

BRAZILIAN PETROLEUM CORP  
Form 6-K  
June 13, 2007

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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**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 June, 2007**

**Commission File Number 1-15106**

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**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

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**Petróleo Brasileiro S.A. - Petrobras and Subsidiaries**

Consolidated Financial Statements  
March 31, 2007 and 2006  
with Review Report of Independent  
Registered Public Accounting Firm

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**PETRÓLEO BRASILEIRO S.A. - PETROBRAS  
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

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**Review report of independent registered public accounting firm**

To the Board of Directors and Shareholders  
Petróleo Brasileiro S.A. - Petrobras

We have reviewed the accompanying condensed consolidated balance sheet of Petróleo Brasileiro S.A. - Petrobras (and subsidiaries) as of March 31, 2007, the related condensed consolidated statements of income, cash flows and changes in shareholders' equity for the three-month periods ended March 31, 2007 and 2006. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

June 6, 2007

KPMG Auditores Independentes

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES**

## CONSOLIDATED BALANCE SHEETS

March 31, 2007 and December 31, 2006

Expressed in Millions of United States Dollars

|  | March 31,<br>2007 | December 31,<br>2006 |
|--|-------------------|----------------------|
|  | (unaudited)       | (Note 1)             |
| <b>Assets</b>  |                   |                      |
| <b>Current assets</b>  |                   |                      |
| Cash and cash equivalents  | 9,667             | 12,688               |
| Marketable securities  | 382               | 346                  |
| Accounts receivable, net   | 6,498             | 6,311                |
| Inventories (Note 5)   | 6,304             | 6,573                |
| Deferred income taxes  | 540               | 653                  |
| Recoverable taxes  | 2,936             | 2,593                |
| Advances to suppliers  | 1,026             | 948                  |
| Other current assets   | 1,117             | 843                  |
|  | <b>28,470</b>     | <b>30,955</b>        |
| <b>Property, plant and equipment, net</b>                                    | <b>62,829</b>     | <b>58,897</b>        |
| <b>Investments in non-consolidated companies and other investments</b>       | <b>3,241</b>      | <b>3,262</b>         |
| <b>Other assets</b>  |                   |                      |
| Accounts receivable, net   | 918               | 513                  |
| Advances to suppliers  | 941               | 852                  |
| Petroleum and Alcohol account receivable<br>from Federal Government (Note 6) | 385               | 368                  |
| Government securities  | 544               | 479                  |
| Marketable securities  | 160               | 94                   |
| Restricted deposits for legal proceedings and guarantees (Note 13)           | 807               | 816                  |
| Recoverable taxes  | 1,569             | 1,292                |
| Deferred income taxes  | 72                | 61                   |
| Goodwill   | 246               | 243                  |
| Prepaid expenses   | 201               | 244                  |
| Inventories (Note 5)   | 214               | 210                  |
| Other assets   | 577               | 394                  |

|                     |                |        |
|---------------------|----------------|--------|
|                     | <b>6,634</b>   | 5,566  |
| <b>Total assets</b> | <b>101,174</b> | 98,680 |

The accompanying notes are an integral part of these consolidated financial statements.

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|   | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|---------------------------|------------------------------|
| <b>Liabilities and shareholders equity</b>                            | <b>(unaudited)</b>        | <b>(Note 1)</b>              |
| <b>Current liabilities</b>  |                           |                              |
| Trade accounts payable  | 4,713                     | 5,418                        |
| Short-term debt (Note 7)  | 1,347                     | 1,293                        |
| Current portion of long-term debt (Note 7)                            | 1,560                     | 2,106                        |
| Current portion of project financings (Note 9)                        | 2,374                     | 2,182                        |
| Current portion of capital lease obligations (Note 10)                | 218                       | 231                          |
| Accrued interest  | 290                       | 247                          |
| Income taxes payable  | 347                       | 235                          |
| Taxes payable, other than income taxes                                | 3,634                     | 3,122                        |
| Deferred income taxes   | 4                         | 8                            |
| Payroll and related charges   | 1,178                     | 1,192                        |
| Dividends and interest on capital payable                             | 772                       | 3,693                        |
| Contingencies (Note 13)   | 27                        | 25                           |
| Advances from customers   | 1,187                     | 880                          |
| Employees post-retirement benefits obligation Pension (Note 11)       | 169                       | 198                          |
| Other payables and accruals   | 1,113                     | 956                          |
|   | <b>18,933</b>             | <b>21,786</b>                |
| <b>Long-term liabilities</b>  |                           |                              |
| Long-term debt (Note 7)   | 10,467                    | 10,510                       |
| Project financings (Note 9)   | 4,524                     | 4,192                        |
| Capital lease obligations (Note 10)                                   | 746                       | 824                          |
| Employees post-retirement benefits obligation - Pension (Note 11)     | 5,019                     | 4,645                        |
| Employees post-retirement benefits obligation - Health care (Note 11) | 5,824                     | 5,433                        |
| Deferred income taxes   | 3,034                     | 2,916                        |
| Provision for abandonment   | 1,547                     | 1,473                        |
| Contingencies (Note 13)   | 203                       | 208                          |
| Other liabilities   | 549                       | 428                          |
|   | <b>31,913</b>             | <b>30,629</b>                |
| Minority interest   | 2,009                     | 1,966                        |

The accompanying notes are an integral part of these consolidated financial statements.

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|  | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|---------------------------|------------------------------|
| <b>Shareholders equity (Note 12)</b>   | <b>(unaudited)</b>        | <b>(Note 1)</b>              |
| Shares authorized and issued   |                           |                              |
| Preferred share 2007 and 2006 - 1,850,364,698 shares   | <b>7,718</b>              | 7,718                        |
| Common share 2007 and 2006 - 2,536,673,672 shares  | <b>10,959</b>             | 10,959                       |
| Capital reserve  | <b>181</b>                | 174                          |
| Retained earnings  |                           |                              |
| Appropriated   | <b>24,717</b>             | 23,704                       |
| Unappropriated   | <b>11,680</b>             | 10,541                       |
| Accumulated other comprehensive income   |                           |                              |
| Cumulative translation adjustments   | <b>(4,238)</b>            | (6,202)                      |
| Post-retirement benefit reserves adjustments, net of tax (US\$1,102 and US\$1,058 for March 31, 2007 and December 31, 2006, respectively) - pension cost (Note 11) | <b>(2,139)</b>            | (2,052)                      |
| Post-retirement benefit reserves adjustments, net of tax (US\$530 and US\$508 for March 31, 2007 and December 31, 2006, respectively) - health care cost (Note 11) | <b>(1,029)</b>            | (987)                        |
| Unrealized gains on available for sale securities, net of tax (US\$13 and US\$47 for March 31, 2007 and December 31, 2006, respectively)                           | <b>472</b>                | 446                          |
| Unrecognized loss on cash flow hedge, net of tax   | <b>(2)</b>                | (2)                          |
|  | <b>48,319</b>             | 44,299                       |
| <b>Total liabilities and shareholders equity</b>   | <b>101,174</b>            | 98,680                       |

The accompanying notes are an integral part of these consolidated financial statements.



**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF INCOME

March 31, 2007 and 2006

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

*(Unaudited)*

|   | <b>Three-month period ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                                   | <b>2006</b> |
| <b>Sales of products and services</b>   | <b>23,700</b>                                 | 21,225      |
| Less:   |   |             |
| Value-added and other taxes on sales and services                                   | <b>(4,427)</b>                                | (4,173)     |
| Contribution of intervention in the economic domain charge - CIDE                   | <b>(873)</b>                                  | (838)       |
| <b>Net operating revenues</b>   | <b>18,400</b>                                 | 16,214      |
| Cost of sales   | <b>10,455</b>                                 | 8,112       |
| Depreciation, depletion and amortization  | <b>1,157</b>                                  | 816         |
| Exploration, including exploratory dry holes  | <b>302</b>                                    | 138         |
| Selling, general and administrative expenses  | <b>1,358</b>                                  | 1,137       |
| Research and development expenses   | <b>180</b>                                    | 113         |
| Other operating expenses  | <b>733</b>                                    | 81          |
| <b>Total costs and expenses</b>   | <b>14,185</b>                                 | 10,397      |
| Equity in results of non-consolidated companies                                     | <b>29</b>                                     | 10          |
| Financial income (Note 8)   | <b>306</b>                                    | (192)       |
| Financial expenses (Note 8)   | <b>(106)</b>                                  | (231)       |
| Monetary and exchange variation on monetary assets and liabilities, net<br>(Note 8) | <b>(337)</b>                                  | 112         |
| Employee benefit expense for non-active participants                                | <b>(226)</b>                                  | (253)       |
| Other taxes   | <b>(142)</b>                                  | (108)       |
| Other expenses, net   | <b>15</b>                                     | (41)        |
|   | <b>(461)</b>                                  | (703)       |

|   |              |       |
|---|--------------|-------|
| <b>Income before income taxes and minority interest</b> | <b>3,754</b> | 5,114 |
|---|--------------|-------|

The accompanying notes are an integral part of these consolidated financial statements.

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|   | <b>Three-month period ended<br/>March 31,</b> |               |
|---|---|---------------|
|   | <b>2007</b>                                   | <b>2006</b>   |
| <b>Income taxes expense (Note 4)</b>                      |   |               |
| Current   | <b>(1,318)</b>                                | (1,371)       |
| Deferred  | <b>(110)</b>                                  | (362)         |
|   | <b>(1,428)</b>                                | (1,733)       |
| Minority interest in results of consolidated subsidiaries | <b>(167)</b>                                  | (218)         |
| <b>Net income for the period</b>                          | <b>2,159</b>                                  | 3,163         |
| <b>Net income applicable to each class of shares</b>      |   |               |
| Common  | <b>1,248</b>                                  | 1,829         |
| Preferred   | <b>911</b>                                    | 1,334         |
| <b>Net income for the period</b>                          | <b>2,159</b>                                  | 3,163         |
| <b>Basic and diluted earnings per: (Note 12)</b>          |   |               |
| Common and Preferred share                                | <b>0.49</b>                                   | 0.72          |
| Common and Preferred ADS                                  | <b>1.96</b>                                   | 2.88          |
| <b>Weighted average number of shares outstanding</b>      |   |               |
| Common  | <b>2,536,673,672</b>                          | 2,536,673,672 |
| Preferred   | <b>1,850,364,698</b>                          | 1,849,478,028 |

The accompanying notes are an integral part of these consolidated financial statements.

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

March 31, 2007 and 2006

Expressed in Millions of United States Dollars

*(Unaudited)*

|   | <b>Three-month period<br/>ended March 31,</b> |              |
|---|---|--------------|
|   | <b>2007</b>                                   | <b>2006</b>  |
| <b>Cash flows from operating activities</b>                                       |   |              |
| Net income for the period   | 2,159   | 3,163        |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |              |
| Depreciation, depletion and amortization  | 1,157   | 816          |
| Dry hole costs  | 50  | 77           |
| Loss on sale of property, plant and equipment                                     | 91  | 33           |
| Amortization of deferred purchase incentive                                       | -   | (13)         |
| Deferred income taxes   | 110   | 362          |
| Equity in results of non-consolidated companies                                   | (29)  | (10)         |
| Minority interest in results of consolidated subsidiaries                         | 167   | 218          |
| Accretion expense – asset retirement obligation                                   | -   | 35           |
| Foreign exchange and monetary (gain)/loss   | 224   | (25)         |
| Financial expense/(income) on gas hedge operations                                | -   | 384          |
| <b>Decrease (increase) in assets</b>  |   |              |
| Accounts receivable, net  | (395)   | 114          |
| Marketable securities   | (82)  | 31           |
| Inventories   | 327   | (652)        |
| Recoverable taxes   | (482)   | (239)        |
| Advances to suppliers   | (112)   | (74)         |
| Other   | 280   | (122)        |
| <b>Increase (decrease) in liabilities</b>   |   |              |
| Trade accounts payable  | (808)   | 294          |
| Payroll and related charges   | (53)  | (177)        |
| Taxes payable, other than income taxes  | 110   | 50           |
| Income taxes payable  | 379   | 562          |
| Employee's post-retirement benefits, net of unrecognized obligation               | 119   | 269          |
| Other liabilities   | 251   | (172)        |
| <b>Net cash provided by operating activities</b>                                  | <b>3,463</b>                                  | <b>4,924</b> |

The accompanying notes are an integral part of these consolidated financial statements.

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|  | <b>Three-month period<br/>ended March 31,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                                   | <b>2006</b> |
| <b>Cash flows from investing activities</b>                  |   |             |
| Additions to property, plant and equipment                   | <b>(3,674)</b>                                | (2,666)     |
| Other  | <b>129</b>                                    | (20)        |
| <b>Net cash used in investing activities</b>                 | <b>(3,545)</b>                                | (2,686)     |
| <b>Cash flows from financing activities</b>                  |   |             |
| Short-term debt, net of issuances and repayments             | <b>158</b>                                    | (82)        |
| Proceeds from issuance and draw-down on long-term debt       | <b>428</b>                                    | 103         |
| Principal payments of long-term debt                         | <b>(1,284)</b>                                | (602)       |
| Proceeds from project financings                             | <b>747</b>                                    | 322         |
| Payments of project financings                               | <b>(447)</b>                                  | (147)       |
| Payments of capital lease obligations                        | <b>(55)</b>                                   | (49)        |
| Dividends paid to shareholders                               | <b>(2,815)</b>                                | (1,847)     |
| Dividends paid to minority interests                         | <b>(10)</b>                                   | (18)        |
| <b>Net cash used in financing activities</b>                 | <b>(3,278)</b>                                | (2,320)     |
| Decrease in cash and cash equivalents                        | <b>(3,360)</b>                                | (82)        |
| Effect of exchange rate changes on cash and cash equivalents | <b>339</b>                                    | 629         |
| Cash and cash equivalents at beginning of period             | <b>12,688</b>                                 | 9,871       |
| <b>Cash and cash equivalents at end of period</b>            | <b>9,667</b>                                  | 10,418      |
| <b>Supplemental cash flow information:</b>                   |   |             |
| <b>Cash paid during the period for:</b>                      |   |             |
| Interest   | <b>323</b>                                    | 456         |
| Income taxes   | <b>874</b>                                    | 1,048       |
| Withholding income tax on financial investments              | <b>9</b>                                      | 28          |

The accompanying notes are an integral part of these consolidated financial statements.

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES**

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

March 31, 2007 and 2006

Expressed in Millions of United States Dollars

*(Unaudited)*

|   | <b>Three-month period<br/>ended March 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                                   | <b>2006</b> |
| <b>Preferred shares</b>   |   |             |
| Balance at January 1  | 7,718   | 4,772       |
| <b>Balance at March 31</b>  | <b>7,718</b>                                  | 4,772       |
| <b>Common shares</b>  |   |             |
| Balance at January 1  | 10,959  | 6,929       |
| <b>Balance at March 31</b>  | <b>10,959</b>                                 | 6,929       |
| <b>Capital reserve - fiscal incentive</b>   |   |             |
| Balance at January 1  | 174   | 159         |
| Transfer from unappropriated retained earnings                                      | 7   | 12          |
| <b>Balance at March 31</b>  | <b>181</b>                                    | 171         |
| <b>Accumulated other comprehensive loss</b>   |   |             |
| <b>Cumulative translation adjustments</b>   |   |             |
| Balance at January 1  | (6,202)                                       | (9,432)     |
| Change in the period  | 1,964   | 2,477       |
| <b>Balance at March 31</b>  | <b>(4,238)</b>                                | (6,955)     |
| <b>Post-retirements benefit reserves adjustments, net of tax -<br/>pension cost</b> |   |             |
| Balance at January 1  | (2,052)                                       | (1,930)     |
| Change in the period  | (87)  | (148)       |

|                            |                |                |
|----------------------------|----------------|----------------|
| <b>Balance at March 31</b> | <b>(2,139)</b> | <b>(2,078)</b> |
|----------------------------|----------------|----------------|

The accompanying notes are an integral part of these consolidated financial statements.



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|   | <b>Three-month period ended<br/>March 31,</b> |              |
|---|---|--------------|
|   | <b>2007</b>                                   | <b>2006</b>  |
| <b>Post-retirements benefit reserves adjustments, net of tax - health care cost</b> |   |              |
| Balance at January 1,   | (987)   | -            |
| Change in the period  | (42)  | -            |
| <b>Balance at March 31</b>  | <b>(1,029)</b>                                | -            |
| <br>  |   |              |
| <b>Unrecognized gains on available-for-sale securities, net of tax</b>              |   |              |
| Balance at January 1  | 446   | 356          |
| Unrealized gains  | 39  | 28           |
| Tax effect on above   | (13)  | (10)         |
| <b>Balance at March 31</b>  | <b>472</b>                                    | <b>374</b>   |
| <br>  |   |              |
| <b>Unrecognized loss on cash flow hedge, net of tax</b>                             |   |              |
| Balance at January 1  | (2)   | -            |
| <b>Balance at March 31</b>  | <b>(2)</b>                                    | -            |
| <br>  |   |              |
| <b>Appropriated retained earnings</b>   |   |              |
| Legal reserve   |   |              |
| Balance at January 1  | 3,045   | 2,225        |
| Transfer from unappropriated retained earnings, net of gain or loss on translation  | 130   | 172          |
| <b>Balance at March 31</b>  | <b>3,175</b>                                  | <b>2,397</b> |

The accompanying notes are an integral part of these consolidated financial statements.

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|  | <b>Three-month period<br/>ended March 31,</b> |               |
|--|---|---------------|
|  | <b>2007</b>                                   | <b>2006</b>   |
| <b>Undistributed earnings reserve</b>  |   |               |
| Balance at January 1   | 20,074  | 17,439        |
| Transfer from unappropriated retained earnings, net of gain or loss on translation | 858   | 1,353         |
| <b>Balance at March 31</b>   | <b>20,932</b>                                 | <b>18,792</b> |
| <b>Statutory reserve</b>   |   |               |
| Balance at January 1   | 585   | 431           |
| Transfer from unappropriated retained earnings, net of gain or loss on translation | 25  | 33            |
| <b>Balance at March 31</b>   | <b>610</b>                                    | <b>464</b>    |
| <b>Total appropriated retained earnings</b>  | <b>24,717</b>                                 | <b>21,653</b> |
| <b>Unappropriated retained earnings</b>  |   |               |
| Balance at January 1   | 10,541  | 11,968        |
| Net income for the period  | 2,159   | 3,163         |
| Appropriation (to) fiscal incentive reserves                                       | (7)   | (12)          |
| Appropriation (to) reserves  | (1,013)                                       | (1,558)       |
| <b>Balance at March 31</b>   | <b>11,680</b>                                 | <b>13,561</b> |
| <b>Total shareholders' equity</b>  | <b>48,319</b>                                 | <b>38,427</b> |
| <b>Comprehensive income is comprised as follows:</b>                               |   |               |
| Net income for the period  | 2,159   | 3,163         |
| Cumulative translation adjustments   | 1,964   | 2,477         |
| Post-retirement benefit reserves adjustments, net of tax - pension cost            | (87)  | (148)         |
| Post-retirement benefit reserves adjustments, net of tax - health care cost        | (42)  | -             |
| Unrealized gain on available-for-sale securities                                   | 26  | 18            |
| <b>Total comprehensive income</b>  | <b>4,020</b>                                  | <b>5,510</b>  |

The accompanying notes are an integral part of these consolidated financial statements.

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Expressed in Millions of United States Dollars

(except when specifically indicated)

(unaudited)

**1. Basis of Financial Statements Preparation**

The accompanying unaudited consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Accordingly they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These unaudited consolidated financial statements and the accompanying notes should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006 and the notes thereto.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The consolidated financial statements as of March 31, 2007 and for the three-month periods ended March 31, 2007 and 2006, included in this report, are unaudited. However, in management's opinion, such consolidated financial statements reflect all normal recurring adjustments that are necessary for a fair presentation. The results for the interim periods are not necessarily indicative of trends or of results expected for the full year ending December 31, 2007.

The preparation of these financial statements requires the use of estimates and assumptions that reflect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto.

Pursuant to Rule 436 (c) under the Securities Act of 1933 (the Act ), this is not a report and should not be considered a part of any registration statement prepared or certified within the meanings of Sections 7 and 11 of the Act and therefore, the independent accountant's liability under section 11 does not extend to the information included herein.

## **2. Recently Adopted Accounting Standards**

### **a) FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109 (FIN 48)**

In July 2006, the FASB issued FIN 48, which became effective on January 1, 2007. (see Note 4).

## **3. Derivative Instruments, Hedging and Risk Management Activities**

The Company is exposed to a number of market risks arising from its normal course of business. Such market risks principally involve the possibility that changes in interest rates, foreign currency exchange rates or commodity prices will adversely affect the value of the Company's financial assets and liabilities or future cash flows and earnings. The Company maintains a corporate risk management policy that is executed under the direction of the Company's executive officers.

The Company may use derivative and non-derivative instruments to implement its corporate risk management strategy. However, by using derivative instruments, the Company exposes itself to credit and market risk. Credit risk is the failure of a counterparty to perform under the terms of the derivative contract. Market risk is the possible adverse effect on the value of an assets or liability, including financial instruments that results from changes in interest rates, currency exchange rates, or commodity prices. The Company addresses credit risk by restricting the counterparties to such derivative financial instruments to major financial institutions. Market risk is managed by the Company's executive officers. The Company does not hold or issue financial instruments for trading purposes.

### **a) Foreign currency risk management**

The Company's foreign currency risk management strategy may involve the use of derivative instruments to protect against foreign exchange rate volatility which may impact the value of certain of the Company's obligations. The Company currently uses zero-cost foreign exchange collars to implement this strategy.

The call option component of the Company's zero cost foreign exchange collars at March 31, 2007 had a fair value of US\$23 (US\$21 at December 31, 2006) and the put option components a fair value of zero at March 31, 2007 and at December 31, 2006.

**3. Derivative Instruments, Hedging and Risk Management Activities (Continued)****a) Foreign currency risk management (Continued)**

At March 31, 2007, the subsidiary Petrobras Energia Participaciones S.A. - PEPSA had forward sales of US dollars in exchange for Argentine pesos. During the three-month periods ended March 31, 2007 and 2006, PEPSA recognized profits for such contracts of zero and US\$1, respectively. As of March 31, 2007 and December 31, 2006 the face value of effective contracts amounted to US\$10 and US\$18, respectively, at the average exchange rate of 3.25 and 3.26 Argentine pesos per US dollar, respectively. Other than the above-mentioned operations, as of March 31, 2007, PEPSA did not have any other positions in derivatives instruments.

**b) Commodity price risk management**

## Petroleum and oil products

The Company is exposed to commodity price risks as a result of the fluctuation of crude oil and oil product prices. The Company's commodity risk management activities are primarily undertaken through the uses of future contracts traded on stock exchanges; and options and swaps entered into with major financial institutions. The futures contracts provide economic hedges for anticipated crude oil purchases and sales, generally forecasted to occur within a 30 to 360 day period, and reduce the Company's exposure to volatility of such prices.

The Company's exposure from these contracts is limited to the difference between the contract value and market value on the volumes contracted. Crude oil future contracts are marked-to-market and related gains and losses are recognized in currently period earnings, irrespective of when the physical crude sales occur. For the three-month periods ended March 31, 2007 and 2006, the Company entered into commodity derivative transactions for 24.1% and 15.0%, respectively, of its total import and export trade volumes.

The open positions in the futures market, compared to spot market value, resulted in recognized losses of US\$22 and of US\$3 during the three-month periods ended March 31, 2007 and 2006, respectively.

**3. Derivative Instruments, Hedging and Risk Management Activities (Continued)****c) Interest rate risk management**

The Company's interest rate risk is a function of the Company's long-term debt and to a lesser extent, its short-term debt. The Company's foreign currency floating rate debt is principally subject to fluctuations in LIBOR and the Company's floating rate debt denominated in Reais is principally subject to fluctuations in the Brazilian long-term interest rate (TJLP) as fixed by the National Monetary Counsel. The Company currently does not utilize derivative financial instruments to manage its exposure to fluctuations in interest rates. However, the Company will consider assessing the use of various types of derivatives to reduce its exposure to interest rate fluctuations and may use such financial instruments in the future.

**d) Cash flow hedge**

In September, 2006, PifCo entered into cross currency swap under which it swaps principal and interest payments on Yen denominated bonds for U.S. dollar amounts. Under U.S. GAAP, foreign currency cash flow hedges can only be designated as such when hedging the risk to the entity's functional currency, and therefore, this cross currency swaps is qualified for hedge accounting designation take into account that PifCo's functional currency is the US dollar, and the assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is highly effective.

**e) Natural gas derivative contract**

In connection with the long-term contract to buy gas (The Gas Supply Agreement or "GSA") to supply thermoelectric plants and for other uses in Brazil, the Company entered into a contract, with the company Empresa Petrolera ANDINA, a gas producer in Bolivia, that constituted a derivative financial instrument under SFAS 133. This contract, the Natural Gas Price Volatility Reduction Contract (the "PVRC"), was executed with the purpose of reducing the effects of price volatility under the GSA.

### **3. Derivative Instruments, Hedging and Risk Management Activities (Continued)**

#### **e) Natural gas derivative contract (Continued)**

The terms of the PVRC provided for a price collar for the period from 2005 to 2019, with the Company receiving cash payments when the calculated price is above the established ceiling, and the Company making cash payments when the price is below the established floor, with no cash payments being made when the price is between the ceiling and the floor.

Due to the new Hydrocarbons Law of Bolivia (see Note 15), the other party to the PVRC contested the contract, alleging among others, *force majeure* and excessive onus. Consequently, the Company adjusted the fair value asset and liabilities related to the PVRC by recording a financial expense of US\$328 during the first quarter of 2006 as a result of the tax increases in Bolivia.

On August 12, 2006, the parties agreed to cancel the PVRC. As a result, on August 14, 2006 the Company received US\$41, wrote-off accounts receivable related to the PVRC amounting to US\$77, and wrote-off the remaining fair value asset of US\$94 as a consequence of the cancellation of contract.

### **4. Income Taxes**

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal income tax. The statutory enacted tax rates for income tax and social contribution have been 25% and 9%, respectively for the three-month periods ended March 31, 2007 and 2006.

The Company's taxable income is substantially generated in Brazil and is therefore subject to the Brazilian statutory tax rate.



**4. Income Taxes (Continued)**

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). This Interpretation provides guidance on recognition, classification and disclosure concerning uncertain tax liabilities. The evaluation of a tax position requires recognition of a tax benefit if it is more likely than not it will be sustained upon examination. The Company adopted this Interpretation effective January 1, 2007. The adoption did not have a material impact on Petrobras consolidated financial statements.

The Company and its subsidiaries file tax returns in Brazilian jurisdiction and in many foreign jurisdictions. Audits in major jurisdictions are generally complete through 2001. The Company classifies interest on income tax related balances as interest expense or interest income and classifies tax related penalties as operating expenses. At January 1, 2007, the Company had no material accrued interest and penalties payable.

The following table reconciles the tax calculated based upon statutory tax rates to the income tax expense recorded in these consolidated financial statements.

|   | <b>Three-month period ended<br/>March , 31</b> |             |
|---|--|-------------|
|   | <b>2007</b>                                    | <b>2006</b> |
| Income before income taxes and minority interest        |  |             |
| Brazil  | <b>3,810</b>                                   | 4,905       |
| International   | <b>(56)</b>                                    | 209         |
|   | <b>3,754</b>                                   | 5,114       |
| Tax expense at statutory rates (34%)                    | <b>(1,276)</b>                                 | (1,739)     |
| Adjustments to derive effective tax rate:               |  |             |
| Non-deductible post-retirement and health-benefits      | <b>(72)</b>                                    | (56)        |
| Change in valuation allowance                           | <b>25</b>                                      | -           |
| Other   | <b>(105)</b>                                   | 62          |
| Income tax expense per consolidated statement of income | <b>(1,428)</b>                                 | (1,733)     |

**4. Income Taxes (Continued)**

The following table shows a breakdown between domestic and international income tax expense (benefit) recorded in these consolidated financial statements:

|  | <b>Three-month period<br/>ended March , 31</b> |             |
|--|--|-------------|
|  | <b>2007</b>                                    | <b>2006</b> |
| Income tax expense per consolidated statement of income: |  |             |
| Brazil   |  |             |
| Current  | <b>(1,277)</b>                                 | (1,325)     |
| Deferred   | <b>(115)</b>                                   | (346)       |
|  | <b>(1,392)</b>                                 | (1,671)     |
| International  |  |             |
| Current  | <b>(41)</b>                                    | (46)        |
| Deferred   | <b>5</b>                                       | (16)        |
|  | <b>(36)</b>                                    | (62)        |
|  | <b>(1,428)</b>                                 | (1,733)     |

**5. Inventories**

|                                 | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---------------------------------|---------------------------|------------------------------|
| Products                        |                           |                              |
| Oil products                    | <b>2,105</b>              | 2,220                        |
| Fuel alcohol                    | <b>191</b>                | 160                          |
|                                 | <b>2,296</b>              | 2,380                        |
| Raw materials, mainly crude oil | <b>2,742</b>              | 2,989                        |
| Materials and supplies          | <b>1,386</b>              | 1,274                        |
| Other                           | <b>94</b>                 | 140                          |
|                                 | <b>6,518</b>              | 6,783                        |
| Current inventories             | <b>6,304</b>              | 6,573                        |

Long-term inventories

**214**

210

20

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**6. Petroleum and Alcohol Account - Receivable from Federal Government**

The following summarizes the changes in the Petroleum and Alcohol account for the three-month period ended March 31, 2007:

|                  | <b>Three-month period ended<br/>March 31, 2007</b> |
|------------------|--|
| Opening balance  | <b>368</b>   |
| Financial income | <b>2</b>   |
| Translation gain | <b>15</b>  |
| <br>             |  |
| Ending balance   | <b>385</b>   |

Petrobras after having provided all needed information required by National Treasury Secretariat - STN is in articulation with this Secretariat aiming to solve the remaining outstanding differences existing between the parts, in order to conclude the settlement process as established by Provisional Measure No. 2,181, of August 24, 2001.

The remaining balance of the Petroleum and Alcohol account may be paid as follows: (1) National Treasury Bonds issued at the same amount as the final balance of the Petroleum and Alcohol account; (2) offset of the balance of the Petroleum and Alcohol account, with any other amount owed by Petrobras to the Federal Government, including taxes; or (3) by a combination of the above options.

**7. Financings****a) Short-term debt**

The Company's short-term borrowings are principally sourced from commercial banks and include import and export financing denominated in United States dollars, as follows:

|                             | <b>March<br/>31, 2007</b> | <b>December 31,<br/>2006</b> |
|-----------------------------|---------------------------|------------------------------|
| Imports - oil and equipment | <b>51</b>                 | 148                          |
| Working capital             | <b>1,296</b>              | 1,145                        |
|                             | <b>1,347</b>              | 1,293                        |

The weighted average annual interest rates on outstanding short-term borrowings were 4.35% and 4.68% at March 31, 2007 and December 31, 2006, respectively.

**7. Financings** (Continued)**b) Long-term debt** (Continued)

| Composition   | <b>March<br/>31, 2007</b> | <b>December 31,<br/>2006</b> |
|---|---------------------------|------------------------------|
| Foreign currency  |                           |                              |
| Notes   | <b>3,337</b>              | 4,217                        |
| Financial institutions  | <b>3,780</b>              | 3,550                        |
| Sale of future receivables  | <b>664</b>                | 680                          |
| Suppliers credits   | <b>1,199</b>              | 1,215                        |
| Senior exchangeable notes   | <b>330</b>                | 330                          |
| Assets related to export program be offset against<br>sales of future receivables | <b>(150)</b>              | (150)                        |
| Repurchased securities (1)  | <b>(19)</b>               | (19)                         |
|   | <b>9,141</b>              | 9,823                        |
| Local currency  |                           |                              |
| National Economic and Social Development<br>Bank - BNDES (state-owned company)    | <b>281</b>                | 865                          |
| Debentures:   |                           |                              |
| BNDES (state-owned company)   | <b>620</b>                | 626                          |
| Other banks   | <b>1,152</b>              | 1,093                        |
| Other   | <b>833</b>                | 209                          |
|   | <b>2,886</b>              | 2,793                        |
| Total   | <b>12,027</b>             | 12,616                       |
| Current portion of long-term debt   | <b>(1,560)</b>            | (2,106)                      |
|   | <b>10,467</b>             | 10,510                       |

(1) At March 31, 2007 and December 31, 2006, the Company had amounts invested abroad in an exclusive investment fund that held debt securities of some of the Petrobras group companies and some of the SPEs that the Company consolidates according to FIN 46(R), in the total amount of US\$352 and US\$245, respectively. These securities are considered to be extinguished, and thus the related amounts, together with applicable interest have been removed from the presentation of marketable securities and long-term debt, of US\$19 (US\$19 for December 31, 2006), and project financings, of US\$333 (US\$226 for December 31, 2006) (see also Note 9). Gains and losses on the extinguishment are recognized as incurred. Subsequent reissuances of notes at amounts greater or lower than face amount are recorded as premium or discounts and are amortized over the life of the notes. Petrobras did not recognize losses on

extinguishment of debt during the three month period ended March 31, 2006 and 2007. As of March 31, 2007 and December 31, 2006, the Company had an outstanding balance of net premiums on reissuance that amounted to US\$39 and US\$45, respectively.

**7. Financings** (Continued)**b) Long-term debt** (Continued)

Composition of foreign currency denominated debt by currency

|                       | <b>March<br/>31, 2007</b> | <b>December 31,<br/>2006</b> |
|-----------------------|---------------------------|------------------------------|
| Currency              |                           |                              |
| United States dollars | <b>8,259</b>              | 8,928                        |
| Japanese Yen          | <b>616</b>                | 626                          |
| Euro                  | <b>266</b>                | 269                          |
|                       | <b>9,141</b>              | 9,823                        |

Maturities of the principal of long-term debt

The long-term portion at March 31, 2007 becomes due in the following years:

|                     |               |
|---------------------|---------------|
| 2008                | <b>1,131</b>  |
| 2009                | <b>938</b>    |
| 2010                | <b>1,732</b>  |
| 2011                | <b>887</b>    |
| 2012                | <b>1,612</b>  |
| 2013 and thereafter | <b>4,167</b>  |
|                     | <b>10,467</b> |



**7. Financings (Continued)****b) Long-term debt (Continued)**

Composition of long-term debt by annual interest rate

Interest rates on long-term debt were as follows:

|                  | <b>March<br/>31, 2007</b> | <b>December 31,<br/>2006</b> |
|------------------|---------------------------|------------------------------|
| Foreign currency |                           |                              |
| 6% or less       | <b>2,394</b>              | 2,373                        |
| Over 6% to 8%    | <b>4,084</b>              | 3,805                        |
| Over 8% to 10%   | <b>2,489</b>              | 3,321                        |
| Over 10% to 15%  | <b>174</b>                | 324                          |
|                  | <b>9,141</b>              | 9,823                        |
| Local currency   |                           |                              |
| 6% or less       | <b>479</b>                | 470                          |
| Over 6% to 8%    | <b>186</b>                | 167                          |
| Over 8% to 10%   | <b>854</b>                | 858                          |
| Over 10% to 15%  | <b>1,367</b>              | 1,298                        |
|                  | <b>2,886</b>              | 2,793                        |
|                  | <b>12,027</b>             | 12,616                       |

## Global Notes

The subsidiary Petrobras International Finance Company - PifCo made a note exchange offer, with the transaction being settled on February 07, 2007. PifCo consequently received and accepted offers to the amount of US\$399 (face value). The old securities received under the exchange were cancelled on the same date and as a result PifCo issued new securities on the transaction settlement date maturing in 2016 with a coupon of 6.125% p.a. to the amount of US\$399. The securities constitute a single, fungible issuance with the US\$500 issued on October 06, 2006, amounting to US\$899 in securities issued with maturity in 2016. PifCo also paid investors the amount equal to US\$56 as a result of the offering to exchange the securities. The transaction has been treated as an exchange for financial reporting purposes and accordingly, the US\$56 will be amortized to interest expense over the life term of the notes in accordance with the effective interest rate.

**8. Financial Income (Expenses), Net**

Financial expenses, financial income and monetary and exchange variation on monetary assets and liabilities, net, allocated to income for the three-month periods ended March 31, 2007 and 2006 are shown as follows:

|   | <b>Three-month period ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2007</b>                                   | <b>2006</b> |
| Financial expenses  |   |             |
| Loans and financings  | <b>(291)</b>                                  | (289)       |
| Capitalized interest  | <b>287</b>                                    | 219         |
| Project financings  | <b>(67)</b>                                   | (98)        |
| Leasing   | <b>(22)</b>                                   | (28)        |
| Other   | <b>(13)</b>                                   | (35)        |
|   | <b>(106)</b>                                  | (231)       |
| Financial income  |   |             |
| Investments   | <b>133</b>                                    | (15)        |
| (Loss)/ Gain on hedge transactions                                      | <b>38</b>                                     | (328)       |
| Clients   | <b>28</b>                                     | 59          |
| Government securities   | <b>11</b>                                     | 11          |
| Advances to suppliers   | <b>6</b>                                      | 7           |
| Other   | <b>90</b>                                     | 74          |
|   | <b>306</b>                                    | (192)       |
| Monetary and exchange variation on monetary assets and liabilities, net | <b>(337)</b>                                  | 112         |
|   | <b>(137)</b>                                  | (311)       |

**9. Project Financings**

Since 1997, the Company has utilized project financings to provide capital for the continued development of the Company's exploration and production and related projects.

The special purpose entities associated with the project financings projects are consolidated based on FIN 46(R), and the project financing obligation represents the debt of the consolidated SPEs with the third-party lender.

**9. Project Financings** (Continued)

The Company's responsibility under these contracts is to complete the development of the oil and gas fields, operate the fields, pay for all operating expenses related to the projects and remit a portion of the net proceeds generated from the fields to fund the special purpose companies' debt and return on equity payments. At the conclusion of the term of each financing project, the Company will have the option to purchase the leased or transferred assets from the consolidated special purpose company.

The following summarizes the liabilities related to the projects that were in progress at March 31, 2007 and December 31, 2006:

|   | <b>March<br/>31, 2007</b> | <b>December 31,<br/>2006</b> |
|---|---------------------------|------------------------------|
| Barracuda/Caratinga   | <b>1,305</b>              | 1,405                        |
| Charter Development - CDC (1)   | <b>1,035</b>              | 876                          |
| PDET Offshore S.A.  | <b>874</b>                | 662                          |
| Transportadora Gasene   | <b>658</b>                | 617                          |
| Cabiúnas  | <b>616</b>                | 683                          |
| Nova Transportadora do Sudeste - NTS (2)                              | <b>602</b>                | 543                          |
| Codajás (3)   | <b>556</b>                | 411                          |
| Nova Transportadora do Nordeste - NTN (2)                             | <b>489</b>                | 449                          |
| Companhia Locadora de Equipamentos Petrolíferos - CLEP                | <b>334</b>                | 226                          |
| Espadarte/Voador/Marimbá (EVM)  | <b>287</b>                | 282                          |
| Cia. de Desenvolvimento e Modernização de Plantas Industriais - CDMPI | <b>206</b>                | 175                          |
| Nova Marlim   | <b>154</b>                | 142                          |
| Albacora  | <b>56</b>                 | 46                           |
| Cia Petrolífera Marlim  | <b>32</b>                 | 57                           |
| Pargo, Carapeba, Garoupa and Cherne (PCGC)                            | <b>27</b>                 | 26                           |
| Repurchased securities (4)  | <b>(333)</b>              | (226)                        |
|   | <b>6,898</b>              | 6,374                        |
| Current portion of project financings                                 | <b>(2,374)</b>            | (2,182)                      |
|   | <b>4,524</b>              | 4,192                        |

(1) Charter Development - CDC is responsible for Marlim Leste (P-53 project).

(2) Nova Transportadora do Sudeste - NTS and Nova Transportadora do Nordeste - NTN take part in the consortium responsible for Malhas Project.

(3) Codajás consolidates Transportadora Urucu - Manaus S.A. which is responsible for the Amazonia Project.

(4) At March 31, 2007 and December 31, 2006, the Company had amounts invested abroad in an exclusive investment fund. These securities are considered to be extinguished, and thus the related amounts, together with applicable interest have been removed from the presentation of marketable securities and project financings. (see also Note 7).



**9. Project Financings (Continued)**

The Company has received certain advances amounting to US\$382 which are recorded as project financings obligations and are related to assets under agreements with investors, which are included to the property, plant and equipment balance. Such asset and obligation amounts are presented gross as the obligation can only be settled through delivery of the fully constructed asset.

At March 31, 2007, the long-term portion of project financings becomes due in the following years:

|                     |              |
|---------------------|--------------|
| 2008                | <b>1,438</b> |
| 2009                | <b>1,029</b> |
| 2010                | <b>541</b>   |
| 2011                | <b>227</b>   |
| 2012                | <b>221</b>   |
| 2013 and thereafter | <b>1,068</b> |
|                     | <b>4,524</b> |

**10. Capital Lease Obligations**

The Company leases certain offshore platforms and vessels, which are accounted for as capital leases. At March 31, 2007, assets under capital leases had a net book value of US\$1,322 (US\$1,338 at December 31, 2006).

**10. Capital Lease Obligations (Continued)**

The following is a schedule by year of the future minimum lease payments at March 31, 2007:

|   |       |
|---|-------|
| 2007  | 232   |
| 2008  | 303   |
| 2009  | 271   |
| 2010  | 218   |
| 2011  | 103   |
| 2012  | 45    |
| 2013 and thereafter                                       | 31    |
| Estimated future lease payments                           | 1,203 |
| Less amount representing interest at 6.2% to 12.0% annual | (239) |
| Present value of minimum lease payments                   | 964   |
| Less current portion of capital lease obligations         | (218) |
| Long-term portion of capital lease obligations            | 746   |

**11. Employees Post-retirement Benefits and Other Benefits**

The Company sponsors a contributory defined benefit pension plan covering substantially all of its employees and provides certain health care benefits for a number of active and retired employees. In 2006, the Company made contributions of US\$362 to pension and health care plans.

The balances related to Employees Post-retirement Benefits are represented as follows:

|  | As of               |                            |                     |                            |
|--|---------------------|----------------------------|---------------------|----------------------------|
|  | March 31, 2007      |                            | December 31, 2006   |                            |
|  | Pension<br>benefits | Health<br>care<br>benefits | Pension<br>benefits | Health<br>care<br>benefits |
| Current liabilities                            | 169                 | -                          | 198                 | -                          |
| Long-term liabilities                          | 5,019               | 5,824                      | 4,645               | 5,433                      |
| Employees post-retirement benefits obligations | 5,188               | 5,824                      | 4,843               | 5,433                      |
| Accumulated other comprehensive income         | 3,241               | 1,559                      | 3,110               | 1,495                      |
| Tax effect                                     | (1,102)             | (530)                      | (1,058)             | (508)                      |
| Net balance recorded in shareholders equity    | 2,139               | 1,029                      | 2,052               | 987                        |

Net periodic benefit cost includes the following components:

|  | As of March 31,     |                            |                     |                            |
|--|---------------------|----------------------------|---------------------|----------------------------|
|  | 2007                |                            | 2006                |                            |
|  | Pension<br>benefits | Health<br>care<br>benefits | Pension<br>benefits | Health<br>care<br>benefits |
| Service cost - benefits earned during the period | 50                  | 23                         | 43                  | 20                         |
| Interest on projected benefit obligation         | 460                 | 146                        | 424                 | 147                        |
| Expected return on plan assets                   | (338)               | -                          | (282)               | -                          |
| Amortization of net (gain)/ loss                 | 41                  | 19                         | 78                  | 34                         |
| Amortization of prior service cost               | -                   | 17                         | -                   | -                          |

|                           |             |            |      |     |
|---------------------------|-------------|------------|------|-----|
|                           | <b>213</b>  | <b>205</b> | 263  | 201 |
| Employees contributions   | <b>(38)</b> | -          | (33) | -   |
| Net periodic benefit cost | <b>175</b>  | <b>205</b> | 230  | 201 |



**11. Employees Post-retirement Benefits and Other Benefits (Continued)**

The Company has been evaluating alternatives to a new model of its supplementary pension plan, including analyses of negotiated arrangements for the settlement of actuarial deficits.

On April 19, 2006, the Company, aiming to achieve an agreement regarding its Supplementary Pension Plan, presented to employee participants and retirees a proposal to bring equilibrium to the actual Petros Plan and to implement a new plan, denominated Petros Plan 2.

Execution of the proposal presented by the Company's Executive Board was subject to a number of conditions, including the renegotiation of the Petros Plan Regulations, in relation to the means of readjusting the benefits and pensions, considering a significant rate of individual accession of employees and dependants.

The target for the minimum accession number to the renegotiation was set at 2/3 (two-thirds) of the members and the final deadline for them to make their choice was February 28, 2007. The target was met and the proposal submitted by the Company became effective, which changed two conditions of the plan: i) salary increases of active employees will no longer be passed to retired employees, who will be entitled to inflation indexation (IPCA); and ii) eventual decreases in pensions provided by the governmental plan will no longer be absorbed by Petros. These changes did not materially affect the projected benefit obligation.

In return for accepting the renegotiation, in March 2007 the participants, retired members and pensioners received the financial incentive of US\$498 that was recorded as component of Other operating expenses, net.

There are two main judicial proceedings taken by some pensioners against Petros, which are: i) the lowering of age for employees who joined Petrobras in 1978/1979 and; ii) same coverage of governmental pension for widows. Petrobras is waiting for the final settlement of those proceedings to determine whether the requests taken to court should be included the actuarial premises calculation and alternatives to fund the pension plan in case of loss.

**11. Employees Post-retirement Benefits and Other Benefits (Continued)**

The New Supplementary pension plan for employees who joined Petrobras after 2002 is still being approved by the regulators. Petrobras has not provided for any benefit under the new plan, as it is not possible to estimate how many employees will join the plan. Petrobras and the other sponsors will fully assume the contributions corresponding to the period in which the new participants had no plan. This past service shall consider the period from the date of admission to the date enrolment commenced in the PETROS Plan 2. The disbursements will be conducted over the first months for contributions up to the total months the participant had no plan, and shall cover the portion relating to the participants and sponsor. The maximum estimated value of this actuarial commitment as of March 31, 2007 if the plan is approved by SPC and accepted by all new employees was US\$139.

**12. Shareholders Equity**

The Company's subscribed and fully paid-in capital at March 31, 2007 and at December 31, 2006 consisted of 2,536,673,672 common shares and 1,850,364,698 preferred shares. The preferred shares do not have any voting rights and are not convertible into common shares and vice-versa. Preferred shares have priority in the receipt of dividends and return of capital.

Current Brazilian law requires that the Federal Government retain ownership of 50% plus one share of the Company's voting shares.

The relation between the American Depositary Shares (ADS) and shares of each class has been four shares for one ADS since September 1, 2005.

On May 11, 2007, the Board of Directors approved the change in the ratio of underlying shares issued in the Company's name and the American Depositary Shares (ADS's) from the existing 4 (four) shares for each ADS to 2 (two) shares for each ADS. The purpose of this change in the ratio between the shares and ADS's is to facilitate the purchase of ADS's on the New York Stock Exchange (NYSE) by small investors, consequently broadening the Company's shareholder base. This decision also reflects Petrobras' confidence in its future results. This change will come into effect on July 2, 2007.

**12. Shareholders Equity** (Continued)

At an Extraordinary General Meeting held together with the General Ordinary Meeting, on April 2, 2007, the shareholders of Petrobras approved an increase in the Company's capital to US\$24,623 (R\$52,644) through the capitalization of revenue reserves accrued during previous financial years, in the amount of US\$1,577 (R\$3,372), and of statutory reserve, in the amount of US\$471 (R\$1,008), and without the issuance of new shares, in accordance with article 169, paragraph 1, Law No. 6.404/76.

At an Extraordinary General Meeting held together with the General Ordinary Meeting, on April 3, 2006, the shareholders of the Company approved an increase in the Company's capital to US\$22,397 (R\$48,248) through the capitalization of retained earnings accrued during previous financial years, in the amount of US\$6,969 (R\$15,012), and without the issuance of new shares, in accordance with article 169, paragraph 1, Law No. 6,404/76.

Pursuant to article 29, section II of the Company Bylaws, on December 15, 2006, the Board of Directors authorized the buyback of part of the preferred shares in circulation for future cancellation, using funds from the profit reserves subject to the following terms:

- a) Objective: reduce the excess cash and enhance the capital structure, helping to reduce the cost of Petrobras' capital.
- b) Amount: up to 91.500.000 preferred shares, corresponding to 4,9% of the total of this class of share in circulation, which is 1.850.364.698 shares;
- c) Price: the acquisition will occur on the Stock Exchange, at market values on the acquisition dates throughout the buyback term;
- d) Term: up to 365 (three hundred and sixty-five) days as from December 15, 2006.

**12. Shareholders Equity** (Continued)

On April 02, 2007, the Ordinary General Meeting approved dividends referring to the year end 2006, amounting to US\$3,693 corresponding to US\$0.84 per common and preferred share, including interest on shareholders equity, for which US\$2,052 were made available to the shareholders on January 04, 2007, corresponding to US\$0.47 per share, based on the share position as of October 31, 2006, US\$923 was provided on March 30, 2007, based on the share position as of December 28, 2006, corresponding to US\$0.21 per share and the remaining balance of US\$718, corresponding to US\$0.16 per share, were provided within the legal term on May 17, 2007, based on the share position as of April 02, 2007.

The dividends are restated according to the Selic interest rate from December 31, 2006 to May 17, 2007, the date payment of each portion commenced.

Basic and diluted earnings per share amounts have been calculated as follows:

|  | <b>Three-month period ended<br/>March 31,</b> |               |
|--|---|---------------|
|  | <b>2007</b>                                   | <b>2006</b>   |
| Net income for the period  | <b>2,159</b>                                  | 3,163         |
| Less priority preferred share dividends  | <b>(809)</b>                                  | (459)         |
| Less common shares dividends, up to the priority preferred shares dividends on a per-share basis | <b>(1,109)</b>                                | (629)         |
| Remaining net income to be equally allocated to common and preferred shares                      | <b>241</b>                                    | 2,075         |
| Weighted average number of shares outstanding  |   |               |
| Common   | <b>2,536,673,672</b>                          | 2,536,673,672 |
| Preferred  | <b>1,850,394,698</b>                          | 1,849,478,028 |
| Basic and diluted earnings per:  |   |               |
| Common and preferred share   | <b>0.49</b>                                   | 0.72          |
| Common and preferred ADS   | <b>1.96</b>                                   | 2.88          |

**13. Commitments and Contingencies**

Petrobras is subject to a number of commitments and contingencies arising in the normal course of its business. Additionally, the operations and earnings of the Company have been, and may be in the future, affected from time to time in varying degrees by political developments and laws and regulations, such as the Federal Government's continuing role as the controlling shareholder of the Company, the status of the Brazilian economy, forced divestiture of assets, tax increases and retroactive tax claims, and environmental regulations. The likelihood of such occurrences and their overall effect upon the Company are not readily determinable.

**a) Litigation**

The Company is a defendant in numerous legal actions involving civil, tax, labor, corporate and environment issues arising in the normal course of its business. Based on the advice of its internal legal counsel and management's best judgment, the Company has recorded accruals in amounts sufficient to provide for losses that are considered probable and reasonably estimable. At March 31, 2007 and December 31, 2006, the respective amounts accrued by type of claims are as follows:

|  | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|---------------------------|------------------------------|
| Labor claims                               | <b>39</b>                 | 38                           |
| Tax claims                                 | <b>54</b>                 | 47                           |
| Civil claims                               | <b>100</b>                | 97                           |
| Commercials claims and other contingencies | <b>37</b>                 | 51                           |
| <br>                                       |                           |                              |
| Total                                      | <b>230</b>                | 233                          |
| <br>                                       |                           |                              |
| Current contingencies                      | <b>(27)</b>               | (25)                         |
| <br>                                       |                           |                              |
| Long-term contingencies                    | <b>203</b>                | 208                          |

As of March 31, 2007 and December 31, 2006, in accordance with Brazilian law, the Company had paid US\$807 and US\$816, respectively, into federal depositories to provide collateral for these and other claims until they are settled. These amounts are reflected in the balance sheet as restricted deposits for legal proceedings and guarantees.

**b) Environmental matters**

The Company is subject to various environmental laws and regulations. These laws regulate the discharge of oil, gas or other materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of such materials at various sites.

The Company's management considers that any expenses incurred to correct or mitigate possible environmental impacts should not have a significant effect on operations or cash flows.

**14. Segment Information**

The following presents the Company's assets by segment:

**As of March 31, 2007**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas<br/>and<br/>Energy</b> | <b>International<br/>(see separate<br/>disclosure)</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|-------------------------------|--|---------------------|------------------|---------------------|--------------|
| Current assets  | 3,569                                     | 10,140        | 1,683                         | 2,602  | 2,129               | 12,684           | (4,337)             | 28,470       |
| Cash and cash<br>equivalents  | -   | -             | -                             | -  | -                   | 9,667            | -                   | 9,667        |
| Other current<br>assets   | 3,569                                     | 10,140        | 1,683                         | 2,602  | 2,129               | 3,017            | (4,337)             | 18,803       |
| Investments in<br>non-consolidated<br>companies<br>and other<br>investments | 48  | 947           | 426                           | 1,635  | 51                  | 134              | -                   | 3,241        |
| Property, plant<br>and equipment,<br>net                                    | 34,902                                    | 10,596        | 7,354                         | 6,243  | 1,588               | 2,146            | -                   | 62,829       |
| Non current<br>assets   | 1,416                                     | 474           | 1,206                         | 556  | 299                 | 3,146            | (463)               | 6,634        |
| Petroleum and<br>Alcohol account<br>Government<br>securities                | -   | -             | -                             | -  | -                   | 385              | -                   | 385          |
| Other assets  | -   | -             | -                             | -  | -                   | 544              | -                   | 544          |
| Other assets  | 1,416                                     | 474           | 1,206                         | 556  | 299                 | 2,217            | (463)               | 5,705        |
| Total assets  | 39,935                                    | 22,157        | 10,669                        | 11,036   | 4,067               | 18,110           | (4,800)             | 101,174      |

**14. Segment Information** (Continued)

As of March 31, 2007

**International**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas and<br/>Energy</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| Current assets  | 1,743                                     | 1,072         | 1,060                     | 148                 | 189              | (1,610)             | 2,602        |
| Cash and cash equivalents                                       | -   | -             | -                         | -                   | -                | -                   | -            |
| Other current assets  | 1,743                                     | 1,072         | 1,060                     | 148                 | 189              | (1,610)             | 2,602        |
| Investments in non-consolidated companies and other investments | 931                                       | 360           | 300                       | 21                  | 23               | -                   | 1,635        |
| Property, plant and equipment, net                              | 4,795                                     | 853           | 213                       | 153                 | 258              | (29)                | 6,243        |
| Non current assets  | 596                                       | 34            | 56                        | 24                  | 792              | (946)               | 556          |
| Other assets  | 596                                       | 34            | 56                        | 24                  | 792              | (946)               | 556          |
| Total assets  | 8,065                                     | 2,319         | 1,629                     | 346                 | 1,262            | (2,585)             | 11,036       |



**14. Segment Information** (Continued)

As of December 31, 2006

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas<br/>and<br/>Energy</b> | <b>International<br/>(see separate<br/>disclosure)</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|-------------------------------|--|---------------------|------------------|---------------------|--------------|
| Current assets  | 2,966                                     | 9,668         | 1,256                         | 2,371  | 1,978               | 15,413           | (2,697)             | 30,955       |
| Cash and cash<br>equivalents  | -   | -             | -                             | -  | -                   | 12,688           | -                   | 12,688       |
| Other current<br>assets   | 2,966                                     | 9,668         | 1,256                         | 2,371  | 1,978               | 2,725            | (2,697)             | 18,267       |
| Investments in<br>non-consolidated<br>companies<br>and other<br>investments | 33  | 970           | 394                           | 1,721  | 20                  | 124              | -                   | 3,262        |
| Property, plant and<br>equipment, net                                       | 33,979                                    | 9,828         | 6,828                         | 5,722  | 1,468               | 1,072            | -                   | 58,897       |
| Non current assets  | 1,388                                     | 354           | 1,119                         | 460  | 209                 | 2,523            | (487)               | 5,566        |
| Petroleum and<br>Alcohol account<br>Government<br>securities                | -   | -             | -                             | -  | -                   | 368              | -                   | 368          |
| Other assets  | -   | -             | -                             | -  | -                   | 479              | -                   | 479          |
| Other assets  | 1,388                                     | 354           | 1,119                         | 460  | 209                 | 1,676            | (487)               | 4,719        |
| Total assets  | 38,366                                    | 20,820        | 9,597                         | 10,274   | 3,675               | 19,132           | (3,184)             | 98,680       |

**14. Segment Information** (Continued)

As of December 31, 2006

**International**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas and<br/>Energy</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| Current assets  | 1,486                                     | 1,019         | 954                       | 134                 | 219              | (1,441)             | 2,371        |
| Cash and cash<br>equivalents  | -   | -             | -                         | -                   | -                | -                   | -            |
| Other current<br>assets   | 1,486                                     | 1,019         | 954                       | 134                 | 219              | (1,441)             | 2,371        |
| Investments in<br>non-consolidated<br>companies<br>and other<br>investments | 990                                       | 360           | 280                       | 66                  | 25               | -                   | 1,721        |
| Property, plant and<br>equipment, net                                       | 4,436                                     | 834           | 216                       | 162                 | 94               | (20)                | 5,722        |
| Non current assets  | 546                                       | 36            | 49                        | 13                  | 669              | (853)               | 460          |
| Other assets  | 546                                       | 36            | 49                        | 13                  | 669              | (853)               | 460          |
| Total assets  | 7,458                                     | 2,249         | 1,499                     | 375                 | 1,007            | (2,314)             | 10,274       |

**14. Segment Information** (Continued)

Revenues and net income by segment are as follows:

Three - month period ended March 31, 2007

|   | Exploration<br>and<br>Production | Supply   | Gas and<br>Energy | International<br>(see separate<br>disclosure) | Distribution | Corporate | Eliminations | Total    |
|---|----------------------------------|----------|-------------------|---|--------------|-----------|--------------|----------|
| Net operating revenues to third parties         | 804                              | 10,294   | 680               | 1,866   | 4,756        | -         | -            | 18,400   |
| Inter-segment net operating revenues            | 7,258                            | 3,820    | 260               | 294   | 101          | -         | (11,733)     | -        |
| Net operating revenues                          | 8,062                            | 14,114   | 940               | 2,160   | 4,857        | -         | (11,733)     | 18,400   |
| Cost of sales                                   | (3,269)                          | (11,915) | (811)             | (1,697)                                       | (4,399)      | -         | 11,636       | (10,455) |
| Depreciation, depletion and amortization        | (667)                            | (228)    | (75)              | (111)   | (29)         | (47)      | -            | (1,157)  |
| Exploration, including exploratory dry holes    | (97)                             | -        | -                 | (205)   | -            | -         | -            | (302)    |
| Selling, general and administrative expenses    | (79)                             | (389)    | (111)             | (167)   | (244)        | (387)     | 19           | (1,358)  |
| Research and development expenses               | (89)                             | (34)     | (19)              | -   | (1)          | (37)      | -            | (180)    |
| Other operating expenses                        | (106)                            | (106)    | (56)              | (62)  | (17)         | (386)     | -            | (733)    |
| Costs and expenses                              | (4,307)                          | (12,672) | (1,072)           | (2,242)                                       | (4,690)      | (857)     | 11,655       | (14,185) |
| Equity in results of non-consolidated companies | -                                | 1        | 12                | 16  | -            | -         | -            | 29       |
| Financial income (expenses), net                | -                                | -        | -                 | -   | -            | (137)     | -            | (137)    |
| Employee benefit expense                        | -                                | -        | -                 | -   | -            | (226)     | -            | (226)    |
| Other taxes                                     | (9)                              | (20)     | (11)              | (12)  | (24)         | (66)      | -            | (142)    |
|   | 6                                | 3        | (1)               | 10  | (2)          | (1)       | -            | 15       |

Other expenses,  
net

Income (loss)  
before income  
taxes and

|       |       |       |      |     |         |      |       |
|-------|-------|-------|------|-----|---------|------|-------|
| 3,752 | 1,426 | (132) | (68) | 141 | (1,287) | (78) | 3,754 |
|-------|-------|-------|------|-----|---------|------|-------|

m i n o r i t y  
interest

Income tax  
benefits

|         |       |    |      |      |     |    |         |
|---------|-------|----|------|------|-----|----|---------|
| (1,276) | (485) | 49 | (36) | (48) | 341 | 27 | (1,428) |
|---------|-------|----|------|------|-----|----|---------|

(expense)  
Minority interest

in results of  
consolidated  
subsidiaries

|      |     |      |      |   |      |   |       |
|------|-----|------|------|---|------|---|-------|
| (60) | (4) | (61) | (33) | 3 | (12) | - | (167) |
|------|-----|------|------|---|------|---|-------|

Net income (loss)  
for the period

|       |     |       |       |    |       |      |       |
|-------|-----|-------|-------|----|-------|------|-------|
| 2,416 | 937 | (144) | (137) | 96 | (958) | (51) | 2,159 |
|-------|-----|-------|-------|----|-------|------|-------|

**14. Segment Information** (Continued)

Three - month period ended March 31, 2007

|   | International                    |         |                   |              |           |              |         |
|---|----------------------------------|---------|-------------------|--------------|-----------|--------------|---------|
|   | Exploration<br>and<br>Production | Supply  | Gas and<br>Energy | Distribution | Corporate | Eliminations | Total   |
| Net operating revenues to third parties                   | 138                              | 1,117   | 174               | 430          | 8         | (1)          | 1,866   |
| Inter-segment net operating revenues                      | 446                              | 344     | 14                | 3            | -         | (513)        | 294     |
| Net operating revenues                                    | 584                              | 1,461   | 188               | 433          | 8         | (514)        | 2,160   |
| Cost of sales   | (255)                            | (1,421) | (148)             | (393)        | (8)       | 528          | (1,697) |
| Depreciation, depletion and amortization                  | (81)                             | (18)    | (4)               | (5)          | (3)       | -            | (111)   |
| Exploration, including exploratory dry holes              | (205)                            | -       | -                 | -            | -         | -            | (205)   |
| Selling, general and administrative expenses              | (47)                             | (30)    | (4)               | (28)         | (58)      | -            | (167)   |
| Other operating expenses                                  | (45)                             | 1       | 3                 | 3            | (24)      | -            | (62)    |
| Costs and expenses  | (633)                            | (1,468) | (153)             | (423)        | (93)      | 528          | (2,242) |
| Equity in results of non-consolidated companies           | (4)                              | 5       | 10                | -            | 5         | -            | 16      |
| Other taxes   | (1)                              | (1)     | -                 | (1)          | (9)       | -            | (12)    |
| Other expenses, net                                       | (1)                              | -       | 11                | -            | -         | -            | 10      |
| Income (loss) before income taxes and minority interest   | (55)                             | (3)     | 56                | 9            | (89)      | 14           | (68)    |
| Income tax benefits (expense)                             | (23)                             | (6)     | -                 | (1)          | (6)       | -            | (36)    |
| Minority interest in results of consolidated subsidiaries | (17)                             | (1)     | (9)               | (1)          | (5)       | -            | (33)    |
| Net income (loss) for the period                          | (95)                             | (10)    | 47                | 7            | (100)     | 14           | (137)   |

**14. Segment Information** (Continued)

Three - month period ended March 31, 2006

|   | Exploration<br>and<br>Production | Supply   | Gas and<br>Energy | International<br>(see separate<br>disclosure) | Distribution | Corporate | Eliminations | Total    |
|---|----------------------------------|----------|-------------------|---|--------------|-----------|--------------|----------|
| Net operating revenues to third parties         | 814                              | 9,692    | 553               | 880   | 4,275        | -         | -            | 16,214   |
| Inter-segment net operating revenues            | 7,948                            | 3,479    | 297               | 286   | 67           | -         | (12,077)     | -        |
| Net operating revenues                          | 8,762                            | 13,171   | 850               | 1,166   | 4,342        | -         | (12,077)     | 16,214   |
| Cost of sales                                   | (3,288)                          | (11,429) | (661)             | (620)   | (3,925)      | -         | 11,811       | (8,112)  |
| Depreciation, depletion and amortization        | (433)                            | (188)    | (35)              | (113)   | (33)         | (14)      | -            | (816)    |
| Exploration, including exploratory dry holes    | (44)                             | -        | -                 | (94)  | -            | -         | -            | (138)    |
| Selling, general and administrative expenses    | (101)                            | (310)    | (95)              | (104)   | (256)        | (291)     | 20           | (1,137)  |
| Research and development expenses               | (41)                             | (21)     | (7)               | (1)   | (1)          | (42)      | -            | (113)    |
| Other operating expenses                        | 66                               | -        | (72)              | (20)  | 2            | (70)      | 13           | (81)     |
| Costs and expenses                              | (3,841)                          | (11,948) | (870)             | (952)   | (4,213)      | (417)     | 11,844       | (10,397) |
| Equity in results of non-consolidated companies | -                                | 1        | 7                 | 8   | -            | (6)       | -            | 10       |
| Financial income (expenses), net                | -                                | -        | -                 | -   | -            | (311)     | -            | (311)    |
| Employee benefit expense                        | -                                | -        | -                 | -   | -            | (253)     | -            | (253)    |
| Other taxes                                     | (8)                              | (15)     | (6)               | (12)  | (19)         | (48)      | -            | (108)    |
|   | (41)                             | (10)     | 9                 | (1)   | 2            | -         | -            | (41)     |

Other expenses,  
net

Income (loss)  
before income  
taxes and  
minority

|          |       |       |      |     |     |         |       |       |
|----------|-------|-------|------|-----|-----|---------|-------|-------|
| interest | 4,872 | 1,199 | (10) | 209 | 112 | (1,035) | (233) | 5,114 |
|----------|-------|-------|------|-----|-----|---------|-------|-------|

Income tax  
benefits

|           |         |       |   |      |      |     |    |         |
|-----------|---------|-------|---|------|------|-----|----|---------|
| (expense) | (1,656) | (407) | 4 | (62) | (37) | 347 | 78 | (1,733) |
|-----------|---------|-------|---|------|------|-----|----|---------|

Minority interest  
in results of  
consolidated  
subsidiaries

|  |     |      |      |      |   |       |   |       |
|--|-----|------|------|------|---|-------|---|-------|
|  | 145 | (11) | (39) | (65) | - | (248) | - | (218) |
|--|-----|------|------|------|---|-------|---|-------|

Net income (loss)  
for the period

|  |       |     |      |    |    |       |       |       |
|--|-------|-----|------|----|----|-------|-------|-------|
|  | 3,361 | 781 | (45) | 82 | 75 | (936) | (155) | 3,163 |
|--|-------|-----|------|----|----|-------|-------|-------|

**14. Segment Information** (Continued)

Three - month period ended March 31, 2006

|   | International                    |        |                   |              |           |              |       |
|---|----------------------------------|--------|-------------------|--------------|-----------|--------------|-------|
|   | Exploration<br>and<br>Production | Supply | Gas and<br>Energy | Distribution | Corporate | Eliminations | Total |
| Net operating revenues to third parties                   | 218                              | 235    | 160               | 267          | -         | -            | 880   |
| Inter-segment net operating revenues                      | 400                              | 368    | 10                | 2            | -         | (494)        | 286   |
| Net operating revenues                                    | 618                              | 603    | 170               | 269          | -         | (494)        | 1,166 |
| Cost of sales   | (185)                            | (553)  | (131)             | (267)        | -         | 516          | (620) |
| Depreciation, depletion and amortization                  | (88)                             | (16)   | (3)               | (3)          | (3)       | -            | (113) |
| Exploration, including exploratory dry holes              | (94)                             | -      | -                 | -            | -         | -            | (94)  |
| Selling, general and administrative expenses              | (35)                             | (15)   | (2)               | (18)         | (34)      | -            | (104) |
| Research and development expenses                         | -                                | -      | -                 | -            | (1)       | -            | (1)   |
| Other operating expenses                                  | (6)                              | 2      | 7                 | 3            | (32)      | 6            | (20)  |
| Costs and expenses  | (408)                            | (582)  | (129)             | (285)        | (70)      | 522          | (952) |
| Equity in results of non-consolidated companies           | 5                                | 4      | (1)               | -            | -         | -            | 8     |
| Other taxes   | (3)                              | (1)    | -                 | -            | (8)       | -            | (12)  |
| Other expenses, net                                       | -                                | -      | -                 | -            | (1)       | -            | (1)   |
| Income (loss) before income taxes and minority interest   | 212                              | 24     | 40                | (16)         | (79)      | 28           | 209   |
| Income tax benefits (expense)                             | (63)                             | (6)    | (12)              | 6            | 21        | (8)          | (62)  |
| Minority interest in results of consolidated subsidiaries | (38)                             | (4)    | (6)               | 4            | (21)      | -            | (65)  |
| Net income (loss) for the period                          | 111                              | 14     | 22                | (6)          | (79)      | 20           | 82    |



**14. Segment Information** (Continued)

Capital expenditures incurred by segment for the three-month periods ended March 31, 2007 and 2006 are as follows:

|                            | <b>Three-month period ended<br/>March 31,</b> |             |
|----------------------------|---|-------------|
|                            | <b>2007</b>                                   | <b>2006</b> |
| Exploration and Production | <b>1,811</b>                                  | 1,565       |
| Supply                     | <b>576</b>                                    | 436         |
| Gas and Energy             | <b>291</b>                                    | 158         |
| International              |   |             |
| Exploration and Production | <b>655</b>                                    | 228         |
| Supply                     | <b>41</b>                                     | 20          |
| Distribution               | <b>8</b>                                      | 3           |
| Gas and Energy             | <b>1</b>                                      | -           |
| Distribution               | <b>126</b>                                    | 70          |
| Corporate                  | <b>165</b>                                    | 186         |
|                            | <b>3,674</b>                                  | 2,666       |

**15. New Hydrocarbons Law of Bolivia**

The new Bolivian Hydrocarbons Law 3,058 has been in force since May 19, 2005. This law revokes the former Hydrocarbons Law 1,689 dated April 30, 1996.

The new law establishes, among other matters, a higher tax burden for companies of the sector, through royalties of 18% and a direct tax on hydrocarbons (IDH) of 32%, to be applied directly on 100% of the production, on top of taxes in force by operation of Law No. 843. In addition, the new legislation determines substitution of shared risk contracts for new contracts observing the models established in the Law, and introduces changes in the oil products distribution activity.

On June 30, 2006 the contracts term expired through which the major distribution companies distributed hydrocarbons in Bolivia. Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) took over national distribution as from that date. The company Petrobras Bolivia Distribución, which allowed the ownership of a major part of this business, is still operating in the sector through the service stations it owns.

**15. New Hydrocarbons Law of Bolivia (Continued)**

As of May 1, 2006, Supreme Decree 28,701 was enacted in Bolivia, through which, the natural hydrocarbon resources were nationalized. As a consequence, the companies that are currently engaged in gas and petroleum production activities, will have to transfer the ownership of all hydrocarbon production to YPFB.

The aforementioned Decree establishes that fields with a certified average natural gas production of over 100 million cubic feet per day in 2005, as is the case with the San Alberto and San Antonio fields where the Company operates, an additional amount will be paid to YPFB of 32% over of the production value, rising to a total of 82% of the Bolivian government's interest. During the three-month period ended March 31, 2007, the Company had recorded a provision to pay the additional share to YPFB of 32% on the hydrocarbon production, to an amount equal to US\$33.

Furthermore, according to this decree the State is nationalizing the shares required for YPFB to control, with a minimum of 50% plus one share, Petrobras Bol via Refinaci n S.A. - PBR, in which Petrobras has an indirect interest of 100% (Petrobras International Braspetro B.V. - 51% and Petrobras Energia S.A. - 49%). The equity interest will be transferred to YPFB when the parties reach an agreement about the amount of economic compensation to be paid by YPFB to Petrobras, besides the former compliance of some legal and statutory assumptions.

On October 28, 2006 Petrobras Bol via and its partners executed operating contracts with YPFB for San Alberto and San Antonio fields. These contracts establish that the revenues, royalties, profit shares, IDH, shipment and compression will be absorbed by YPFB, and the cost of production and investments made by the companies should be reimbursed as remuneration to the owner. Any difference which may exist will be distributed between the Bolivian state company and the companies, at percentages varying according to production and the investment recovery factor.

In a document attached to contracts entitled "Investments made", Petrobras and its partners state the investment amounts net of amortization, which will be reviewed taking into account the results of the audits contracted by the Hydrocarbons Ministry, which communicated Petrobras about the auditing conclusions. Currently the Company is waiting for the final results, since once obtained and analyzed, will allow the Company to determine the possible effects on the Company's investments.

**15. New Hydrocarbons Law of Bolivia (Continued)**

Supreme Decree 28,900-A issued October 28, 2006 established that the companies will continue operating in Bolivia in accordance with Supreme Decree 28,701, including article 3, paragraph 1 which establishes the additional payment of 32% for the San Alberto and San Antonio fields until the aforementioned contracts have been registered.

On November 28, 2006 the National Congress approved the 44 oil contracts (exploration and production), which include the contracts that Petrobras participates in/or operates, which mainly include the San Alberto and San Antonio fields. On January 11, 2007 Laws were published by which the Bolivian Legislative Branch approved these contracts, including those referring to the San Alberto and San Antonio fields. On May 02, 2007 the contracts were registered and Petrobras oil and gas exploration and production operations in the aforementioned blocks are now conducted pursuant to the terms stated in the contract.

On February 27, 2007 the Ministério de Hidrocarburos y Energia da Bolívia issued Resolution 021/2007 which determines the payment, including the months November through March 2007, of YPFB's additional 32% share of production. Petrobras Bolivia filed an administrative appeal requesting the effects of this resolution be overturned, given that the new contracts were executed on October 28, 2006 and that the Company was not responsible for registering the contracts.

On May 7, 2007, the Bolivian Government published the Supreme Decree 29,122 in which the YPFB assumes the commercial operations of reconstituted petroleum and white gasoline, produced by the refineries of Petrobras Bolívia Refinación S.A. PBR. This Decree determined a regulated price of US\$ 30.35 per barrel of reconstituted petroleum and US\$ 31.29 per barrel of white gasoline and reserved rights on any gains from their sale on the international market (export).

On May 10, 2007, through a letter from the Bolivian Ministry of Hydrocarbons and Energy sent to Petrobras, the Bolivian government and YPFB agreed with the general terms presented by Petrobras to sell the Company's entire equity interest in the refineries in Bolivia amounting to US\$ 112 which will not generate material results. The procedures to transfer the control of the refineries and the terms of payment have not been formalized yet.

**15. New Hydrocarbons Law of Bolivia (Continued)**

The amount proposed by Petrobras was calculated based on the future cash flow, prepared by an independent international financial institution, in accordance with usual business practices. During the time they were under the management of Petrobras, the refineries generated a positive cash flow, also paying out dividends. This appraisal of the refineries did not take into consideration the implications of the Supreme Decree which affects the export of reconstituted petroleum and white gasoline.

PBR and PEBIS continue their normal operations under the control and management of the Company, and hence their consolidated financial statements are still being included in the Company's consolidated financial statements. The consolidated total assets balance existing in Bolivia, as of March 31, 2007 amounted to US\$1,179.

**16. Review of Operating Agreements in Venezuela**

In March of 2006, PESA, through its controlled and associated companies in Venezuela, entered into Memoranda of Understanding (MOU) with PDVSA and Corporación Venezolana del Petróleo S.A. (CVP) in order to finalize the migration of operational agreements to mixed-capital companies. The MOUs establish that the interest of private partners in mixed-capital corporate companies should be limited to 40%, while the Venezuelan government participates with the remaining 60%. Thus, PESA's indirect interest in the fields of Oritupano Leona, La Concepción, Acema and Mata Areas was defined as being of 22%, 36%, 34.5% and 34.5%, respectively.

Pursuant to the terms of the MOU, CVP shall acknowledge dividable and transferable credits in favor of the private companies with interest in the mixed-capital companies, which shall not be subject to interest and may be used in payment of the acquisition bonus of new areas for petroleum exploration and production activities or for a license to engage in gas exploration and production in Venezuela.

Due to the change in structure of shareholding interest in the mixed capital companies, from April 1, 2006 the Company no longer consolidates the assets, liabilities and results of the aforesaid operations in its consolidated statements, but presents them as equity investments in non-consolidated companies and other investments.

**16. Review of Operating Agreements in Venezuela (Continued)**

During the transition period and until the mixed companies have commenced operations, the consortia are being conducted and financed by Petrobras Energia Venezuela and the other partners, under the supervision of the transitory executive committee mainly comprised of PDVSA representatives. Due to changes in the legal structure occurred in Venezuela, as from January 1st, 2007, Petrobras has not received any financial information from the mixed companies and consequently has not accounted for any equity pick up results for the year. Petrobras will commence to recognize the equity pick up effects on a consistent basis upon obtaining reliable financial information from them.

**17. Subsequent Events****a) Pesa Issues Notes**

On May 07, 2007, Petrobras Energia S.A. (Pesa), a company indirectly controlled by Petrobras, issued notes amounting to US\$300 with a term of 10 years and 5.875% interest p.a. Interest will be paid semiannually and the principal will be paid in a single installment at maturity. The issuance was made both in the Argentinean market and in the International market.

**b) Ipiranga Negotiations**

On April 18, 2007, Ultrapar (the Commissioner ), having Braskem S.A. and Petróleo Brasileiro SA - Petrobras (through a commission agreement) as intervening parties, acquired for the amount of US\$2,694 (R\$5,486 million) 61.6% of the common shares and 13.8% of the preferred shares in Refinaria de Petróleo Ipiranga SA ( RPI ), 65.5% of the common shares and 12.6% of the preferred shares in Distribuidora de Produtos de Petróleo Ipiranga SA ( DPPI ), and 3.6% of the common shares and 0.4% of the preferred shares in Companhia Brasileira de Petróleo Ipiranga ( CBPI ) held by the controlling shareholders of the Ipiranga Group.

**17. Subsequent Events** (Continued)

**b) Ipiranga Negotiations** (Continued)

Under the agreement signed by Ultrapar, Braskem and Petrobras, Ultrapar will have the control over the fuel and lubricant distribution businesses in the South and South-East regions ( Southern Distribution Assets ), Petrobras will have the control over the fuel and lubricant distribution businesses in the North, North-East and Central-West regions ( Northern Distribution Assets ), and Braskem will have the control over the petrochemical assets of Ipiranga Química SA, Ipiranga Petroquímica SA (IPQ) and over this company's interests in Companhia Petroquímica do Sul (Copesul). The oil refinery assets held by RPI will be equally shared by Petrobras, Ultrapar and Braskem.

On April 18, 2007, Ultrapar, Petrobras and Braskem paid as established in the purchase and sale agreement signed on March 18, 2007, US\$1,010 relative to the controlling shareholders portion of the Ipiranga Group, US\$362 of which was paid by Petrobras.

The US\$362 was advanced by Petrobras to the Commissioner who will be responsible for the corporate reorganization of the acquired entity which will be subsequently exchanged for the advancement based upon the agreement. The transaction is expected to be completed by the end of 2007.

The transaction was submitted to the approval of Brazilian antitrust authorities (the Council for Economic Defense (CADE), the Office of Economic Law (SDE), the Economic Monitoring Agency (SEAE), as required by applicable laws and regulations.

## SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 13, 2007

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By:           /s/ Almir Guilherme Barbassa          

**Almir Guilherme Barbassa**  
**Chief Financial Officer and**  
**Investor Relations Officer**

## FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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