

BRAZILIAN PETROLEUM CORP
Form 6-K
August 15, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934

For the month of August, 2007

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS
(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS
(Translation of Registrant's name into English)

Avenida República do Chile, 65
20031-912 - Rio de Janeiro, RJ
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

PETROBRAS ANNOUNCES RESULTS FOR THE SECOND QUARTER OF 2007

(Rio de Janeiro August 13 2007) PETRÓLEO BRASILEIRO S.A. Petrobras today announced its consolidated results stated in Brazilian Reais, in accordance with generally accepted accounting practices in Brazil (BR GAAP).

Petrobras reported a consolidated net income of R\$ 6.800 million in the second quarter of 2007, an increase of 65% over the first quarter of 2007. The Company's market capitalization stood at R\$ 244.659 million on June 30, 2007. Petrobras System invested R\$ 19.795 million during the first half of 2007, 45% above the Company's expenditures during the same period for 2006, of which R\$ 9.092 million was invested to expand future oil and gas production in Brazil to meet production targets. Adjusted EBITDA amounted to R\$ 25.183 million, ensuring sufficient resources to fund the Company's investments.

- Petrobras posted net income of R\$ 6.800 million in the second quarter of 2007, reflecting an improved operating performance in comparison with the previous quarter. Compared to the second quarter of 2006, net income declined 2%, as a result of the decline in international oil prices and the impact of the appreciation of the Real in 2007. These effects were partially offset by higher sales volume and the fiscal benefit from the provisioning of interest on own capital (R\$ 746 million).
- Domestic oil and NGL production averaged 1,789 thousand barrels per day in the second quarter of 2007, 2% higher than the second quarter of 2006. Approximately 83% of Brazilian oil production came from the Campos Basin (1,482 thousand barrels/day), led by incremental output from new production units P-50 (Albacora Leste), FPSO-Capixaba (Golfinho), P-34 (Jubarte) and FPSO-Cidade do Rio de Janeiro (Espadarte), which offset the natural decline in output from mature fields.
- The consolidated net debt of Petrobras amounted to R\$ 21.966 million on June 30, 2007, 8% lower than the R\$ 23.955 million reported three months earlier, as a result of free cash flow generated during the period (R\$ 2.948 million), and in spite of the substantial increase in investments and the payment of dividends, as well as the impact of the appreciation of the Real on the gross debt.
- Value added by the Petrobras System totaled R\$ 59.194 million, R\$ 34.195 million of which went to government participations and federal, state, and municipal taxes; R\$ 6.794 million to suppliers and financial institutions for financial charges, rent and charters; R\$ 11.840 million to shareholders; and R\$ 6.365 million to salaries, bonuses and benefits.

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PETROBRAS SYSTEM

Statement by the CEO, José Sergio Gabrielli de Azevedo

Petrobras was faced with a series of new challenges in the second quarter of 2007, but again demonstrated its capacity to overcome such challenges, achieving excellent results. The company posted quarterly net income of R\$ 6.800 million and generated net operating revenues of R\$ 41.798 million, 10% higher than revenues from the same period in 2006

First-half capital expenditures and investments totaled R\$ 19.795 million, a 45% increase compared to the same period a year ago. These investments are consistent with our 2007-11 Business Plan and will allow us to expand our future oil and gas production capacity both in Brazil and abroad. It is also worth noting that first-half operating cash flow as measured by EBITDA totaled R\$ 25.183 million, fully generating the resources needed to fund our investments.

Brazilian oil production averaged 1,795 thousand bpd in the first half, 2% higher than in the same period of 2006. In the second quarter, average production was 1,789 thousand bpd, slightly less than in the previous three months due to operational issues that are now resolved.

In pursuit of our production targets and to maintain our high growth profile, we launched the P-52 platform in June. P-52 will eventually produce up to 180 thousand bpd, following the commencement of operations in the Roncador field this September. We will be inaugurating a further three platforms by the end of the year, all of which will play a vital part in the future growth of our Company: Piranema, with a capacity of 30 thousand bpd, Cidade de Vitória in the Golfinho field with a capacity of 100 thousand bpd, and P-54 in the Roncador field with a capacity of 180 thousand bpd.

We also made some important discoveries along the Brazilian coast which point to an even more promising future. We encountered deepwater saturated light oil reserves of approximately 29° API in the pre-salt layer of the Pirambu field, part of the Campos Basin, and gas-saturated sand deposits in the Espírito Santo Basin, which may increase recoverable volumes in this area.

We continued to expend considerable effort on resolving the problems in Bolivia and ensuring natural gas supplies for Brazil. Towards this end, we completed the transfer of all Petrobras Bolívia Refinación S.A. shares to YPF, in exchange for US\$ 112 million. At the same time, we took an important step towards entering the LNG market. In April, we approved a contract with Golar LNG Ltd. to charter two Floating Storage and Regasification Units to be used in the LNG terminals under construction in the southeast and northeast of Brazil. The two vessels will have a joint regasification capacity of up to 21 million m³/day. Our LNG Project is the most appropriate technical and economic solution for ensuring flexible gas supplies for thermal power plants, while diversifying Brazil's sources of natural gas.

On the international front, we formed important agreements that opened up new exploration horizons for the Company and expanded our presence in promising deepwater areas abroad. For the first time, we signed an exploration and production agreement for four blocks in the Lusitaniana Basin off the Portuguese coast, with a depth of up to 3,000 meters, which Petrobras will operate with a 50% share. We also entered into an agreement with ONGC, India's largest oil and gas company, involving cooperation in various oil industry activities, including the operation of 6 deepwater blocks, 3 in Brazil and 3 in India.

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On the stock market, our shares recovered from their first-quarter losses and appreciated substantially both in Brazil (Bovespa) and abroad (NYSE). The Company's market cap closed the quarter at R\$ 244.659 million, an increase of 21% from a year ago. We also split the ratio of our local shares to our American Depositary Receipts (ADRs), from four underlying shares per ADR, to two. The measure is intended to make our ADRs more accessible for individual investors on the New York Stock Exchange, thereby expanding our shareholder base.

I would also like to mention the recent agreement to acquire 100% of Suzano Petroquímica S.A. This transaction, as with our joint acquisition of the Ipiranga Group in the first quarter, is in line with the Company's strategic plan of investing selectively in Brazilian and Southern Cone petrochemical projects that will add value to our oil, gas and refining activities. The acquisition will both enhance our petrochemical holdings and help consolidate the Southeast Petrochemical Complex.

Finally, I would like to emphasize the fact that Petrobras, in addition to its excellent financial and operating performance, is recognized by the market for its unwavering commitment to excellence in corporate governance, and regulated by its respect for the environment, the society, and business ethics. This was underscored in June, when the American publication *Investor Relations Magazine* recognized Petrobras as having the Best Investor Relations Program for Individual Investors. This award, in addition to recognizing our efforts to provide individual investors with the best possible service, also reflects our total commitment to a transparent relationship with all our shareholders and the public, backed by a corporate governance that fully supports our activities and is consistent with our dedication to social responsibility.

PETROBRAS SYSTEM

Financial Performance

Net Income and Consolidated Economic Indicators

Petrobras posted a consolidated first-half net income of R\$ 10.931 million, 20% lower than the first half of 2006.

| R\$ million | | | | | | | | | |
|-------------|-------------|---------|-----|-----|------------|---------|-----|------|--|
| | 2nd Quarter | | | | First Half | | | | |
| 1Q-2007 | 2007 | 2006 | Δ % | | 2007 | 2006 | Δ % | | |
| 50.127 | 53.633 | 49.633 | | 8 | 103.760 | 96.401 | | 8 | |
| 38.894 | 41.798 | 37.948 | | 10 | 80.692 | 73.834 | | 9 | |
| 8.582 | 11.535 | 11.267 | | 2 | 20.117 | 23.277 | | (14) | |
| (950) | (1.056) | (141) | | 649 | (2.006) | (585) | | 243 | |
| 4.131 | 6.800 | 6.959 | | (2) | 10.931 | 13.634 | | (20) | |
| 0,94 | 1,55 | 1,59 | | (2) | 2,49 | 3,11 | | (20) | |
| 215.666 | 244.659 | 202.635 | | 21 | 244.659 | 202.635 | | 21 | |
| 39 | 41 | 44 | | (3) | 40 | 44 | | (4) | |
| 22 | 28 | 30 | | (2) | 25 | 32 | | (7) | |
| 11 | 16 | 18 | | (2) | 14 | 18 | | (4) | |
| 10.993 | 14.190 | 13.614 | | 4 | 25.183 | 27.727 | | (9) | |

Financial and Economic Indicators

| | | | | | | | | | |
|--------|--------|--------|--|------|--------|--------|--|------|--|
| 57,75 | 68,76 | 69,62 | | (1) | 63,26 | 65,69 | | (4) | |
| 2,1082 | 1,9831 | 2,1840 | | (9) | 2,0453 | 2,1892 | | (7) | |
| 2,0504 | 1,9262 | 2,1643 | | (11) | 1,9262 | 2,1643 | | (11) | |

- (1) Operating income before financial result, equity balance and taxes.
(2) Operating income before financial result, equity balance and depreciation/amortization.

| R\$ million | | | | | | | | | |
|-------------|-------------|--------|-----|-------|------------|--------|-----|------|--|
| | 2nd Quarter | | | | First Half | | | | |
| 1Q-2007 | 2007 | 2006 | Δ % | | 2007 | 2006 | Δ % | | |
| 7.548 | 10.376 | 11.243 | | (8) | 17.924 | 22.383 | | (20) | |
| 950 | 1.056 | 141 | | 649 | 2.006 | 585 | | 243 | |
| 84 | 103 | (117) | | (188) | 187 | 309 | | (39) | |
| 8.582 | 11.535 | 11.267 | | 2 | 20.117 | 23.277 | | (14) | |
| 2.411 | 2.655 | 2.347 | | 13 | 5.066 | 4.450 | | 14 | |

| | | | | | | | |
|---------------|---------------|---------------|----------|---------------|---------------|---------------|------------|
| 10.993 | 14.190 | 13.614 | 4 | EBITDA | 25.183 | 27.727 | (9) |
|---------------|---------------|---------------|----------|---------------|---------------|---------------|------------|

| | | | | | | | |
|-----------|-----------|-----------|------------|--------------------------|-----------|-----------|-------------|
| 28 | 34 | 36 | (6) | EBITDA Margin (%) | 31 | 38 | (18) |
|-----------|-----------|-----------|------------|--------------------------|-----------|-----------|-------------|

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PETROBRAS SYSTEM

Financial Performance

The year-on-year reduction in the first half of 2007 consolidated net income reflected the impact of the appreciation of the Real on export prices and monetary items, as well as the factors listed below:

- A R\$ 255 million reduction in gross profit:

| Main Items | R\$ million | | |
|-----------------------------------------------------------------|--------------|--------------------|--------------|
| | Net Revenues | Cost of Goods Sold | Gross Profit |
| . Domestic Market: - Effect of Volumes Sold | 1.154 | (574) | 580 |
| - Effect of Prices | (150) | - | (150) |
| . Intl. Market: - Effect of Export Volumes | 2.795 | (1.293) | 1.502 |
| - Effect of Export Price | (1.587) | - | (1.587) |
| . Decrease in expenses: (*) | - | (586) | (586) |
| . Increase / Decrease in Profitability of Distribution Segment | 26 | 131 | 157 |
| . Increase / Decrease in operations of commercialization abroad | 1.354 | (1.285) | 69 |
| . Increase / Decrease in international sales | 4.324 | (4.310) | 14 |
| . FX effect on controlled companies abroad | (860) | 633 | (227) |
| . Other | (199) | 172 | (27) |
| | 6.857 | (7.112) | (255) |

| (*) Expenses Composition: | Value |
|--------------------------------------------------|---------|
| - domestic Government Take | 1.150 |
| - third-party services | 165 |
| - import of crude oil and oil products and gas** | 22 |
| - transportation: maritime and pipelines *** | (167) |
| - non-oil products, including alcohol | (183) |
| - salaries, benefits and charges | (359) |
| - materials, services and depreciation | (1.214) |
| | (586) |

** CIF Values.

*** Expenditures with cables, terminals and pipelines.

PETROBRAS SYSTEM

Financial Performance

An increase in the following expenses:

Selling expenses (R\$ 163 million), due to the increased volume of exports (R\$ 120 million) and off-shore operations (R\$ 70 million), offset by the reduction in distribution expenditures (R\$ 24 million);

General and administrative expenses (R\$ 592 million) from personnel in Brazil (R\$ 176 million) and abroad (R\$ 26 million), greater expenditure on third-party services (R\$ 175 million), especially IT and consulting support services, and new companies in the international segment (R\$ 25 million);

Exploration costs (R\$ 358 million), notably those incurred abroad (R\$ 294 million);

Other operating expenses (R\$ 1.806 million), especially from the expenses related to amending the Petros Plan (R\$ 1.050 million); increased provisions for judicial contingencies (R\$ 125 million); expenditure on safety, health and the environment (R\$ 87 million); and the new jobs and salaries plan (R\$ 123 million). In 2006; these expenses were reduced by the bonus received from partnerships (R\$ 57 million).

A negative impact of R\$ 1.421 million on the net financial result, due to:

Losses from monetary and exchange variations (R\$ 1.763 million), reflecting the impact of the increased appreciation of the Real in the 1H-2007 and the non-recurring exchange regularization (R\$ 321 million) in the same period of 2006;

Part of this impact was offset by:

Increased financial revenues (R\$ 311 million) generated by a change in the composition of the portfolio of domestic investments through a substantial reduction in future dollar exchange contracts, and an increase in the amount of foreign currency funds held offshore , which led to an impact on the exchange variation in the financial result.

The above effects were offset by:

An improved result from Equity Income (R\$ 122 million), despite the recognition of higher exchange losses from the conversion of foreign subsidiaries shareholders equity;

An improved non-operating result (R\$ 115 million), due to the sale of investments in Bolivia (R\$ 72 million) and Argentina (R\$ 20 million);

The fiscal benefit from the provisioning of interest on equity (R\$ 746 million).

PETROBRAS SYSTEM

Financial Performance

Net income for the second quarter of 2007 totaled R\$ 6.800 million, 65% above the R\$ 4.131 million declared in the first quarter of 2007, due to greater export volumes, higher international oil prices and the fiscal benefit arising from the provisioning of interest on own capital, as well as the factors listed below:

A R\$ 2.107 million increase in gross profit:

Changes 2Q-2007 X 1Q-2007
MAIN INFLUENCES

| Main Items | R\$ million | | |
|-----------------------------------------------------------------|--------------|--------------------|--------------|
| | Net Revenues | Cost of Goods Sold | Gross Profit |
| . Domestic Market: - effect of Volumes Sold | 1.483 | (781) | 702 |
| - effect of Prices | 639 | - | 639 |
| . Intl. Market: - effect of Export Volumes | 321 | (172) | 149 |
| - effect of Export Price | 876 | - | 876 |
| . Increase / Decrease in expenses: (*) | - | (290) | (290) |
| . Increase / Decrease in Profitability of Distribution Segment | (225) | 281 | 56 |
| . Increase / Decrease in operations of commercialization abroad | 238 | (151) | 87 |
| . Increase / Decrease in international sales | 741 | (373) | 368 |
| . FX effect on controlled companies abroad | (687) | 593 | (94) |
| . Others | (482) | 96 | (386) |
| | 2.904 | (797) | 2.107 |

| (*) Expenses Composition: | Value |
|------------------------------------------------|-------|
| - third-party services | 64 |
| - transportation: maritime and pipelines ** | 59 |
| - salaries, benefits and charges | 22 |
| - non-oil products, including alcohol | (31) |
| - domestic Government Take | (58) |
| - materials, services and depreciation | (129) |
| - import of crude oil, gas and oil products*** | (217) |
| | (290) |

** CIF Value.

*** Expenditures with cables, terminals, and pipelines.

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Financial Performance

Reduction in operating expenses (R\$ 846 million), due to:

Lower exploration costs (R\$ 264 million), due to reduced expenditure abroad on seismic data in the second quarter of 2007 (R\$ 286 million);

Other operating expenses (R\$ 632 million), in particular the non-recurring expenses in the first quarter of 2007 from amendments to the Petros Plan (R\$ 1.040 million) and the increase in royalties in Ecuador relative to 2006 (R\$ 50 million). This was partially offset by the increase in provisions for judicial contingencies (R\$ 125 million) and the new jobs and salaries plan (R\$ 123 million), as well as the lower result from hedge operations (R\$ 94 million);

The R\$ 106 million negative impact on the net financial result.

The impact of the fiscal benefit from the provisioning of interest on own capital (R\$ 746 million).

PETROBRAS SYSTEM

Operational Performance

Physical Indicators

| 2nd Quarter | | | | First Half | | | |
|--------------------------------------------------------|--------------|--------------|-----|---------------------------------------|--------------|--------------|------|
| 1Q-2007 | 2007 | 2006 | Δ % | | 2007 | 2006 | Δ % |
| Exploration & Production - Thousand bpd/day | | | | | | | |
| Domestic Production | | | | | | | |
| 1.800 | 1.789 | 1.757 | 2 | Oil and LNG | 1.795 | 1.754 | 2 |
| 274 | 269 | 282 | (5) | Natural Gas ⁽¹⁾ | 271 | 276 | (2) |
| 2.074 | 2.058 | 2.039 | 1 | Total | 2.066 | 2.030 | 2 |
| Consolidated - International Production | | | | | | | |
| 111 | 117 | 121 | (3) | Oil and LNG | 114 | 140 | (19) |
| 103 | 112 | 95 | 18 | Natural Gas ⁽¹⁾ | 107 | 97 | 10 |
| 214 | 229 | 216 | 6 | Total | 221 | 237 | (7) |
| Non Consolidated - Internacional Production | | | | | | | |
| 17 | 16 | 18 | (2) | | 17 | 10 | |
| 231 | 245 | 234 | 5 | Total International Production | 238 | 247 | (4) |
| 2.305 | 2.303 | 2.273 | 1 | Total production | 2.304 | 2.277 | 1 |

(1) Does not include liquified gas and includes re-injected gas

(2) Non consolidated companies in Venezuela.

Refining, Transport and Supply - Thousand bpd

| | | | | | | | |
|--------------|------------------|--------------|------|---------------------------------------------------------|------------------|--------------|-----------|
| 340 | 410 | 354 | 16 | Crude oil imports | 375 | 349 | 7 |
| 97 | 159 | 88 | 81 | Oil products imports | 128 | 102 | 25 |
| 437 | 569 | 442 | 29 | Import of crude oil and oil products | 503 | 451 | 12 |
| 377 | 321 | 267 | 20 | Crude oil exports | 349 | 265 | 32 |
| 247 | 271 | 281 | (4) | Oil products exports | 259 | 275 | (6) |
| 624 | 592 | 548 | 8 | Export of crude oil and oil products ⁽³⁾ | 608 | 540 | 13 |
| 187 | 23 | 106 | (78) | Net exports (imports) crude oil and oil products | 105 | 89 | 18 |
| 146 | 157 | 149 | 5 | Import of gas and others | 151 | 148 | 2 |
| 1 | 3 ⁽³⁾ | 6 | (50) | Other exports | 2 ⁽³⁾ | 4 | (50) |
| 2.041 | 2.048 | 1.900 | 8 | Output of oil products | 2.045 | 1.908 | 7 |
| 1.781 | 1.796 | 1.795 | - | Brazil | 1.789 | 1.803 | (1) |
| 260 | 252 | 105 | 140 | International | 256 | 105 | 144 |

| | | | | | | | |
|--------------|--------------|--------------|-----|-----------------------------------------------|--------------|--------------|-----|
| 2.227 | 2.167 | 2.114 | 3 | Primary Processed Installed Capacity | 2.167 | 2.115 | 2 |
| 1.986 | 1.986 | 1.985 | - | Brazil⁽¹⁾ | 1.986 | 1.986 | - |
| 241 | 181 | 129 | 40 | International | 181 | 129 | 40 |
| | | | | Use of Installed Capacity (%) | | | |
| 90 | 89 | 91 | (2) | Brazil | 89 | 91 | (2) |
| 85 | 86 | 81 | 5 | International | 85 | 81 | 4 |
| | | | | Domestic crude as % of total feedstock | | | |
| 77 | 78 | 80 | (2) | processed | 78 | 80 | (2) |

(3) Volumes of oil and oil products exports include ongoing exports.

(4) As per ownership recognized by the ANP.

Sales Volume - Thousand bpd

| | | | | | | | |
|--------------|--------------|--------------|-----|-----------------------------------|--------------|--------------|-----|
| 1.646 | 1.709 | 1.660 | 3 | Total Oil Products | 1.678 | 1.638 | 2 |
| 53 | 51 | 26 | 96 | Alcohol, Nitrogens and others | 53 | 37 | 43 |
| 226 | 234 | 239 | (2) | Natural Gas | 230 | 236 | (3) |
| 1.925 | 1.994 | 1.925 | 4 | Total domestic market | 1.961 | 1.911 | 3 |
| 625 | 595 | 554 | 7 | Exports | 610 | 544 | 12 |
| 655 | 654 | 459 | 42 | International Sales | 655 | 448 | 46 |
| 1.280 | 1.249 | 1.013 | 23 | Total international market | 1.265 | 992 | 28 |
| 3.205 | 3.243 | 2.938 | 10 | Total | 3.226 | 2.903 | 11 |

PETROBRAS SYSTEM

Operational Performance

Price and Cost Indicators

| 2nd Quarter | | | | First Half | | | |
|------------------------------------------------|--------|--------|-----|---------------------------------------------|--------|--------|-----|
| 1Q-2007 | 2007 | 2006 | Δ % | | 2007 | 2006 | Δ % |
| Average Oil Products Realization Prices | | | | | | | |
| 150,97 | 155,44 | 154,20 | 1 | Domestic Market (R\$/bbl) | 153,27 | 153,69 | (0) |
| Average sales price - US\$ per bbl | | | | | | | |
| | | | | Brazil | | | |
| 47,79 | 57,04 | 58,20 | (2) | Crude Oil (US\$/bbl)⁽⁵⁾ | 52,42 | 55,92 | (6) |
| 32,71 | 36,16 | 15,61 | 132 | Natural Gas (US\$/bbl)⁽⁶⁾ | 34,36 | 15,57 | 121 |
| | | | | International | | | |
| 42,41 | 45,60 | 47,30 | (4) | Crude Oil (US\$/bbl) | 44,03 | 42,43 | 4 |
| 14,48 | 13,96 | 12,33 | 13 | Natural Gas (US\$/bbl) | 14,20 | 11,91 | 19 |

(5) Average of the exports and the internal transfer prices from E&P to Supply.

(6) Internal transfer prices from E&P to Gas & Energy. The increase in the 1Q07 due to new methodology that takes in consideration the international natural gas prices as one of the variables.

Costs - US\$/barrel

| | | | | Lifting cost: | | | |
|-------|-------|-------|-----|-----------------------------------------------------------------------|-------|-------|-----|
| | | | | Brazil | | | |
| 7,20 | 7,33 | 6,12 | 20 | without government participation | 7,27 | 6,22 | 17 |
| 16,24 | 17,95 | 17,54 | 2 | with government participation⁽⁸⁾ | 17,10 | 17,44 | (2) |
| 3,89 | 4,19 | 3,10 | 35 | International | 4,05 | 3,03 | 34 |
| | | | | Refining cost | | | |
| 2,54 | 2,69 | 2,07 | 30 | Brazil⁽⁷⁾ | 2,62 | 1,99 | 32 |
| 2,42 | 3,01 | 1,36 | 121 | International | 2,70 | 1,46 | 85 |
| | | | | Corporate Overhead (US\$ million) Parent Company⁽⁷⁾ | | | |
| 531 | 552 | 531 | 4 | | 1.082 | 850 | 27 |

(7) The company, in order to promote a better indexes adherence to its operating and management models, has reviewed their concepts, recalculating the values of previous periods, as already mentioned on 4Q06 Report.

(8) Lifting cost with government take had its historical series adjusted, retroactive to 2002, due to ANP's (National Petroleum Agency) new interpretation of the deductibility of the expenses with Project Finance in the Marlim field over the accounting of special participations.

Costs - R\$/barrel

Lifting cost

| | | | | | | | |
|-------|-------|-------|-----|----------------------------------------------------|-------|-------|-----|
| | | | | Brazil | | | |
| 15,20 | 14,45 | 13,16 | 10 | without government participation | 14,83 | 13,50 | 10 |
| 34,12 | 35,03 | 38,34 | (9) | with government participation⁽⁸⁾ | 34,58 | 37,68 | (8) |
| | | | | Refining cost | | | |
| 5,36 | 5,31 | 4,55 | 17 | Brazil⁽⁷⁾ | 5,34 | 4,37 | 22 |

Exploration and Production Thousand Barrels/day

Domestic oil and NGL production increased by 2% (41 thousand bpd), over the first half of 2006 due to the operational start-up of the platforms P-50 (Albacora Leste), FPSO-Capixaba (Golfinho) P-34 (Jubarte) and FPSO-Cidade de Rio de Janeiro (Espadarte), which jointly added approximately 200 thousand bpd, offset by the natural decline in production of the mature fields and the occurrence of operational problems.

Second-quarter domestic oil and NGL production remained virtually flat over the first quarter of 2007, declining by 1%.

First-half consolidated international oil production dropped 19% over the first half of 2006 due to the loss of control in the Venezuelan operations caused by the change-over from an operating agreement to a mixed company, in which the Venezuelan government assumed a controlling interest through PDVSA. Consolidated gas production moved up 11% year-on-year, due to the resumption of normal production in the United States, which (1) was adversely affected in 2006 by hurricanes Rita and Katrina; (2) the start-up of production in the Cottonwood field in February 2007.

Consolidated international oil production in the second quarter grew by 5% over the first quarter of 2007 due to higher output from the Cottonwood field (USA) and the return of normal operations in Ecuador following the interruption in production caused by the popular unrest in March 2007. Consolidated gas production moved up 9% quarter-over-quarter, also due to (1) higher production from Cottonwood in the second quarter of 2007, (2) increased demand for Bolivian gas by Argentina and (3) higher supply to the Bolivian domestic market.

Refining, Transportation and Supply Thousand Barrels/day

The volume of processed crude in domestic refineries (primary processing) dipped 1% year-on-year in the first half of 2007, due to scheduled maintenance stoppages in the RPBC, Reduc, Repar and Refap refineries. During the second quarter of 2007, processed volumes fully recovered from the prior decline.

Domestic processed crude in the second quarter of 2007 edged up by 1% over the previous quarter, due to less time lost with maintenance stoppages.

Processed crude in the overseas refineries (primary processing) jumped by 85% year-on-year in the first half of 2007, due to the inclusion of the Pasadena refinery (USA) as of October 2006 and the increase in Argentinean refining capacity, offset by the sale of the Bolivian refineries in the second quarter of 2007.

In relation to the previous quarter, total processed throughput in the overseas refineries dropped by 12% in the second quarter of 2007, due to the sale of the Bolivian refineries in the second quarter.

Costs

Lifting Costs (US\$/barrel)

The first-half unit lifting cost in Brazil, excluding government take, increased by 17% in relation to the first half of 2006. Excluding the impact of the 7% appreciation of the Real, the unit lifting cost climbed by 12% due to higher service and material costs, caused by the upturn in industrial activity and the increase in personnel expenses as a result of wage hikes and the increase in the workforce to operate the new production units, which should decline as production from these units are gradually brought to full capacity.

In comparison with the first quarter of 2007, the second-quarter unit domestic lifting cost excluding government take, climbed by 2%. Excluding the 6% appreciation of the Real during the period on these costs denominated in Reais, the unit lifting cost would have fallen by 3%, due primarily to the lower number of well interventions and a reduction in required corrective maintenance in the Marlim field in the second quarter of 2007.

Including government take, the first half of 2007 lifting cost fell by 2% year-on-year due to the slide in the average Brazilian oil price used as a reference to assess the government take (which is tied to the international price) and the reduction in the tax rate in those fields with a natural decline in production.

The domestic unit lifting cost in the second quarter of 2007 rose by 11% over the first quarter of 2007, due to the increase in government take, linked to higher international oil prices during the period.

The first-half international unit lifting cost increased by 34% in comparison with the first half of 2006, due to (1) higher expenditure with third-party services and materials in Argentina; (2) increased expenditure in the United States following the return to normal operations, (3) partial production stoppage in 2006 due to the hurricanes; (4) the operational start-up of the deepwater Cottonwood field; and (5) higher expenses in Angola from the recovery of

mature wells and installation maintenance.

Compared to the first quarter of 2007, the second-quarter international unit lifting cost increased by 8% due to (1) higher expenditure with third-party services related to well maintenance in Argentina; (2) increased expenditure in the United States due to the upturn in output from the deepwater Cottonwood field; and (3) expenses from equipment repairs. Partially offsetting these increases, expenditure in Angola was lower in the second quarter of 2007.

Refining Costs (US\$/Barrel)

Domestic unit refining costs increased 32% during the first half of 2007 as compared to the first half of 2006, due to increased operating expenses from materials and services, reflecting the investments to adapt the refineries to new product quality demands, and the increase in the number and scope of scheduled stoppages. Excluding the impact of the 6% appreciation of the Real on Real-denominated refining costs, these costs would have climbed by 25%.

In the second quarter of 2007, the domestic unit refining cost increased by 6% over the first quarter of 2007, fully reflecting the impact of the appreciation of the Real on Real-denominated refining costs.

Average unit international refining costs climbed 85% year-on-year in the first half of 2007, due to the inclusion of the Pasadena refinery (USA) as of October 2006.

In quarter-over-quarter terms, average unit international refining costs increased by 24% in the second quarter of 2007 due to the unscheduled maintenance stoppage in the United States in April/07.

Corporate Overhead Parent Company (US\$ million)

In comparison with the first half of 2006, corporate overhead climbed by 27% in 2007, reflecting the growth of the Company's operations. Excluding the impact of the 7% appreciation of the Real, given that all such costs are denominated in Reais, corporate overhead increased 20% year-on-year due to (1) higher expenses from salaries, bonuses and benefits as a result of the collective bargaining agreements and (2) the expansion of the workforce.

In the second quarter, corporate overhead in Reais grew by 4% over the first quarter of 2007, primarily due to higher expenses from personnel, rent and other costs.

Sales Volume Thousand Barrels/day

Domestic sales volume moved up 3% year-on-year in the first half of 2007, led by diesel, LPG, aviation fuel and fuel oil. The upturn in diesel sales reflected the improved agricultural performance resulting from the higher grain harvest. Population growth and higher earnings among the less favored income groups pushed LPG sales. GDP growth and the increase in tourism, supported by the appreciation of the Real against the dollar increased sales of aviation fuel.

Oil and oil product export volume rose by 12%, as a consequence of higher oil production.

International sales volume climbed by 46% due to the increase in trading transactions and the Pasadena refinery's operations, offset by the elimination of operations in Venezuela and the sale of the Bolivian refineries.

Domestic sales volume of oil products moved up 4% year-on-year in the second quarter of 2007, led by diesel due to the seasonal upturn in agricultural activity and industrial output in the second quarter of 2007, and the recovery of activities that make intensive use of agricultural and road-building equipment, which were adversely affected by the exceptionally heavy rainfall in January and February.

Natural gas sales increased 4% over the first quarter of 2007, due to higher consumption by vehicles and industrial activity.

| Result by Business Area R\$ million ⁽¹⁾⁽³⁾ | | | | | | | | |
|--------------------------------------------------------------|----------------|----------------|-----------|-------------------------------------|----------------|----------------|-------|--|
| 2^o Quarter | | | | Jan-Jun | | | | |
| 1Q-2007 | 2007 | 2006 | Δ% | | | | | |
| | | | | 2007 | 2006 | Δ% | | |
| 5.083 | 6.416 | 6.899 | (7) | EXPLORATION & PRODUCTION | 11.499 | 13.673 | (16) | |
| 2.136 | 2.231 | 1.632 | 37 | SUPPLY | 4.367 | 3.632 | 20 | |
| (316) | (215) | (222) | (3) | GAS AND ENERGY | (531) | (300) | 77 | |
| 189 | 215 | 132 | 63 | DISTRIBUTION | 404 | 295 | 37 | |
| (261) | 235 | 255 | (8) | INTERNATIONAL ⁽²⁾ | (26) | 491 | (105) | |
| (2.590) | (1.745) | (1.122) | 56 | CORPORATE | (4.335) | (2.983) | 45 | |
| | | | | ELIMINATIONS AND | | | | |
| (110) | (337) | (615) | (45) | ADJUSTMENTS | (447) | (1.174) | (62) | |
| 4.131 | 6.800 | 6.959 | (2) | CONSOLIDATED NET INCOME | 10.931 | 13.634 | (20) | |

(1) Comments on the results by business area begin on page 17 and their respective financial statements on page 26.

(2) In the international business segment, given that all operations are executed abroad, comparisons between the periods is influenced by foreign exchange variations in dollars or in the currency of those countries in which the companies in question are headquartered. As a result, there may be substantial variations in Reais, primarily arising from and reflecting changes in the exchange rate.

(3) Expenditure related to the training of new Petrobras employees is now allocated in line with the area of each employee and are no longer wholly allocated to corporate administrative expenses. In order to maintain comparability between the periods, we are presenting the previous statements in accordance with the new criteria above.

RESULTS BY BUSINESS AREA

Petrobras is a company that operates in an integrated manner, with the greater part of oil and gas production in the Exploration and Production area being sold or transferred to other Company areas.

The main criteria used to report results per business area are as follows:

- a) Net operating revenues: revenues from sales to external clients, plus intra-Company sales and transfers, using internal transfer prices established between the various areas as a benchmark, with assessment methodologies based on market parameters;
- b) Operating income: net operating revenues, plus the cost of goods and services sold, which are reported per business area considering the internal transfer price and other operating costs for each area, plus the operating expenses effectively incurred by each area;
- c) The entire financial result is allocated to the corporate group;
- d) Assets: refers to the assets as identified by each area. Equity accounts of a financial nature are allocated to the corporate group.

E&P: Net income from Exploration and Production totaled R\$ 11.499 million in the first half of 2007, 16% below net income for the first six months of 2006 (R\$ 13.673 million), due to the following factors:

- R\$ 2.836 million reduction in gross profit, due to the decline in average domestic oil prices, partially offset by the 2% growth in oil and NGL output, the reduction in government take and higher average transfer prices for natural gas;
- Expenses of R\$ 220 million related to financial incentives paid to pension plan participants in exchange for accepting amendments to the plan's regulations.

The spread between the average domestic oil sale/transfer price and the average Brent price widened from US\$ 9.77/bbl in the first half of 2006 to US\$ 10.84/bbl in the first half of 2007.

In comparison with the previous quarter, net income for the second quarter of 2007 increased by 26% due to higher average domestic oil prices, partially offset by a 1% decline in daily oil and NGL output.

The spread between the average domestic oil sale/transfer price and the average Brent price increased from US\$ 9.96/bbl in the first quarter of 2007 to US\$ 11.72/bbl in the second quarter of 2007.

SUPPLY: The Supply segment recorded net income of R\$ 4.367 million in the first half of 2007, 20% above the R\$ 3.632 million registered during the same period in 2006, reflecting a reduction in average oil acquisition and oil product import costs, associated with the 7% appreciation of the Real against the dollar, as well as the lower value of heavy crude oil. These gains were partially offset by:

- Increased oil product import volumes;
- Higher selling and general and administrative expenses, chiefly due to the upturn in sales volume, and increased personnel and third-party service expenses.

In comparison with the previous quarter, second-quarter net income increased by 4% due to (1) the growth in oil product sales volume; (2) the increase in the average realized price for oil product sales; and (3) the sale, in the second quarter of 2007, of inventories acquired at a lower cost.

GAS AND ENERGY: Gas and Energy recorded a first half of 2007 loss of R\$ 531 million (versus a loss of R\$ 300 million in the first half of 2006), generated by an increase in the average domestic natural gas transfer cost and reduced sales volumes. These effects were partially offset by the improvement in the energy sales margin due to the lower electricity acquisition costs.

The second quarter of 2007 result was a net loss of R\$ 215 million (versus a loss of R\$ 316 million in the first quarter of 2007), due to:

- A 5% increase in natural gas sales volume;
- A reduction in thermoelectric plant operating expenses.

These effects were partially offset by narrower electric power sales margins due to the higher acquisition costs.

DISTRIBUTION: The Distribution segment posted a first-half net income of R\$ 404 million, 37% above the R\$ 295 million declared in the first half of 2006, resulting from a 12% increase in sales volume and a reduction in selling expenses.

The segment recorded a 34.1% share of the national fuel distribution market (in line with new criterion which adjusts for volume from ethanol sales) versus 31.4% in the first half of 2006 (32.5% according to the previous criterion).

In the second quarter, net income increased by 14% as compared to the first quarter of 2007 due to higher sales volume and lower selling expenses.

The segment's period share of the fuel distribution market increased from 33.9% in the first quarter of 2007, to 34,2% in the latest quarter.

INTERNATIONAL: The International segment generated a first-half net loss of R\$ 26 million, versus net income of R\$ 491 million in the first half of 2006.

This reversal was primarily due to:

- The R\$ 202 million decrease in gross profit due to the impact of the 11% appreciation of the Real against the US dollar on the financial statement currency conversion process;
- The R\$ 294 million increase in exploration and drilling expenses (including seismic acquisition) in Turkey, Angola, Iran, the United States, Libya and Venezuela.
- The R\$ 153 million increase in general and administrative expenses, due to increased operations by the foreign subsidiaries, corporate acquisitions and the constitution of new firms.

These effects were partially offset by non operational results of R\$ 95 million from the sale of the Bolivian refineries and the Hydronuquen plant of PESA-Argentina.

In the second quarter of 2007, the International segment generated net income of R\$ 235 million, versus a net loss of R\$ 261 million in the first quarter of 2007.

This improvement was caused by:

- i) The wider refinery and sales margins in the United States due to the higher sale prices;
- ii) the improved result in Bolivia as a result of the new E&P contracts in effect as of May 2007 and capital gains from the sale of refineries;
- iii) greater E&P sales volume in the USA, caused by increased output from the Cottonwood field;
- iv) the R\$ 283 million reduction in exploration expenses.

CORPORATE: Corporate activities generated a loss of R\$ 4.335 million in the first half of 2007, versus a loss of R\$ 2.983 million in the first half of 2006, as a result of:

- Expenses of R\$ 642 million from the financial incentive to pension plan participants in exchange for their acceptance of the amended plan;
- The R\$ 1.421 million increase in net financial expenses, as detailed on page 6;

- The R\$ 231 million increase in general and administrative expenses resulting from higher third-party services and personnel expenses, the latter due to the expansion of the workforce in 2006 and the collective bargaining agreement.

These effects were partially offset by the recognition of interest on own capital, which generated a fiscal benefit of R\$ 746 million.

In the second quarter of 2007, corporate activities generated a loss of R\$ 1.745 million, versus a loss of R\$ 2.590 million in the first quarter of 2007, mainly due to:

- The R\$ 563 million reduction in income tax expenses due to the recognition of interest on own capital, which generated a fiscal benefit of R\$ 746 million.
- The first quarter of 2007 realization of expenses from the financial incentive to pension plan participants in exchange for their acceptance of the new regulations (R\$ 632 million);

These effects were partially offset by the R\$ 106 million increase in net financial expenses (see page 8).

Consolidated Debt

| | R\$ million | | |
|------------------------------------------------------------------|--------------------|-------------------|-----------|
| | 06.30.2007 | 03.31.2007 | Δ% |
| Short-term Debt ⁽¹⁾ | 10.720 | 11.879 | (10) |
| Long-term Debt ⁽¹⁾ | 29.100 | 32.539 | (11) |
| Total | 39.820 | 44.418 | (10) |
| Net Debt ⁽²⁾ | 21.966 | 23.955 | (8) |
| Net Debt/(Net Debt + Shareholder's Equity) ⁽¹⁾ | 17% | 19% | (2) |
| Total Net Liabilities ^{(1) (3)} | 195.012 | 189.367 | 3 |
| Capital Structure | | | |
| (third parties net / total liabilities net) | 45% | 46% | (1) |

(1) Includes debt from leasing contracts (R\$ 1.980 million on June 30, 2007 and R\$ 2.259 million on March 31, 2007).

(2) Total debt less cash and cash equivalents

(3) Total liabilities net of cash/financial investments.

The net debt of the Petrobras System amounted to R\$ 21.966 million on June 30, 2007, 8% down from March 31, 2007 (R\$ 23.955 million), primarily due to the positive generation of free cash flow during the period (R\$ 2.948 million), and in spite of the substantial growth of investments and the payment of dividends, as well as the impact of the appreciation of the Real when translating dollar denominated debt into Brazilian Reais.

The level of indebtedness, measured by the net debt/EBITDA ratio, fell from 0.54, on March 31, 2007, to 0.44 on June 30, 2007. The portion of the capital structure represented by third parties was 45%, 1 percentage point down from March 31, 2007.

Consolidated Investments

In compliance with the goals outlined in its strategic plan, Petrobras continues to prioritize investments for the expansion of its oil and natural gas production capacity by investing its own funds or by structuring ventures with strategic partners. On June 30, 2007, total investments during the first six months of 2007 amounted to R\$ 19.795 million, 45% above expenditures during the same period for 2006.

| R\$ million | | | | | |
|-----------------------------------------|---------------|------------|-------------------|------------|--------------|
| | 2007 | | First Half | | |
| | 2007 | % | 2006 | % | % |
| Own Investments | 17.030 | 86 | 12.345 | 91 | 38 |
| Exploration & Production | 9.092 | 46 | 7.195 | 53 | 26 |
| Supply | 2.856 | 14 | 1.538 | 11 | 86 |
| Gas and Energy | 730 | 4 | 1.041 | 8 | (30) |
| International | 3.486 | 18 | 1.889 | 14 | 85 |
| Distribution | 547 | 3 | 333 | 2 | 64 |
| Corporate | 319 | 1 | 349 | 3 | (9) |
| Special Purpose Companies (SPCs) | 2.596 | 13 | 1.156 | 8 | 125 |
| Ventures under Negotiation | 169 | 1 | 142 | 1 | 19 |
| Structured Projects | - | - | 1 | - | - |
| Exploration & Production | - | - | 1 | - | (100) |
| Total Investments | 19.795 | 100 | 13.644 | 100 | 45 |
| | | | | | * |

| R\$ million | | | | | |
|--------------------------|--------------|------------|-------------------|------------|-----------|
| | 2007 | | First Half | | |
| | 2007 | % | 2006 | % | % |
| International | | | | | |
| Exploration & Production | 3.129 | 90 | 1.460 | 77 | 114 |
| Supply | 202 | 6 | 127 | 7 | 59 |
| Gas and Energy | 65 | 2 | 33 | 2 | 97 |
| Distribution | 26 | 1 | 26 | 1 | - |
| Others | 64 | 1 | 243 | 13 | (74) |
| Total Investments | 3.486 | 100 | 1.889 | 100 | 85 |

| R\$ million | | | | | |
|--------------------|-------------|----------|-------------------|----------|----------|
| | 2007 | | First Half | | |
| | 2007 | % | 2006 | % | % |

Projects Developed by SPCs

| | | | | | |
|--------------------------|--------------|------------|--------------|------------|------------|
| Marlim Leste | 847 | 33 | 447 | 39 | 89 |
| PDET Off Shore | 186 | 7 | 37 | 3 | 403 |
| Barracuda and Caratinga | - | - | 40 | 3 | - |
| Malhas | 342 | 13 | 243 | 21 | 41 |
| Gasene | 586 | 23 | 330 | 29 | - |
| EVM | - | - | 32 | 3 | - |
| CDMPI | 206 | 8 | - | - | - |
| Mexilhão | 223 | 8 | - | - | - |
| Amazônia | 206 | 8 | 27 | 2 | 663 |
| Total Investments | 2.596 | 100 | 1.156 | 100 | 125 |

In line with its strategic objectives, Petrobras acts in consortiums with other companies as a concessionaire of oil and natural gas exploration, development and production rights. Currently the Company is a member of 84 consortiums. These ventures will require estimated total investments of approximately US 7,528 million by the end of the current year.

PETROBRAS SYSTEM

Financial Statements

Income Statement Consolidated

| R\$ million | | | | | |
|--------------|--------------|--------------|-------------------------------------------|---------------|---------------|
| 2º Quarter | | | First Half | | |
| 1Q-2007 | 2007 | 2006 | | 2007 | 2006 |
| 50.127 | 53.633 | 49.633 | Gross Operating Revenues | 103.760 | 96.401 |
| (11.233) | (11.835) | (11.685) | Sales Deductions | (23.068) | (22.567) |
| 38.894 | 41.798 | 37.948 | Net Operating Revenues | 80.692 | 73.834 |
| (23.692) | (24.489) | (21.394) | Cost of Goods Sold | (48.181) | (41.068) |
| 15.202 | 17.309 | 16.554 | Gross profit | 32.511 | 32.766 |
| | | | Operating Expenses | | |
| (1.415) | (1.443) | (1.353) | Sales | (2.858) | (2.695) |
| (1.545) | (1.498) | (1.311) | General and Administratives | (3.043) | (2.451) |
| (655) | (391) | (378) | Exploratory Costs | (1.046) | (688) |
| (382) | (428) | (495) | Research & Development | (810) | (737) |
| (299) | (323) | (405) | Taxes | (622) | (645) |
| (453) | (452) | (485) | Pension and Health Plan | (905) | (969) |
| (1.871) | (1.239) | (860) | Others | (3.110) | (1.304) |
| (6.620) | (5.774) | (5.287) | | (12.394) | (9.489) |
| | | | Net Financial Expenses | | |
| 669 | 478 | 602 | Income | 1.147 | 972 |
| (883) | (768) | (734) | Expenses | (1.651) | (1.818) |
| (1.870) | (2.848) | (1.345) | Monetary & FX Correction - Assets | (4.718) | (1.573) |
| 1.134 | 2.082 | 1.336 | Monetary & FX Correction - Liabilities | 3.216 | 1.834 |
| (950) | (1.056) | (141) | | (2.006) | (585) |
| (7.570) | (6.830) | (5.428) | | (14.400) | (10.074) |
| (84) | (103) | 117 | Participation in Equity Income | (187) | (309) |
| 7.548 | 10.376 | 11.243 | Operating Profit | 17.924 | 22.383 |
| 27 | 24 | 29 | Non-operating Income (Expenses) | 51 | (64) |
| (2.968) | (3.168) | (3.865) | Income Tax & Social Contribution | (6.136) | (7.733) |
| (476) | (432) | (448) | Minority Interest | (908) | (952) |
| 4.131 | 6.800 | 6.959 | Net Income | 10.931 | 13.634 |

A portion of the expenses associated with idle thermoelectric plants were allocated to COGS, given that such expenses are linked to energy sales which are in turn tied to the capacity available for sale, independent of the volume effectively generated.

In order to unify the criterion for the allocation of safety, health and environment expenses, we opted to allocate these expenses in their entirety to other operating expenses.

Expenses with Petrobras' new employees formation are now being allocated according to the specific area of each professional. Therefore, it is no longer integrally allocated as administrative expenses of the corporate group.

In order to maintain comparability between the periods, we are presenting the previous statements in accordance with the new criteria above.

Balance Sheet Consolidated

| Assets | R\$ million | |
|----------------------------------------|----------------|----------------|
| | 06.30.2007 | 03.31.2007 |
| Current Assets | 57.592 | 59.665 |
| Cash and Cash Equivalents | 17.854 | 20.463 |
| Accounts Receivable | 12.419 | 14.373 |
| Inventories | 16.965 | 15.065 |
| Taxes Recoverable | 7.730 | 7.160 |
| Others | 2.624 | 2.604 |
| Non-current Assets | 153.293 | 147.906 |
| Long-term Assets | 17.724 | 17.255 |
| Petroleum & Alcohol Account | 793 | 789 |
| Advances to Suppliers | 906 | 651 |
| Marketable Securities | 585 | 538 |
| Deferred Taxes and Social Contribution | 7.359 | 6.952 |
| Advance for Pension Plan Migration | 1.269 | 1.277 |
| Prepaid Expenses | 1.745 | 1.950 |
| Accounts Receivable | 2.086 | 1.830 |
| Deposits - Legal Matters | 1.697 | 1.663 |
| Others | 1.284 | 1.605 |
| Investments | 4.815 | 4.471 |
| Fixed Assets | 123.009 | 118.295 |
| Intangible | 5.489 | 5.628 |
| Deferred | 2.256 | 2.257 |
| Total Assets | 210.885 | 207.571 |

| Liabilities | R\$ million | |
|---------------------------------------|---------------|---------------|
| | 06.30.2007 | 03.31.2007 |
| Current Liabilities | 40.608 | 40.541 |
| Short-term Debt | 10.254 | 11.366 |
| Suppliers | 11.728 | 9.546 |
| Taxes and Social Contribution Payable | 9.089 | 9.533 |
| Project Finance and Joint Ventures | 62 | 62 |
| Pension Fund Obligations | 430 | 314 |
| Dividends | 2.194 | 1.582 |
| Salaries, Benefits and Charges | 1.634 | 1.443 |
| Others | 5.217 | 6.695 |
| Non Current Liabilities | 55.385 | 57.234 |
| Long-term Debt | 27.586 | 30.793 |

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| | | |
|----------------------------------------|----------------|----------------|
| Pension Fund Obligations | 3.442 | 3.358 |
| Health Care Benefits | 9.082 | 8.758 |
| Deferred Taxes and Social Contribution | 9.731 | 9.294 |
| Others | 5.544 | 5.031 |
| Deferred Income | 1.202 | 393 |
| Minority interest | 6.411 | 7.656 |
| Shareholders Equity | 107.279 | 101.747 |
| Capital Stock | 52.644 | 48.264 |
| Reserves | 43.704 | 49.352 |
| Net Income | 10.931 | 4.131 |
| Total Liabilities | 210.885 | 207.571 |

In line with international accounting practices, CVM Resolution No. 488 approved Proclamation NPC 27 of the Institute of Independent Auditors of Brazil (IBRACON), which establishes new standards for the presentation and publication of financial statements. According to this roclamation, assets must be classified as Current and Non-current , the latter further divided into long-term, investments, fixed assets, intangible assets and deferred assets. Liabilities must be classified as Current and Non-current .

Statement of Cash Flow - Consolidated

| R\$ million | | | | | |
|----------------|-----------------|----------------|-------------------------------------------------------|-----------------|-----------------|
| 2nd Quarter | | | First Half | | |
| 1Q-2007 | 2007 | 2006 | | 2007 | 2006 |
| 4.131 | 6.800 | 6.959 | Net Income | 10.931 | 13.634 |
| 3.362 | 6.748 | 3.555 | (+) Adjustments | 10.112 | 7.041 |
| 2.411 | 2.655 | 2.347 | Depreciation & Amortization | 5.066 | 4.450 |
| (676) | (548) | 654 | Charges on Financing and Connected Companies | (1.224) | (424) |
| 476 | 432 | 447 | Minority interest | 908 | 951 |
| 84 | 103 | (118) | Result of Equity Income | 187 | 309 |
| 1.749 | 2.129 | 189 | Foreign Exchange on Fixed Assets | 3.880 | 2.764 |
| 106 | (617) | (174) | Deferred Income Tax and Social Contribution | (511) | 600 |
| 876 | (1.900) | (2.003) | Inventory Variation | (1.024) | (3.710) |
| (1.895) | 2.169 | 77 | Supplier Variation | 274 | 1.367 |
| 548 | 524 | 622 | Pension and Health Plan Variation | 1.072 | 1.226 |
| (317) | 1.801 | 1.514 | Others | 1.484 | (492) |
| 7.493 | 13.548 | 10.514 | (=) Net Cash Generated by Operating Activities | 21.043 | 20.675 |
| (7.951) | (10.600) | (6.641) | (-) Cash used for Cap.Expend. | (18.553) | (12.660) |
| (4.364) | (5.022) | (3.888) | Investment in E&P | (9.386) | (7.771) |
| (1.102) | (2.419) | (915) | Investment in Refining & Transport | (3.521) | (1.642) |
| (704) | 1.717 | (342) | Investment in Gas and Energy | (2.421) | (625) |
| (104) | (53) | (126) | Project Finance | (159) | (264) |
| (1.526) | (1.316) | (1.270) | Investment in International Segment | (2.842) | (1.925) |
| 86 | 65 | 32 | Dividends | 150 | 53 |
| (237) | (138) | (132) | Other investments | (374) | (486) |
| (458) | 2.948 | 3.873 | (=) Free cash flow | 2.490 | 8.015 |
| (6.908) | (5.557) | (4.143) | (-) Cash used in Financing Activities | (12.465) | (8.719) |
| (1.035) | (3.958) | (1.472) | Financing | (4.993) | (1.971) |
| (5.873) | (1.599) | (2.671) | Dividends | (7.472) | (6.748) |
| (7.366) | (2.609) | (270) | (=) Net cash generated in the period | (9.975) | (704) |
| 27.829 | 20.463 | 22.983 | Cash at the Beginning of Period | 27.829 | 23.417 |
| 20.463 | 17.854 | 22.713 | Cash at the End of Period | 17.854 | 22.713 |

Certain figures relating to previous periods have been reclassified to bring them into line with the current financial statements, thereby facilitating comparisons.

Statement of Value Added Consolidated

| | R\$ million | |
|--------------------------------------------------------------|--------------------|---------------|
| | First Half | |
| | 2007 | 2006 |
| Description | | |
| Sales of Products and Services and Non-Operating Revenues* | 104.917 | 96.890 |
| Raw Materials Used | (12.367) | (9.628) |
| Products for Resale | (16.933) | (14.852) |
| Materials, Energy, Services & Other | (12.568) | (7.650) |
| Added Value Generated | 63.049 | 64.760 |
| Depreciation & Amortization | (5.066) | (4.450) |
| Participation in Equity Income, Goodwill & Negative Goodwill | (187) | (308) |
| Financial Result | 1.147 | 1.233 |
| Rent and Royalties | 251 | 274 |
| Total Distributable Added Value | 59.194 | 61.509 |
| Distribution of Added Value | | |
| Personnel | | |
| Salaries, Benefits and Charges | 6.365 | 4.868 |
| | 6.365 | 4.868 |
| Government Entities | | |
| Taxes, Fees and Contributions | 27.088 | 28.355 |
| Government Take | 7.107 | 8.464 |
| | 34.195 | 36.819 |
| Financial Institutions and Suppliers | | |
| Interest, FX Rate and Monetary Changes | 3.154 | 1.819 |
| Rent and Freight Expenses | 3.640 | 3.417 |
| | 6.794 | 5.236 |
| Shareholders | | |
| Minority Interest | 908 | 952 |
| Dividends/Interest on Own Capital | 2.194 | - |
| Retained Earnings | 8.738 | 13.634 |
| | 11.840 | 14.586 |
| Distributed Added Value | 59.194 | 61.509 |

* Net of Provisions for Doubtful Debts.

Consolidated Result by Business Area - 1H-2007

| | R\$ MILLION | | | | | | | |
|----------------------------------------------------------|----------------|----------------|--------------------|----------------|----------------|----------------|-----------------|-----------------|
| | E&P | SUPPLY | GAS & ENERGY | DISTRIB. | INTERN. | CORPOR. | ELIMIN. | TOTAL |
| INCOME STATEMENTS | | | | | | | | |
| Net Operating Revenues | 36.087 | 62.903 | 4.358 | 21.081 | 9.517 | - | (53.254) | 80.692 |
| Intersegments | 33.655 | 16.884 | 1.114 | 384 | 1.217 | - | (53.254) | - |
| Third Parties | 2.432 | 46.019 | 3.244 | 20.697 | 8.300 | - | - | 80.692 |
| Cost of Goods Sold | (16.111) | (53.768) | (3.967) | (19.083) | (7.750) | - | 52.498 | (48.181) |
| Gross Profit | 19.976 | 9.135 | 391 | 1.998 | 1.767 | - | (756) | 32.511 |
| Operating Expenses | (1.896) | (2.580) | (879) | (1.369) | (1.421) | (4.327) | 78 | (12.394) |
| Sales, General & Administrative | (351) | (1.905) | (456) | (1.161) | (731) | (1.376) | 79 | (5.901) |
| Taxes | (15) | (73) | (46) | (91) | (68) | (329) | - | (622) |
| Exploratory Costs | (451) | - | - | - | (595) | - | - | (1.046) |
| Research & Development | (406) | (149) | (85) | (6) | (2) | (162) | - | (810) |
| Health and Pension Plans | - | - | - | - | - | (905) | - | (905) |
| Others | (673) | (453) | (292) | (111) | (25) | (1.555) | (1) | (3.110) |
| Operating Profit (Loss) | 18.080 | 6.555 | (488) | 629 | 346 | (4.327) | (678) | 20.117 |
| Interest Income | - | - | - | - | - | (2.006) | - | (2.006) |
| Equity Income | - | 81 | 23 | (8) | 43 | (326) | - | (187) |
| Non-operating Income | - | - | - | - | - | - | - | - |
| (Expenses) | (25) | (5) | 3 | (5) | 89 | (6) | - | 51 |
| Income (Loss) Before Taxes and Minority Interests | 18.055 | 6.631 | (462) | 616 | 478 | (6.665) | (678) | 17.975 |
| Income Tax & Social Contribution | (6.139) | (2.227) | 165 | (212) | (248) | 2.294 | 231 | (6.136) |
| Minority Interests | (417) | (37) | (234) | - | (256) | 36 | - | (908) |
| Net Income (Loss) | 11.499 | 4.367 | (531) | 404 | (26) | (4.335) | (447) | 10.931 |

Consolidated Result by Business Area - 1H-2006

| | R\$ MILLION | | | | | | | |
|----------------------------------------------------------|----------------|----------------|--------------------|----------------|--------------|----------------|-----------------|----------------|
| | E&P | SUPPLY | GAS & ENERGY | DISTRIB. | INTERN. | CORPOR. | ELIMIN. | TOTAL |
| INCOME STATEMENTS | | | | | | | | |
| Net Operating Revenues | 38.808 | 59.631 | 4.607 | 19.152 | 5.834 | - | (54.198) | 73.834 |
| Intersegments | 35.900 | 15.231 | 1.396 | 324 | 1.347 | - | (54.198) | - |
| Third Parties | 2.908 | 44.400 | 3.211 | 18.828 | 4.487 | - | - | 73.834 |
| Cost of Goods Sold | (15.996) | (52.272) | (3.986) | (17.311) | (3.865) | - | 52.362 | (41.068) |
| Gross Profit | 22.812 | 7.359 | 621 | 1.841 | 1.969 | - | (1.836) | 32.766 |
| Operating Expenses | (1.376) | (1.876) | (753) | (1.388) | (966) | (3.187) | 57 | (9.489) |
| Sales, General & Administrative | (442) | (1.449) | (380) | (1.196) | (578) | (1.145) | 44 | (5.146) |
| Taxes | (28) | (107) | (60) | (84) | (72) | (294) | - | (645) |
| Exploratory Costs | (387) | - | - | - | (301) | - | - | (688) |
| Research & Development | (365) | (137) | (67) | (5) | (2) | (161) | - | (737) |
| Health and Pension Plan | - | - | - | - | - | (969) | - | (969) |
| Others | (154) | (183) | (246) | (103) | (13) | (618) | 13 | (1.304) |
| Operating Profit (Loss) | 21.436 | 5.483 | (132) | 453 | 1.003 | (3.187) | (1.779) | 23.277 |
| Interest Income | - | - | - | - | - | (585) | - | (585) |
| (Expenses) | - | - | - | - | - | (585) | - | (585) |
| Equity Income | - | 49 | 12 | (8) | 48 | (410) | - | (309) |
| Non-operating Income | - | - | - | - | - | - | - | - |
| (Expense) | (117) | (15) | (6) | 6 | (6) | 74 | - | (64) |
| Income (Loss) Before Taxes and Minority Interests | 21.319 | 5.517 | (126) | 451 | 1.045 | (4.108) | (1.779) | 22.319 |
| Income Tax & Social Contribution | (7.248) | (1.859) | 47 | (156) | (323) | 1.201 | 605 | (7.733) |
| Minority Interests | (398) | (26) | (221) | - | (231) | (76) | - | (952) |
| Net Income (Loss) | 13.673 | 3.632 | (300) | 295 | 491 | (2.983) | (1.174) | 13.634 |

A portion of the expenses associated with idle thermoelectric plants were allocated to COGS, given that such expenses are linked to energy sales which are in turn tied to the capacity available for sale, independent of the volume effectively generated.

In order to unify the criterion for the allocation of safety, health and environment expenses, we opted to allocate these expenses in their e