the impact of the income tax and the contributions, BRL1.7b, and a variation other assets and liabilities of BRL1.07b. There's nothing special really in these numbers. They're very traditional type of numbers.

Okay. Thanks.

Operator

Thank you. Our next question is coming from Pedro Batista of Banco Pactual. Please go ahead.

Q - Pedro Batista {BIO 1832281 <GO>}

Hi. Have a question regarding the Albacora[ph] plant. That's (inaudible) actually (inaudible) with Petrobras regarding the gas supply to Albacora plant. I would like to get some up-to-date on negotiations on this debt. And also there are rumors regarding the selling of El Paso and a stake in this and the plants[ph]. I would like to know if Petrobras has any sign of looking at that with also to an acquisition there? Thank you.

Jose Sergio Gabrielli de Azevedo: You mentioned Albacora (inaudible)?

Albacora plant, yes, (with regards to your plans).

Jose Sergio Gabrielli de Azevedo: Yes. Let me (ask you) to really somebody from energy. Is there here somebody from Energy Department?

Q - Unidentified Speaker

Yes, it's Marco[ph] here. Can Pedro repeat his question more clearly? What does he exactly want to know; if the negotiation is going on?

Q - Pedro Batista {BIO 1832281 <GO>}

Yes, sure. Actually Copell[ph] has a debt of approximately BRL400 million with Petrobras regarding the gas supply. As far as I know, the company has not yet the gas supply to Petrobras. So would like to know on the negotiations, can you tell us up-to-date on the negotiations for this payment? And also I'd like to know if Petrobras is also looking on El Paso stake in the plant, to maybe acquire this stake?

Q - Unidentified Speaker

Okay, it's Marco again. I can answer both of them. The first, Petrobras is renegotiation with that at Albacora terminate[ph] plant. It's not expected to finish by this month or the other, so probably not 2004. But we are discussing that with the people in power plants, and also with (inaudible).

Regarding El Paso, Petrobras is considering to get a share of El Paso but all these things are only starting first step negotiations. So I cannot divulge any further information to you but it's definite, it's being considered.

Q - Pedro Batista {BIO 1832281 <GO>}

Okay. Thank you.

Operator

Thank you. (Operator Instructions) Our next question is coming from the Internet. Please go ahead Mr. Campos.

A - Raoul Campos

Okay, yes. I have a question here from (Natalia Corefield, Monteo) from Dresden. And the question is, after a platform reaches peak which is the decline rate? For how long can a platform keep its peak production?

Jose Sergio Gabrielli de Azevedo: Well, the decline rate depends very much on the type of production that we have, the type of fuel that we are producing. However, on the average we can say that our decline rate is between 85 and 10%, as an average.

Operator, back to you.

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Operator

Thank you. Our next question is coming from (Sam Buge) of Santander. Please go ahead.

Q - Sam Buge

Hi there. My question is related to the international side. I wonder if there are (40 steps) to be taken in the -- in organizing the international front? And if this council decision in Argentina could also help speeding up the development in Block 31 in Ecuador?

Jose Sergio Gabrielli de Azevedo: In Ecuador we are trying to -- we have Block 31, we have Block 18, and we have also P-3[ph] which is an oil (type of plant) And in Ecuador we are trying to solve all the 3 questions at the same time. We are trying to solve the difference in production side and the OCP ship-or-pay contract that we have. Right now we don't have a clear solution for this loss that we have in our ship-or-pay. But we think that we can find solution soon.

My understanding was that Petra[ph] was looking for a partner. And I wonder with this consolidation in Argentina, Petrobras might be also partner with Petra in this new development.

Jose Sergio Gabrielli de Azevedo: Petra is trying to get a partner and continues to look for a partner in Argentina. We continue to look for a partner in Ecuador. The future in Argentina has nothing to do directly with what's happening in Ecuador. There's very (inaudible) fusion of assets in Argentina.

Okay. Thank you.

Operator

Thank you. Our next question is coming from Frank McGann of Merrill Lynch. Please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Yes, thanks. Just in terms of volume growth for refined products. Obviously that was one of the key highlights of the quarter; very, very strong growth. I was just wondering, was there anything that made that larger than it otherwise would have been? Any other factors that drove that, other than just your normal demand response to the economy, and anything would keep that from being relatively strong going forward?

Jose Sergio Gabrielli de Azevedo: Well, as I mentioned before, we have a seasonality of this band of gasoline and diesel to the end of the year, that can change this trend of the growth. We have some operations that we had to make at the end of September because on the October 4 we start the SAP. That's software in our system that we have to anticipate some of our sales in September.

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We announced this practically[ph] four days before the month we stop our sales. And also, I would just say, that for us now everything seems that this is going to continue to grow. However, we have this seasonality in the demand for gasoline and diesel that we cannot forecast.

Okay. So basically you moved -- Some volumes were moved into September that might otherwise have been in October. Is it possible to estimate how much that was, or is it just 2 or three days worth that we can assume?

Jose Sergio Gabrielli de Azevedo: Yes, four days of sales.

Okay. Thanks.

Operator

Thank you. Our next question is coming from (Sergio Thomashero) of BVE[ph].. Please go ahead.

Q - Sergio Thomashero

Hi everyone. My first question. Could you just give an update on this long-term oil production, crude oil domestic[ph] production, basically for P-45, P-52, P-53, P-51, and SPSO? All (inaudible) for 2006 and 2008. And the second question is related to the drop; 90% drop in international sales. In Second Quarter was BRL460,000 and it dropped to BRL417,000 in Third Quarter. I just would like to know what happened.

And third question relates to this auction of this old electricity. Basically you made out the provisions for this sales of the last thermal plants in 2002 and 2003. Before you had really very low costs, you can sell if you want all this electricity, thermal electricity, at a low price in this auction of all the electricity. Therefore, I would like to know if you're going to participate in this auction of all the electricity?

Jose Sergio Gabrielli de Azevedo: On the production we have a reclassification of our operations, from the international segment to the supply segment in this Third Quarter of '04. That explains part of the reduction in production in the international segment.

On the profile for growth for production, I'm going to ask for the help of (Marcoza Sanrero). Marcoza, are you happy there?

A - Marcoza Sanrero

Okay. The schedule is in 2005, as mentioned before, we are forecasting the first oil for P-48, P-50 and P-34. For 2006, we are going to have growth field[ph] like oil is (inaudible), 100,000 barrels of oil per main plant. RGS-6409 in the ring fence of (inaudible), it's 7,132, very close to (inaudible) field. And in the first gas[ph] in (inaudible) in north-east of Brazil.

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For 2007 we are forecasting the first oil for B-52 in Roncador[ph] field, is the complement of model 1 of Roncador. B-54 is Roncador as well but it is model 2. Marlim Mad[ph] B-53 by end of the year we are discovering the first oil. (inaudible) Marlim Sul 3A is a complement, or is an anticipation of model 3 of the Marlim Sul. And the first oil of Fradji[ph] operating by (inaudible). And B-51 we are scheduling the first year oil for 2008.

And the complement of the Albacora development, the (inaudible). So we are forecasting to increase the current production from 1.5, the level today, to 2.3 by 2010, and we are forecasting to anticipate this level of production to 2008. So this is the future for the next years.

Q - Sergio Thomashero

And how about the thermal plants of this (inaudible) and this auction of all the electricity. Is Petrobras willing to participate or not?

Jose Sergio Gabrielli de Azevedo: Yes, we are willing to participate. We don't have a clear idea of all the regulatory conditions right now but we are willing to participate. But Stevros[ph] is in Rio. Can you talk about this Stevros?

Q - Unidentified Speaker

Again, it's Marco from Rio headquarters. What I can tell you is that we are consider to participate in all these auctions, including the ones for electricity, called the hydroelectric power. It mean that also by new (inaudible) we are just creating right now, that we are considering the best state that we should enter, be interested in, in order to mitigate our risk in risk exposure for power generation.

Be this parts of entering for all the electricity together with the new (inaudible) power plant.

Q - Sergio Thomashero

And what would be the minimum price for a year's license[ph] as you already made out of provisions for this license[ph]?

Q - Unidentified Speaker

No, we haven't we are still studying that and I would very much not want to make any number on that. But we are still studying, evaluating price and the risk exposure.

Q - Sergio Thomashero

Okay. Thank you.

Operator

Thank you. Our next question is an Internet question. Mr. Campos please go ahead.
Thank you. Our next question is coming from Mark McCarthy of Bear Stearns. Please go

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ahead.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Hello, do you have the other question? Okay. Listen, I'm just following up on a topic that I spoke about on the Second Quarter, inventories. I've asked 1 question already. I don't know if Alepia's[ph] on the call but to talk about the 9 -- what is an apparent 9 million barrel billed, which is the same amount that was built according to the amount of throughput that you had, relative to the amount of production and net imports of oil.

It suggests that you built inventories by another 9 million barrels. The cash flow statement would confirm this as well, as you had a \$400 million build in inventories from a working capital perspective. And my general question is, what can we anticipate in the Fourth Quarter and the First Quarter, in terms of the reversal of this? Especially in light of the fact that you expect lower seasonal demand and higher production?

Jose Sergio Gabrielli de Azevedo: Mark, we had also really an increase in our inventories in this Third Quarter of '04. But the problem was that we have a very much larger increase in the demand for diesel than we expected and (inaudible; over speaking)

Right, which is explained by your big product import?

Jose Sergio Gabrielli de Azevedo: Yes. We import more diesel also. We import -- We increase our import of diesel in the Third Quarter of '04.

No, I understand that. Just to keep things simple, what I'd like to do is suggest your throughput was basically flat for the quarter? So what I'm trying to understand here is why imports were so much in excess of what you consumed of oil for the Second Quarter in a row?

Jose Sergio Gabrielli de Azevedo: We -- who is there from the supply plant[ph] in Rio? (inaudible) are you there? Okay.

Q - Unidentified Speaker

We are increase our utilization of our refineries. We are using more of our role model that we are increase our production, that we are importing more light oil. However, the market was increasing much higher, at a much higher rate than we expected. At such a rate that we had to import diesel to sell to the market. That's the reason we are -- what we have, this increase in inventories that was the end of the Third Quarter. That's the projection that we had for October.

Q - Mark Mccarthy {BIO 5634411 <GO>}

Okay. So my question is, in the Fourth Quarter and the First Quarter --

Jose Sergio Gabrielli de Azevedo: The Fourth Quarter what we can expect, I would say, is that if the traditional behavior of the Fourth Quarter in the market for diesel and gasoline

is the same; which is, as I say, seasonality that reduce the demand. Then we are going to see that the inventories should not increase very much because we cannot change[ph] our imports in the third and Fourth Quarter.

Okay. I suppose I'll come back to this off-line. Thanks very much.

Jose Sergio Gabrielli de Azevedo: Okay, Mark

Operator

Thank you. (Operator Instructions) Mr. Campos, please go ahead.

A - Raoul Campos

Okay, now my microphone's turned on, thank you, excuse me. I have a question from Mr. Alex Munroy, Bear Stearns, and I will quote the questions in 3 parts. Quote, clearly your refining segment is suffering due to its inability to pass through costs. Do you have, a, sense of sensitive product price increases, which we might be able to expect in the near future?

And, b, given your recent light crude finds in Reconcavo[ph] (inaudible), could it be reasonable to expect that you could be begin to be self-sufficient in crude by the start of 2007? And, c, quarterly CapEX still seems to be trailing, as your Brazilian GAAP result suggests, that you would have to spend over BRL3 billion in order to achieve the BR7.6b. average yearly CapEX, as per your strategic plan. How much CapEX should we expect for Fourth Quarter?

Jose Sergio Gabrielli de Azevedo: Well, for the first question, I will answer the same way that we are always talking about. The price that we are facing, we have to follow what's happening in international markets, and then that's the reason that we are going to decide prices. It's not to reduce -- to increase the margin in the supply side only. We have to increase the margin on the supply side but we have to look at the market as a whole.

We have to consider the demand side, if we think it will decline or not. We have to consider the international price. We have to consider several variables to take the decision. In relation to the (inaudible) and we represent the last year's as one finally but we also have, the last few years, (inaudible) of light oil in this business sector. We are anticipating production from these business center areas.

And also we are going to develop the production from the (inaudible). I will not say that we are going to -- that we have a target to be self-sufficient in light oil. Because always we have to make with some light oil, to get the best output from our refineries in relation to the investment that we have for the increase the complexity of our refineries.

We have to combine, to have a right balance with a better economical results for combining costs of importing oil, of investing in EDPs[ph], and also increasing our production from our refineries. In relation to the CapEX, I would like to mention 3 things.

First, in our history, in the historical days of Petrobras always increase investment CapEX in the Fourth Quarter for the year.

Second, our calculation were made with an exchange rate that is not the exchange rate that we have right now. Which means that to keep the same level of CapEX in dollars would change the investment that we have in reals. And we have to adjust the balance between reals and dollars in our CapEX, to see if really we need to define how much we expect from the Fourth Quarter.

Operator

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

Jose Sergio Gabrielli de Azevedo: Okay. Thank you, very much for all of you. I would like to summarize the results, saying that Petrobras has had a very good result compared with the Second Quarter of '04. It's also good to remember that in '03 we have one of the largest, greatest increasing profits compared to a lot of other oil companies. And in the Third Quarter, compared to the Second Quarter, we have an increase in 43% of our net profits.

And we have a very bright prospect for the near future that we are going to increase production, and we hope that we are going to increase also profits. Thank you.

A - Raoul Campos

Ladies and gentlemen. we will be making today's conference available for replay starting 1 hour from now. You may access at IR website or this replay by dialing 1-973-341-3080, code 5316328 until November 23, 2004. This concludes Petrobras conference now disconnect.

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