BRAZILIAN PETROLEUM CORP
Form 6-K
September 10, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of September, 2003

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65
20035-900 - 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 ___X___ 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___X____

PETROBRAS ANNOUNCES FIRST HALF OF 2003 RESULTS
(Rio de Janeiro - September 10, 2003) - PETRÓLEO BRASILEIRO S.A. -
PETROBRAS today announced its consolidated results stated in U.S. Dollars, prepared in accordance with U.S. GAAP.

Our consolidated balance sheet for the first half of 2003 includes the balance sheets of Petrobras Energia Participaciones S.A. - PEPSA (formerly known as Pérez Companc S.A. (PECOM)) and of Petrolera Entre Lomas - PELSA (formerly known as Petrolera Pérez Companc S.A.) as of May 13, 2003, the date on which Argentina s antitrust regulatory agency, the Comisión Nacional de Defensa de la Competencia (the National Agency for Defense of Competition, or CNDC) approved our acquisition of 58.62% of the shares of PEPSA and 39.67% of the shares of PELSA. Because we consolidated the financial statements of PEPSA and PELSA as of a date approximately one month before the close of our balance sheet date, the consolidation of PEPSA and PELSA did not have an effect on our statements of income. Therefore, our consolidated statements of income for the first half of 2003 do not include income statement information for PEPSA or PELSA. Our statements of income for the nine-month period ended September 30, 2003 will include such information as of May 13, 2003.

- Consolidated sales of products and services totaled U.S.$ 19,986 million for the first half of 2003, a 22.6% increase from U.S.$ 16,305 million for the first half of 2002. Net operating revenues totaled U.S.$ 14,430 million for the first half of 2003, a 34.3% increase from net operating revenues of U.S.$ 10,743 million during the first half of 2002. The increases in consolidated sales of products and services and net operating revenues were primarily a result of the increase in prices of oil products in the international markets, and to a lesser extent, an increase in sales volume of oil products outside Brazil.
- Consolidated net income for the first half of 2003 increased from U.S.$ 1,486 million for the first half of 2002 to U.S $ 3,768 million for the first half of 2003, primarily due to the 34.3% increase in net operating revenues and the cumulative effect of a change in accounting principles adopted in the first half of 2003 relating to future liabilities for site restoration costs, which generated a gain of U.S.$ 697 million, net of taxes.
- Earnings per share for the first half of 2003 increased to U.S.$ 3.44 per share, as compared to earnings per share of U.S.$ 1.37 for the first half of 2002.
- Net debt on June 30, 2003, had increased 16.0% primarily due to the inclusion of PEPSA s net debt in the amount of U.S.$ 1,866 million and the additional U.S. $750 million debt raised in May, 2003.
- In the first half of 2003, our domestic production of crude oil and natural gas liquids (NGL) increased approximately 2.2% when compared to the first half of 2002, reaching an average of 1,543 thousand barrels of oil equivalent per day.

COMMENTS FROM THE CEO, MR. JOSÉ EDUARDO DE BARROS DUTRA

In the first half of 2003, we effectively adapted our pricing policy in response to volatility in the prices of crude oil and oil products in the international markets.

The financial results for the first half of 2003 include a U.S.$ 226 million provision for losses related to our investments in thermoelectric power plants and a lower of cost or market adjustment in the amount of U.S.$ 114 million with respect to gas turbo-generators (turbines), which we originally expected to use in connection with our thermoelectric projects but which we no longer intend to use for such projects .

The increase in our average crude oil and natural gas production during the first half of 2003 to 2,146 thousand barrels per day represented an important operational achievement. In addition, we made important discoveries which we expect will have a positive impact on the quantity of our crude oil and natural gas reserves.

Our capital expenditures of U.S.$ 2,532 million in the first half of 2003 represented a 6.4% increase over capital expenditures of U.S.$ 2,379 million in the first half of 2002. Most of these expenditures were directed toward increasing our crude oil and natural gas production capacity. In line with our strategic objectives, we continued increasing the share of crude oil produced in Brazil and refined by us.

Our return to the international capital markets during the first half of 2003 represented a milestone in our financing objectives. During the first half of 2003, we raised U.S.$ 2.3 billion in corporate financings, and contracted an additional U.S.$ 1 billion through project finance arrangements. With the level of financing secured during the period, we have fulfilled the goals established in our investment program. Our successful financing program indicates not only consistent improvement in our ability to access capital markets, but also reinforces the confidence investors have shown in us and our ability to achieve positive financial results. It also reflects a significant improvement in the international perception of Brazilian risk and the success of the country s current economic policies.

I would also like to highlight our notable achievements with regard to social responsibility, health, safety and the environment. We continue to reduce the number of fatalities, oil spills and other accidents resulting from our operations.

Finally, I would like to take this opportunity to reiterate my belief in our ability to overcome the challenges we face. We will continue to contribute to the communities in which we operate, bringing progress and economic growth, respecting the environment and fulfilling our social obligations, without losing our focus on profitability and generation of shareholder value.

Financial Data

Financial Highlights

1Q-2003	2Q-2003	2Q-2002	Income statement data	For the first half of 2003	For the first half of 2002
				U.S. $ million (except earnings per share or unless otherwise noted)	
9,578	10,408	8,829	Sales of products and services	19,986	16,305
7,043	7,387	6,014	Net operating revenues	14,430	10,743
156	160	(509)	Financial income (expense), net	316	(389)
2,309	1,459	873	Net income	3,768	1,486
			Basic and diluted earnings per common and preferred share		
1.47	1.33	0.80	Before effect of change in accounting principle	2.80	1.37
2.11	1.33	0.80	After effect of change in accounting principle	3.44	1.37
			Other data		
56.1	47.5	50.4	Gross margin (%) [1]	51.7	49.2
32.8	19.8	14.5	Net margin (%) [2]	26.1	13.8
48	46	45	Net debt/(Net debt + Stockholders equity) (%) [3]	46	45
69	66	67	Debt to equity ratio (%)[4]	66	67

(1) Gross margin is calculated as net operating revenues less cost of sales divided by net operating revenues.
(2) Net margin is calculated as net income divided by net operating revenues.
(3) Net debt includes short-term debt, long-term debt, capital lease obligations and project financings, less cash and cash equivalents and Junior Notes in the amount of U.S.$ 289 million.
(4) Debt to equity ratio is calculated as current liabilities plus long-term liabilities divided by the sum of total liabilities and total stockholders equity.

Balance sheet data	06.30.2003	12.31.2002	%	06.30.2002
	U.S. $ million			
Total assets	45,727	32,018	42.8	33,186
Total debt [1]	18,911	14,680	28.8	13,447
Current	3,238	1,986	63.0	2,032
Long-term	15,673	12,694	23.5	11,415
Net debt[2]	13,023	11,229	16.0	8,991
Stockholders equity[3]	15,346	9,301	65.0	11,104
Total capitalization [3] [4]	34,257	23,981	42.9	24,551

(1) Total debt includes short-term debt, long-term debt, capital lease obligations and project financings.
(2) Net debt includes short-term debt, long-term debt, capital lease obligations and project financings, less cash and cash equivalents and Junior Notes in the amount of U.S.$ 289 million.
(3) Stockholders equity includes unrecognized losses in the amount of U.S.$ 1,674 million as of June 30 of 2003, U.S.$ 1,361 million as of December 31, 2002 and U.S.$ 1,523 million as of June 30, 2002, in each case related to an Amount not recognized as net periodic pension cost .
(4) Total capitalization means stockholders equity plus total debt

Our net debt totaled U.S. $13,023 million at June 30, 2003, a 16.0% increase from net debt of U.S. $ 11,229 million at December 31, 2002, primarily due to the inclusion of PEPSA s net debt of U.S.$ 1,866 million in our net debt totals and our issuance of U.S. $750 million in debt in the international capital markets during the first half of 2003.

Our short-term debt increased by 63.0% from U.S.$ 1,986 million at December 31, 2002 to U.S.$ 3,238 million at June 30, 2003, primarily as a result of the inclusion of U.S. $ 481 million of PEPSA s short term as part of our short term debt totals.

OPERATING HIGHLIGHTS

1Q-2003	2Q-2003	2Q-2002		For the first half of 2003	2002
			Average daily crude and gas production		
1,613	1,775	1,564	Crude oil and NGLs *(Mbpd)* (1)	1,695	1,545
1,573	1,512	1,531	Brazil	1,543	1,510
40	263	33	International	152	35
1,698	2,226	1,686	Natural gas *(Mmcfpd)* (2)	1,962	1,686
1,494	1,452	1,560	Brazil	1,470	1,566
204	774	126	International	492	120
			Crude oil and NGL average sales price *(U.S. dollars per bbl)*		
29.68	25.21	23.19	Brazil	27.56	20.42
31.07	23.39	23.81	International	27.82	20.54
			Natural gas average sales price *(U.S. dollars per Mcf)*		
1.57	1.81	1.31	Brazil	1.69	1.38
1.72	1.03	1.37	International	1.67	1.33
			Lifting costs *(U.S. dollars per boe)*		
			Crude oil and natural gas - Brazil		
8.45	8.17	6.97	Including government take (3)	8.31	6.85
2.85	3.45	2.92	Excluding government take (3)	3.15	3.17
1.97	1.90	2.22	Crude oil and natural gas - International	1.93	1.99
			Refining costs *(U.S. dollars per boe)*		
0.98	1.11	1.03	Brazil	1.04	1.00
1.07	1.10	0.96	International	1.08	0.99
			Refining and marketing operations *(Mbpd)*		
2,047	2,085	2,022	Primary Processed Installed Capacity	2,085	2,022
			Brazil		
1,956	1,956	1,931	Installed capacity	1,956	1,931
1,623	1,605	1,624	Primary throughput	1,614	1,643
83%	82%	82%	Utilization	83%	84%
			International		
91	129	91	Installed capacity	129	91
70	115	34	Primary throughput	88	47
70%	89%	79%	Utilization	68%	68%
			Domestic crude oil as % of total feedstock		
80	82	77	Processed	81	79
			Imports *(Mbpd)*		
321	269	360	Crude oil imports	295	321
111	127	161	Oil product imports	119	148
72	95	50	Import of gas, alcohol and others	84	65
225	203	287	Crude oil exports	214	224
226	231	269	Oil product exports	228	205
53	57	15	Net imports	56	105

(1) Includes production from shale oil reserves.
(2) Does not include natural gas liquified. Includes reinjected gas.
(3) Government take includes royalties, special government participation and rental of areas.

ANALYSIS OF OPERATING HIGHLIGHTS

Exploration and Production

Domestic crude oil and natural gas production increased 2.2% to 1.543 thousand barrels per day for the first half of 2003 as compared to 1.510 thousand barrels per day for the first half of 2002, largely due to the start-up of six wells in the Marlim field, two wells in the Espadarte (ESPF) field and installation of the production system in the Marlim Sul field, which currently has ten producing wells. The start-up of FPSO Brazil in the Roncador field in December 2002, and the start-up of production in the Jubarte field in October 2002 and the Coral field in February 2003, also contributed to increased production in the first half of 2003.

In the first half of 2003, international crude oil and natural gas production increased 334.3% to 152 million cubic feet per day for the first half of 2003 as compared to 35 million cubic feet per day for the first half of 2002, principally due to the inclusion of production from Petrolera Santa Fe, PELSA and PEPSA in Argentina into our production results, and increased production in Bolivia resulting from increased demand for natural gas in that country during the period. Part of this increase was offset by the expected reduction in mature fields in Angola, Colombia and the United States.

Lifting Costs

Our lifting costs in Brazil, excluding government take decreased 0.63% in the first half of 2003 to US$ 3.15 per barrel of oil equivalent from US$ 3.17 per barrel of oil equivalent for the first half of 2002. This decrease mainly reflected the translation effect of costs incurred in local currency into U.S. dollars, as a result of the devaluation of the Real against the U.S. dollar and the decreased usage of contracted drilling rigs for exploration and drainage of crude oil in the Marlim, Albacora, Enchova, Linguado and Pampo fields.

Our lifting costs in Brazil, including government take, increased 21.3% to US$ 8.31 per barrel of oil equivalent for the first half of 2003 from US$ 6.85 per barrel of oil equivalent for the first half of 2002, due to the new special participation charge assessed to the greater volume of production from the Marlim Sul field. The increase was also a result of the inclusion of the Canto do Amaro and Roncador field in the list of fields subject to the special participation tax and to the increase in domestic reference prices for domestic crude oil.

Our international lifting costs decreased 3.0% to US$ 1.93 per barrel of oil equivalent for the first half of 2003, as compared to US$ 1.99 per barrel of oil equivalent for the first half of 2002. This decrease was primarily due to the decrease in maintenance expenses at the Arauca field, and to lower consumption of natural gas and diesel oil at the Upia field, both in Colombia.

Refining costs

Domestic unit refining costs in the first half of 2003 increased 4.0% to US$ 1.04 per barrel of oil equivalent for the first half of 2003 as compared to US$ 1.00 per barrel of oil equivalent for the first half of 2002, mainly reflecting the translation effect of costs incurred in Reais into U.S. dollars resulting from the devaluation of the Real against the U.S. dollar.

In the first half of 2003, our international unit refining costs increased 9.1% to US$ 1.08 per barrel of oil equivalent for the first half of 2003, as compared to US$ 0.99 per barrel of oil equivalent for the first half of 2002, due to an increase in maintenance expenses and unscheduled stoppages expenses, as a consequence of a change in accounting principles adopted in November 2002 by our international subsidiaries to conform to accounting principles adopted by us for treatment of turnaround costs.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE FIRST HALF OF 2003 COMPARED TO THE FIRST HALF OF 2002

The comparison between our results of operations for the first half of 2003, as compared to the first half of 2002, has been significantly impacted by the fact that the average Real/U.S. dollar exchange rate in the first half of 2003 was 32.5% higher than the average Real/U.S. dollar exchange rate in the first half of 2002. For ease we refer to this change in average exchange rate as the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002.

Because we consolidated the financial statements of PEPSA and PELSA as of a date approximately one month before the close of our balance sheet date, the consolidation of PEPSA and PELSA did not have an effect on our statements of income. Therefore, our consolidated statements of income for the first half of 2003 do not include income statement information for PEPSA or PELSA

Revenues

Net operating revenues increased 34.3% to U.S.$ 14,430 million for the first half of 2003, as compared to net operating revenues of U.S.$ 10,743 million for the first half of 2002. This increase was primarily attributable to the increase in the price of certain oil products in the international markets (the average price of Brent crude oil, an international benchmark oil, increased 24.6% from U.S. $23.09 during the first half of 2002 to U.S. $ 28.77 during the first half of 2003), which increase was partially passed through to Brazilian consumers. The increase in net operating revenues was also attributable, to a lesser extent, to a 5.3% increase in sales volume outside Brazil, which includes both international sales and exports. These increases were partially offset by a 5.4% decrease in sales volume in the domestic market, primarily due to a decrease in Brazilian consumer demand. Consolidated sales of products and services increased 22.6% to U.S.$ 19,986 million for the first half of 2003, as compared to U.S.$ 16,305 million for the first half of 2002, primarily as a result of the increase in the price of certain oil products in the international markets.

Included in sales of products and services are the following amounts which we collected on behalf of the Brazilian federal or state governments:

- Value-added and other taxes on sales of products and services and social security contributions. These taxes increased 16.6% to U.S.$ 3,026 million for the first half of 2003, as compared to U.S.$ 2,596 million for the first half of 2002, primarily due to the increase in sales of products and services; and
- CIDE, the per-transaction tax due to the federal government, which decreased 14.7% to U.S.$ 2,530 million for the first half of 2003, as compared to U.S.$ 2,966 million for the first half of 2002. This decrease was primarily attributable to the 32.5% decrease in the value of the Real against the U.S. dollar and a 5,4% decrease in domestic sales volume, in each case in the first half of 2003, as compared to the first half of 2002. This decrease was partially offset by an increase in the CIDE rate charged on certain oil products.

Cost of sales

Cost of sales for the first half of 2003 increased 27.8% to U.S.$ 6,972 million, as compared to U.S.$ 5,456 million for the first half of 2002. This increase was principally a result of:

- an increase in cost of imports of U.S.$ 661 million, which increase took place despite the fact that our volume of imports decreased, and which was primarily attributable to the increase of crude oil and oil product prices in the international markets;
- a net increase in cost of sales outside Brazil of approximately U.S.$ 97 million, attributable to an increase in our sales volume in the international markets; and,
- an increase in taxes and charges imposed by the Brazilian government which amounted to U.S.$ 1,603 million for the first half of 2003, as compared to U.S.$ 888 million for the first half of 2002. These taxes and charges included the special participation charge (an extraordinary charge payable in the event of high production and/or profitability from our fields) which increased to U.S.$ 826 million for the first half of 2003, as compared to U.S.$ 394 million for the first half of 2002, as a result of our increased production of crude oil during the first half of 2003.

These increases were partially offset by:

- a decrease of approximately U.S.$ 208 million in cost of sales related to the 5.4% reduction in our domestic sales volumes; and
- the effect on our cost of sales as expressed in U.S. dollars of the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002.

Depreciation, depletion and amortization

We calculate depreciation, depletion and amortization relating to exploration and production assets on the basis of the units of production method. Depreciation, depletion and amortization expenses decreased 9.9% to U.S.$ 758 million for the first half of 2003, as compared to U.S.$ 841 million for the first half of 2002. This decrease was primarily attributable to the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002, and was partially offset by the effect of the 2.2% increase in production of crude oil and NGL.

Exploration, including exploratory dry holes

Exploration costs, including exploratory dry holes decreased 3.8% to U.S. $ 201 million for the first half of 2003, as compared to U.S.$ 209 million for the first half of 2002. This decrease was primarily attributable to the effect of the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002. The decrease in exploration costs, including exploratory dry holes, was partially offset by an increase of approximately U.S.$ 19 million in geological and geophysical expenses and U.S.$ 17 million of abandonment costs which had been recorded under depreciation, depletion and amortization in 2002.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased 4.1% to U.S.$ 904 million for the first half of 2003, as compared to U.S.$ 943 million for the first half of 2002.

- Selling expenses decreased 11.7% to U.S.$ 468 million for the first half of 2003, as compared to U.S.$ 530 million for the first half of 2002. This decrease was primarily attributable to the effect of the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002, and was partially offset by the increase of approximately U.S.$ 53 million in expenses related to transportation costs of oil products.
- General and administrative expenses increased 5.6% to U.S.$ 436 million for the first half of 2003, as compared to U.S.$ 413 million for the first half of 2002. This increase was primarily attributable to an increase of U.S.$ 28 million in expenses related to technical consulting services in connection with our increased outsourcing of selected non-core general and administrative activities, an increase of U.S.$ 24 million in expenses related to our profit sharing program and an U.S.$ 23 million in expenses related to employee training. This increase in general and administrative expenses was partially offset by the effect of 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002.

Research and development expenses

Research and development expenses increased 28.2% to U.S.$ 91 million for the first half of 2003, as compared to U.S.$ 71 million for the first half of 2002. This increase was primarily related to our additional investments in programs for environmental safety and deepwater and refining technologies of approximately U.S.$ 37 million, and was partially offset by the effect of the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies increased to a gain of U.S.$ 102 million for the first half of 2003, as compared to a loss of U.S.$ 42 million for the first half of 2002. This increase was mainly attributable to a gain of U.S.$ 38 million for the first half of 2003, as compared to a loss of U.S.$ 42 million for the first half of 2002, related to the financial results of our equity investments in Compañia Mega, an Argentine company that is engaged in natural gas activities, and which was adversely affected by the devaluation of the Argentine Peso against the U.S. dollar in the first half of 2002. The increase in equity in results of non-consolidated companies was also attributable to a gain of U.S.$ 44 million during the first half of 2003 from our investments in natural gas distribution and petrochemical companies.

Financial income

We derive financial income from several sources, including:

- interest on cash and cash equivalents. The majority of our cash equivalents are short-term Brazilian government securities, including securities indexed to the U.S. dollar. We also hold balances in U.S. dollar deposits;
- long-term government securities that we acquired as a result of the privatization of our petrochemical assets; and
- government receivables, primarily the Petroleum and Alcohol Account.

Financial income decreased 68.4% to U.S.$ 213 million for the first half of 2003 as compared to U.S.$ 674 million for the first half of 2002. This decrease was primarily attributable to:

- a reduction in financial interest income from short-term investments, which declined 95.2% to U.S.$ 22 million for the first half of 2003, as compared to U.S.$ 453 million for the first half of 2002, primarily due to the appreciation in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002; and
- a reduction in financial interest income from Government securities (National Treasury Bonds), which were transferred last year to PETROS, our pension plan for employees, to reduce our pension liability, which decreased 80.6% to U.S.$ 13 million for the first half of 2003, as compared to U.S.$67 million for the first half of 2002.

Financial expense

Financial expense increased 24.4% to U.S.$ 556 million for the first half of 2003, as compared to U.S.$ 447 million for the first half of 2002.This increase was primarily attributable to the increase in our debt.

Monetary and exchange variation on monetary assets and liabilities, net

Monetary and exchange variation on monetary assets and liabilities, net generated a gain of U.S.$ 659 million for the first half of 2003, as compared to a loss of U.S.$ 616 million for the first half of 2002. Approximately 89% of our indebtedness was denominated in foreign currencies during each of the first half of 2003 and the first half of 2002. The increase in monetary and exchange variation on monetary assets and liabilities, net was primarily attributable to the effect of a 23.0% appreciation of the Real against the U.S. dollar during the first half of 2003, as compared to an 18.4% devaluation of the Real against the U.S. dollar during the first half of 2002.

Employee benefit expense

Employee benefit expense consists of financial costs relating to pension and other post-retirement benefits. Our employee benefit expense remained constant at U.S.$ 262 million for the first half of 2003, as compared to the first half of 2002. The increase in the provision of U.S.$ 64 million resulting from the annual actuarial calculation of the pension plan liability, was offset by the effect of the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002.

Other taxes

Other taxes, consisting of miscellaneous value-added, transaction and sales taxes, decreased 18.0% to U.S.$ 146 million for the first half of 2003, as compared to U.S.$ 178 million for the first half of 2002. This decrease was primarily attributable to the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002, and was partially offset by an increase of U.S.$ 31 million in the CPMF, a tax payable in connection with certain financial transactions.

Other expenses, net

Other expenses, net are primarily composed of gains and losses recorded on sales of fixed assets, general advertising and marketing expenses and certain other non-recurring charges. Other expenses, net for the first half of 2003 increased to U.S.$ 580 million, as compared to an expense of U.S.$ 37 million for the first half of 2002. The most significant charges for the first half of 2003 were:

- a U.S.$205 million provision for losses related to our investments in certain thermoelectric power plants in consideration of the fact that despite decreased demand and low energy prices, we have contractual obligations with certain power plants to cover losses when demand for power and electricity prices are low;
- a U.S.$114 million expense for a lower of cost or market adjustment with respect to turbines, which we originally expected to use in connection with our thermoelectric projects, but which we no longer intend to use for such projects;
- a U.S.$81 million expense for unscheduled stoppages of plant and equipment; and
- a U.S.$ 39 million expense for general advertising and marketing expenses unrelated to direct revenues;

The most significant nonrecurring charge for the first half of 2002 was an expense of U.S.$ 49 million for contractual contingencies relating to thermoelectric power plants.

Income tax (expense) benefit

Income before income taxes, minority interest and accounting changes increased 112.0% from U.S.$ 2,315 million for the first half of 2002, to U.S.$ 4,907 million for the first half of 2003. As a result, we recorded an income tax expense of U.S.$ 1,644 million for the first half of 2003, a 78.1% increase from an expense of U.S.$ 923 million for the first half of 2002.

The reconciliation between the tax calculated based upon statutory tax rates to income tax expense and effective rates is shown in Note 5 to our unaudited consolidated financial statements as of June 30, 2003.

Cumulative effect of change in accounting principle

In the first quarter of 2003, we generated a gain of U.S.$697 million (net of U.S.$359 million of taxes) resulting from the adoption of SFAS No. 143 - Accounting for Asset Retirement Obligations. The adjustment was due to the difference in the method of accruing site restoration costs under SFAS 143, as compared with the method required by SFAS 19 - Financial Accounting and Reporting by Oil and Gas Producing Companies. Under SFAS 19, we had accrued upstream site restoration costs ratably over the productive lives of the assets. Under SFAS 143, we record the fair value of asset retirement obligations as liabilities on a discounted basis when they are incurred, which is typically at the time the related assets are installed. The income adjustment described above resulted from reversing the higher liability accumulated under SFAS 19 in order to adjust it to a lower present value amount resulting from transition to SFAS 143. This amount being reversed in transaction, which was previously charged to operating earnings under SFAS 19, will again be charged to earnings under SFAS 143 in future years. Please see Note 3 to our unaudited consolidated financial statements as of June 30, 2003.

THE PETROLEUM AND ALCOHOL ACCOUNT

The Petroleum and Alcohol Account - Receivable from the Federal Government has been used to accumulate the impact on us of the federal government's regulatory policies for the Brazilian oil and gas industry.

According to legislation applicable to the Petroleum and Alcohol Account until December 31, 2001, we had the right to offset amounts owed to the federal government relating to the regulatory policies of the Brazilian oil and gas industry against the receivable that increased and decreased the Petroleum and Alcohol Account.

On June 30, 1998, the federal government issued National Treasury Bonds - Series H in our name, which were placed with a federal depositary to support the balance of this account. On June 27, 2003, the National Treasury Department Secretary issued Administrative Instruction 348, authorizing the cancellation of 138,791 NTN-H, expired on June 30, 2003 and held in guarantee of payment of an eventual negative balance in the Petroleum and Alcohol Account and the issue of new 138,791 NTN-H, with the same characteristics but expiring on June 30, 2004. The value of the outstanding bonds at June 30, 2003 was US$ 59 million.

The federal government certified the balance of the Petroleum and Alcohol Account as of June 30, 1998. The changes in the Petroleum and Alcohol Account in the period from July 1, 1998 to December 20, 2002 are subject to audits by the National Petroleum Agency - ANP, and the results of the audit will be the basis for the settlement of the account with the federal government. The settlement of accounts with the federal government, should have been completed by December 31, 2002, according to the provisions of Law No. 10453 of May 13, 2002, amended by Decree No. 4491 of November 29, 2002. On June 26, 2003, Provisional Measure 123, Article 11, extended the term of settlement of accounts involving reciprocal debts and credits between us and the federal government to June 30, 2004, and in so doing, automatically extended the term for certification of the outstanding balance in the Petroleum and Alcohol Account.

As a result of the deregulation of the Brazilian oil and gas market and applicable legislation, effective January 2, 2002, the Petroleum and Alcohol Account is no longer to be used to reimburse expenses related to the supply of oil products and alcohol to us and third parties.

The balance of the Petroleum and Alcohol Account at June 30, 2003 represents a credit to us against the federal government in the amount of U.S.$ 236 million, an increase of 29.7% or U.S.$ 54 million when compared with the balance at December 31, 2002.

The following summarizes the changes in the Petroleum and Alcohol Account for the first half of 2003:

	U.S. $ million
	June 30, 2003
Beginning balance	182
Reimbursements to third parties	5
Translation Loss	49
Ending balance	**236**

TAX ASSESSMENT - INTERNAL REVENUE SERVICE OF RIO DE JANEIRO

The Internal Revenue Service of Rio de Janeiro based on Law No. 9,537/97, Article 2, considers that drilling and production platforms cannot be classified as sea-going vessels and therefore should not be chartered but leased. Based on this interpretation, overseas remittances for servicing chartering agreements would be subject to withholding tax at the rate of 15% or 25%.

The Internal Revenue Service filed two tax assessments against us in connection with withholding tax on foreign remittances (IRRF) of payments related to charter of vessels of movable platform types for the years 1998 and 1999 through 2002.

On June 27, 2003, the Internal Revenue Service served a tax assessment notice on us amounting to R$ 3,064 million (U.S $1,065 million) and covering the period from 1999 to 2002. Using the same arguments, on February 17, 2003, another tax assessment notice had already been issued for R$ 93 million (U.S. $ 32 million) with respect to 1998, against which, on March 20, 2003, we filed an appeal.

We disagree with the Internal Revenue Service s interpretation as to charter contracts, given that the Federal Supreme Court has already ruled that, in the context of its judgment with respect to the IPI (Federal VAT) tax, offshore platforms are to be classified as sea-going vessels. Additionally, the 1994 and 1999 Income Tax Regulations support the non-taxation (RIR/1994) and the zero tax rate (RIR/1999) for the remittances in question.

On July 28, 2003, we appealed the June 27 tax assessment, and have yet to receive a response from the Internal Revenue Service.

SUBSEQUENT EVENTS

In light of decreased demand and lower prices for electricity, in July 2003, we suspended our equity participation in the Termogaucha, Termoparaiba, Termoalagoas and Termosergipe thermoelectric power projects. The projects were expected to increase thermoelectric capacity by a combined 850 megawatts.

Over the last 12 months we have discovered approximately 4 billion barrels of crude oil and 419 billion cubic meters of natural gas (2.6 billion barrels of oil equivalent) in Brazil, representing a potentially recoverable total of 6.6 billion barrels of oil equivalent. The following information updates the results of ongoing evaluations in these fields which we had previously made public. Unless otherwise noted, it remains uncertain wheter the quantities discovered will ultimately prove to be commercially recoverable.

We discovered:

- 150 million barrels of light crude oil (API gravity of 42 degrees) in the Sergipe/Alagoas Basin. The area is being evaluated for exploration purposes with a view to making a future declaration as to the commercial recoverability of such quantities;
- 450 million barrels of light crude oil (API gravity of 40 degrees) in the Espírito Santo Basin. The area is under initial exploratory evaluation.
- 1.1 billion barrels of heavy crude oil (API gravity 17 to 20 degrees) in the Campos Basin, in the following fields:

  - Jubarte and Cachalote fields (950 million barrels of crude oil). We have incorporated 500 million barrels of this total into our proved reserves;

  - Marlim Leste field (150 million barrels of crude oil (API gravity of 20 degrees); and
- 435 million barrels of light crude oil in the Santos Basin, which is still under exploratory evaluation, and 419 billion cubic meters of natural gas (2.6 billion barrels of oil equivalent), of which 70 billion cubic meters had already been announced as potential reserves in April 2003.

ACQUISITION OF AN INTEREST IN PETROBRAS ENERGIA PARTICIPACIONES S.A.- PEPSA (FORMERLY KNOWN AS PEREZ COMPANC S.A.) AND PETROLERA ENTRE LOMAS S.A.(FORMERLY KNOWN AS PETROLERA PEREZ COMPANC S.A.)

On October 17, 2002, we signed the Final Share Acquisition Agreement with the Perez Companc family and the Fundación Perez Companc, completing the acquisition of a controlling interest of Perez Companc S.A. (currently known as Petrobras Energia Participaciones S.A - PEPSA) , and Petrolera Perez Companc S.A. (currently known as Petrolera Entre Lomas S.A.). In October 2002, in accordance with Argentine legislation, the necessary documentation was submitted to the national antitrust agency (CNDC - Comisión Nacional de Defensa de la Competencia) in order to obtain approval for the transaction.

On May 13, 2003, the Argentine Antitrust Committee (Comissión Nacional de Defensa de la Competencia), an agency reporting to the Argentine Secretariat of Competition, Deregulation and Consumer Protection (Secretaría de la Competencia, la Deregulación y la Defensa del Consumidor), approved the purchase of 58.62% of the capital stock of PEPSA and 39.67% of the capital stock of Petrolera Entre Lomas S.A capital stock by PETROBRAS Participações S.L., a company controlled by us. As a result of the purchase of a 39.67% interest in the capital stock of Petrolera Entre Lomas S.A, together with the pick-up of 58.62% of PEPSA s interest in the capital stock of Petrolera Entre Lomas S.A, we have a controlling interest in PEL equal to 50.73% and thus has consolidated the entity.

The acquisition was consummated principally to expand our operations into geographical markets where we had little activity. By acquisition of PEPSA and Petrolera Entre Lomas S.A., we were able to gain immediate access to the Argentine market and brand recognition. The goodwill of US$178 generated by the transaction is attributed principally to downstream activities.

The purchase price to be paid for market value of PEPSA and Petrolera Entre Lomas S.A was based on an economic valuation model of expected future earnings of those companies, by means of an economic valuation that considered relevant factors including the potential effects of the economic situation of Argentina. We paid US$689 in cash and US$338 in bonds to the Perez-Companc family for the shares acquired of PEPSA and Petrolera Entre Lomas S.A.

The financial statements of PEPSA and Petrolera Entre Lomas S.A. were recorded using the purchase method of accounting and the financial statements of PEPSA and Petrolera Entre Lomas S.A. were included in the consolidated PETROBRAS financial statements, beginning since May 13, 2003. The purchase price for the of PEPSA and Petrolera Entre Lomas S.A. acquisition was allocated based on the fair market value of the assets acquired and the liabilities assumed as of the acquisition date as determined by independent appraisers.

The fair value of the net assets of PEPSA and Petrolera Entre Lomas S.A were based on undiscounted future cash flow models of PEPSA and Petrolera Entre Lomas S.A.

PEPSA operates primarily in the areas of oil field exploration and production, refining, transport and commercialization, electricity generation, transmission and distribution, and petrochemicals. Its activities are primarily conducted in Argentina, Bolívia, Brazil, Ecuador, Peru and Venezuela. Petrolera Entre Lomas S.A. operates primarily in the oil and gas exploration and production industry in Argentina.

The following unaudited pro forma summary financial information presents the consolidated results of operations as if the acquisition of PEPSA and Petrolera Entre Lomas S.A had occurred at the beginning of the periods presented:

(i) Consolidated Income Statements data for the six month period ended:

	2003		2002	
	As reported	**Pro forma (unaudited)**	**As reported**	**Pro forma (unaudited)**
Net operation revenues	14,430	15,117	10,743	11,290
Costs and expenses	(8,953)	(9,395)	(7,520)	(7,932)
Financial expenses, net	316	166	(389)	(1,066)
Others	(886)	(915)	(519)	(513)
Income tax expense	(1,644)	(1,641)	(923)	(922)
Minority interest	(192)	(234)	94	307
Cumulative effect of change in accounting principles, net of taxes	697	698		
Net income for the period	3,768	3,796	1,486	1,168
Basic and diluted earnings per share	3.44	3.46	1.37	1.07

(ii) Domestic and international reserves of crude oil and natural gas as of December 31, 2002:

	Oil (millions of barrels)		Gas (billions of cubic feet)	
	As reported	**Pro forma**	**As reported**	**Pro forma**
Net proved developed reserves at December 31, 2002	4,007.6	4,331.8	5,936.4	6,700.4
Net undeveloped reserves at December 31, 2002	4,947.3	5,217.0	3,536.4	4,085.6
	8,954.9	9,548.8	9,472.8	10,786.0

BUSINESS SEGMENTS

NET INCOME BY BUSINESS SEGMENT	**U.S. $ million For the first half of**	
	2003	**2002**
Exploration and Production	3,532	1,631
Supply	830	588
Distribution	51	38
Gas and Energy	(235)	(79)
International [(1)]	134	(29)
Corporate	(340)	(453)
Eliminations	(204)	(210)
Net income	3,768	1,486

(1) As of June 30, 2003, the international business segment includes the Argentine operations of Petrolera Santa Fe, which we acquired in October 2002, but excludes those of Perez Companc S.A. and Petrolera Perez Companc S.A., as the transfer of control of these entities was approved by the Argentine regulatory authorities until May 13, 2003.

Segment Information

The comparison between our results of operations has been significantly impacted by the Real s devaluation against the U.S. dollar, due to the fact that the average exchange rate in the first half of 2003 was 32.5% higher than the average exchange rate in the first half of 2002.

Exploration and Production

Consolidated net income for our exploration and production segment increased 116.5% to U.S.$ 3,532 million for the first half of 2003, as compared to U.S.$ 1,631 million for the first half of 2002. This increase was primarily attributable to:

- a U.S.$2,167 million increase in net operating revenues, as a result of the increase in the price of crude oil in the international markets and a 2.2% increase in production of crude oil, NGL and natural gas; and
- the cumulative effect of a change in accounting principles relating to future liabilities for site restoration costs, which led to an increase in our net income of U.S.$ 697 million, net of taxes, in the first half of 2003.

These effects were partially offset by a U.S.$ 528 million increase in cost of sales, primarily composed of:

- a U.S.$ 69 million increase in costs related to crude oil, natural gas and NGL volumes sold or transferred to other business segments; and
- a U.S.$ 715 million increase in taxes and charges imposed by the Brazilian government.

Supply

Consolidated net income for our supply segment increased 41.1% to U.S.$830 million for the first half of 2003, as compared to U.S.$588 million for the first half of 2002.

This increase was primarily attributable to an increase of approximately U.S.$3,140 million in net operating revenues resulting from the increase in the average price of oil products in the domestic market, which increase was partially passed through Brazillian consumers.

This increase was partially offset by:

- the increase of U.S.$2,791 million in cost of sales, mainly due to the increase in import prices of crude oil and oil products and increases in prices of products transferred from other segments, which increase took place despite the fact that the volume of oil products decreased 5% as a result of a decrease in Brazilian consumer demand.

Gas and Energy

Consolidated net income for our Gas and Energy segment registered a net loss of U.S$ 235 million for the first half of 2003, as compared to a net loss of U.S.$ 79 million for the first half of 2002. This increase in net loss was primarily attributable to:

- a U.S.$205 million provision for non-reimbursable contractual contingency payments, related to our investments in thermoelectric power plants that will come due during the remaining months of 2003;
- a U.S.$114 million expense for a lower of cost or market adjustment in thermoelectric equipment; and
- an increase of approximately U.S.$81 million in cost of sales resulting from the 12% increase in the volume of natural gas sold.

This decrease was partially offset by:

- an increase of approximately U.S.$ 192 million in net operating revenues resulting from the increase of natural gas prices and the 12% increase in the volume of natural gas sold;
- a decrease of approximately U.S.$ 186 million in debt expenses net, primarily attributable to the effect of the 23.0% appreciation of the Real against the U.S. dollar during the first half of 2003, as compared to an 18.4% devaluation of the Real against the U.S. dollar during the first half of 2002; and
- an increase of approximately U.S.$ 48 million related to the result of our equity investments in gas distribution companies.

Distribution

Consolidated net income for our distribution segment increased 34.2% to U.S$ 51 million for the first half of 2003, as compared to consolidated net income of U.S$ 38 million for the first half of 2002. This increase was primarily attributable to:

- the increase of net operating revenues in the amount of U.S.$ 473 million as a result of the increase of oil products sales prices to refineries (we increased these sales prices in order to maintain our gross margin), notwithstanding the 9% decrease of volume of oil products sold from 83.6 million barrels of oil equivalent in the first half of 2002 to 76.1 million barrels of oil equivalent in the first half of 2003 and the decrease of market share in the Brazilian oil products market from 33.2% in the first half of 2002 to 31.1% in the first half of 2003; and

- the decrease of U.S.$ 52 million in selling, general and administrative expenses, primarily attributable to the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002 .

This increase was partially offset by the increase of U.S$ 504 million in cost of sales, reflecting the increase of oil products prices to refineries.

International

Consolidated net income for our international segment increased to U.S.$ 134 million for the first half of 2003, as compared to a net loss of U.S.$ 29 million for the first half of 2002. This increase was primarily attributable to:

- an increase of approximately U.S.$ 233 million in net operating revenues resulting from the increase of oil products prices in the international markets and increases in sales volumes; and
- a U.S.$ 80 million increase in results of non-consolidated companies, including results of our equity investments in Compañia Mega, an Argentine company which generated a gain of U.S.$ 38 million during the first half of 2003 as compared to a loss of U.S.$ 42 million during the first half of 2002, as a result of the devaluation of the Argentine Peso against the U.S. dollar during the first quarter of 2002.

This increase was partially offset by a U.S.$ 134 million increase in cost of sales, mainly due to an increase in sales volumes.

Corporate

Consolidated loss for the units that make up our corporate segment decreased 33.2% to a net loss of U.S.$ 340 million during the first half of 2003, as compared to a net loss of U.S.$ 453 million during the first half of 2002. This decrease was primarily attributable to the 32.5% decrease in the value of the Real against the U.S. dollar in the first half of 2003, as compared to the first half of 2002, and was partially offset by the increase in income tax expenses during the first half of 2003.

CAPITAL EXPENDITURES

In the first half of 2003, we continued to prioritize capital expenditures directed towards the development of crude oil and natural gas production. Total capital expenditures were U.S.$ 2,532 million in the first half of 2003, representing a 6.4% increase from capital expenditures made in the first half of 2002. Of the capital expenditures incurred during the first half of 2003, U.S.$ 1,577 million (62.3%) were directed towards domestic exploration and production activities, which include our exploration and production segment and our project financings.

Activities

	U.S.$ million First half of	
	2003	**2002**
Exploration and Production	1,577	1,486
Supply	608	362
Distribution	49	95
Gas and Energy	126	256
International	116	121
Corporate	56	59
Total capital expenditures	**2,532**	**2,379**

Many of our capital expenditures for the first half of 2003 and 2002 were made in connection with exploration and development projects in the Campos Basin, a number of which are being financed through project financings. Our capital expenditure budget for 2003 provided in our 2003 Annual Business Plan, including project finance, is U.S.$ 7.2 billion. Below are our material project financing expenditures by project for the first half of 2003 and 2002:

Activities

	U.S.$ million First half of	
Field	**2003**	**2002**
Albacora		42
Espadarte / Voador / Marimbá EVM	9	74
Cabiúnas	10	10
Pargo / Carapeba / Garoupa / Cherne PCGC	11	
Nova Marlim	56	
Companhia Petrolífera Marlim		42
Others		16
	86	**184**

In line with our objective of increasing production, we have signed 65 agreements to invest in exploration and production development areas where we have already made commercial discoveries.

Income Statement
(Unaudited)
(in millions of U.S. dollars, except for share and per share data)

				First semester of	
1Q-2003	**2Q-2003**	**2Q-2002**		**2003**	**2002**
9,578	10,408	8,829	Sales of products and services	19,986	16,305
			Less:		
(1,387)	(1,639)	(1,366)	Value-added and other taxes on sales and services	(3,026)	(2,596)
(1,148)	(1,382)	(1,449)	CIDE	(2,530)	(2,966)
7,043	7,387	6,014	Net operating revenues	14,430	10,743
(3,092)	(3,880)	(2,980)	Cost of sales	(6,972)	(5,456)
(413)	(345)	(439)	Depreciation, depletion and amortization	(758)	(841)
(67)	(134)	(110)	Exploration, including exploratory dry holes	(201)	(209)
	(27)		Impairment	(27)	
(460)	(444)	(490)	Selling, general and administrative expenses	(904)	(943)
(45)	(46)	(33)	Research and development expenses	(91)	(71)
(4,077)	(4,876)	(4,052)	Total costs and expenses	(8,953)	(7,520)
11	91	34	Equity in results of non-consolidated companies	102	(42)
227	(14)	387	Financial income	213	674
(252)	(304)	(235)	Financial expense	(556)	(447)
181	478	(661)	Monetary and exchange variation on monetary assets and liabilities, net	659	(616)
(116)	(146)	(111)	Employee benefit expense	(262)	(262)
(67)	(79)	(105)	Other taxes	(146)	(178)
(296)	(284)	23	Other expenses, net	(580)	(37)
(312)	(258)	(668)		(570)	(908)
2,654	2,253	1,294	Income before income taxes and minority interests and accounting change	4,907	2,315

			Income tax expense:		
(916)	(596)	(451)	Current	(1,512)	(785)
(67)	(65)	(115)	Deferred	(132)	(138)
(983)	(661)	(566)	Total income tax expense	(1,644)	(923)
(59)	(133)	145	Minority interest in results of consolidated subsidiaries	(192)	94
1,612	1,459	873	Net income before accounting change effect	3,071	1,486
697			Cumulative effect of accounting change, net of income tax	697	
2,309	1,459	873	Net income for the period	3,768	1,486
			Weighted average number of shares outstanding		
634,168,418	634,168,418	634,168,418	Common/ADS	634,168,418	634,168,418
461,802,497	462,369,507	451,935,669	Preferred/ADS	462,369,507	451,935,669
			Basic and diluted earnings per share		
			Common/ADS and Preferred/ADS		
1.47	1.33	0.80	Before effect of change in accounting principle	2.80	1.37
2.11	1.33	0.80	After effect of change in accounting principle	3.44	1.37

Selected Balance Sheet Data
(in millions of U.S. dollars, except for share data)

	As of June 30, 2003	**As of December 31, 2002**
	(Unaudited)	
<u>**Assets**</u>		
Current assets		
Cash and cash equivalents	5,599	3,301
Accounts receivable, net	2,827	2,267
Inventories	3,317	2,540
Other current assets	2,248	2,089
Total current assets	13,991	10,197
Property, plant and equipment, net	27,407	18,224
Investments in non-consolidated companies and Other investments	1,037	334
Other assets		
Petroleum and Alcohol Account Receivable from Federal Government	236	182
Government securities	243	176
Goodwill on PEPSA	183	
Unrecognized pension obligation	38	61
Advances to suppliers	416	450

Investment in Perez Companc S.A.		1,073
Others	2,176	1,321
Total other assets	3,292	3,263
Total assets	45,727	32,018
Liabilities and stockholders' equity		
Current liabilities		
Trade accounts payable	1,717	1,702
Short-term debt	1,494	671
Current portion of long-term debt	929	727
Current portion of project financings	474	239
Capital lease obligations	341	349
Other current liabilities	4,105	3,257
Total current liabilities	9,060	6,945
Long-term liabilities		
Employees postretirement benefitsbenefits	3,297	2,423
Project financings	4,036	3,800
Long-term debt	9,870	6,987
Capital lease obligationsobligations	1,767	1,907
Other liabilities	2,036	791
Total long-term liabilities	21,006	15,908
Minority interest	315	(136)
Stockholders' equity		
Shares authorized and issued:		
Preferred stock 2003 - 462,369,507 (2002 451,935,669 shares)	2,973	2,459
Common stock 2003 and 2002 - 634,168,418 shares	4,289	3,761
Reserves and others	8,084	3,081
Total stockholders' equity	15,346	9,301
Total liabilities and stockholders equity	45,727	32,018

Statement of Cash Flows Data
(Unaudited)
(in millions of U.S. dollars)

1Q-2003	2Q-2003	2Q-2002		First half of 2003	First half of 2002
			Cash flows from operating activities		
2,309	1,459	873	Net income for the period	3,768	1,486
			Adjustments to reconcile net income to net cash provided by operating activities		
317	414	578	Depreciation, depletion and amortization	731	1,022
34	111	67	Loss on property, plant and equipment	145	132

92	(428)	702	Foreign exchange and monetary loss	(336)	800
(697)			Cumulative effect of accounting change, net of income tax	(697)	
122	161	(66)	Others	283	81
			Decrease (increase) in assets		
(211)	133	(453)	Accounts receivable, net	(78)	(693)
(7)	(3)	(67)	Petroleum and Alcohol Account - Receivable from Federal Government	(10)	(57)
(366)	285	(431)	Inventories	(81)	(660)
(90)	489	(204)	Advances to suppliers	399	(283)
(158)	(9)	(490)	Others	(167)	(402)
			Increase (decrease) in liabilities		
(95)	(299)	139	Trade accounts payable	(394)	164
	(223)		Taxes payable, other than income taxes	(223)	310
756	(532)	593	Income taxes	224	
250	(14)	342	Other liabilities	236	411
2,256	**1,544**	**1,583**	**Net cash provided by operating activities**	**3,800**	**2,311**
			Cash flows from investing activities		
(875)	(1,657)	(1,279)	Additions to property, plant and equipment	(2,532)	(2,379)
	231		Effect on cash from merger with subsidiaries and affiliates	231	
(163)	126		Investments	(37)	(119)
(29)	(169)	(71)	Others	(198)	(17)
(1,067)	**(1,469)**	**(1,350)**	**Net cash used in investing activities**	**(2,536)**	**(2,515)**
(186)	**392**	**(1,472)**	**Cash flows from financing activities**	**206**	**(1,864)**
1,003	**467**	**(1,239)**	**Increase (decrease) in cash and cash equivalents**	**1,470**	**(2,068)**
197	631	(900)	Effect of exchange rate changes on cash and cash equivalents	828	(986)
3,301	4,501	6,445	Cash and cash equivalents at beginning of period	3,301	7,360
4,501	**5,599**	**4,306**	**Cash and cash equivalents at the end of period**	**5,599**	**4,306**

Income Statement by Segment

	First semester of 2003 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
STATEMENT OF INCOME								
Net operating revenues to third parties	1,131	8,426	485	638	3,750			14,430
Inter-segment net operating revenues	6,850	3,246	143	80	59		(10,378)	

Net operating revenues	7,981	11,672	628	718	3,809		(10,378)	14,430
Cost of sales	(2,717)	(9,899)	(408)	(507)	(3,479)		10,038	(6,972)
Depreciation, depletion and amortization	(487)	(159)	(38)	(51)	(13)	(10)		(758)
Exploration, including dry holes	(217)			(11)				(228)
Selling, general and administrative expenses	(66)	(332)	(79)	(56)	(177)	(232)	38	(904)
Research and development expenses	(45)	(19)	(6)			(21)		(91)
Cost and expenses	(3,532)	(10,409)	(531)	(625)	(3,669)	(263)	10,076	(8,953)
Results of non-consolidated companies		15	50	38		(1)		102
Debt expenses, net	(129)	121	3	24	(39)	336		316
Employee benefit expense		(1)			(8)	(253)		(262)
Other expenses, net	(86)	(154)	(366)	(1)	(9)	(110)		(726)
Income before income taxes and minority interest and accounting change	4,234	1,244	(216)	154	84	(291)	(302)	4,907
Income tax benefits (expense)	(1,399)	(398)	159	(23)	(32)	(49)	98	(1,644)
Minority interest		(16)	(178)	3	(1)			(192)
Income before accounting change	2,835	830	(235)	134	51	(340)	(204)	3,071
Cumulative effect of accounting change, net of income tax	697							697
Net income (loss)	3,532	830	(235)	134	51	(340)	(204)	3,768

	First semester of 2002 U.S.$ million							
	E&P	**SUPPLY**	**GAS & ENERGY**	**INTERN.**	**DISTRIB.**	**CORPOR.**	**ELIMIN.**	**TOTAL**
STATEMENT OF INCOME								
Net operating revenues to third parties	914	5,762	347	447	3,273			10,743
Inter-segment net operating revenues	4,900	2,770	89	38	63		(7,860)	
Net operating revenues	**5,814**	**8,532**	**436**	**485**	**3,336**		**(7,860)**	**10,743**
Cost of sales	(2,189)	(7,108)	(327)	(373)	(2,976)		7,517	(5,456)
Depreciation, depletion and amortization	(601)	(113)	(32)	(49)	(41)	(5)		(841)
Exploration, including dry holes	(186)			(23)				(209)
Selling, general and administrative expenses	(38)	(404)	(26)	(43)	(229)	(203)		(943)
Research and development expenses	(33)	(21)	(2)			(15)		(71)
Cost and expenses	**(3,047)**	**(7,646)**	**(387)**	**(488)**	**(3,246)**	**(223)**	**7,517**	**(7,520)**
Results of non-consolidated companies		(1)	2	(43)				(42)
Debt expenses, net	(234)	1	(183)	25	8	(6)		(389)
Employee benefit expense						(262)		(262)
Other expenses, net	(63)	9	(64)	24	(8)	(127)	14	(215)

Income before income taxes and minority interest	**2,470**	**895**	**(196)**	**3**	**90**	**(618)**	**(329)**	**2,315**
Income tax benefits (expense)	(839)	(301)	(35)	(32)	(37)	202	119	(923)
Minority interest		(6)	152		(15)	(37)		94
Net income	**1,631**	**588**	**(79)**	**(29)**	**38**	**(453)**	**(210)**	**1,486**

Other Expenses, Net By Segment

	First semester of 2003 U.S.$ million							
	E&P	**SUPPLY**	**GAS & ENERGY**	**INTERN.**	**DISTRIB.**	**CORPOR.**	**ELIMIN.**	**TOTAL**
Provisions losses on financial exposure-Thermoplant			(205)					(205)
Institution Relations and Culture Projects		(1)				(38)		(39)
Unscheduled stoppages - plant and equipment	(47)	(34)						(81)
The Listing of P-34	(28)							(28)
Losses as a result of Legal Proceedings	(9)	(22)				(28)		(59)
Result of hedge operations with oil & oil by-products		(11)						(11)
Rent revenues					9			9
Losses from alcohol inventory - prior years		(25)						(25)
Expenses for oil and oil by-product transport - prior years		(29)						(29)
Production costs - prior years	(15)							(15)
Adjustment to market value of turbines for the thermoelectric plants			(114)					(114)
Other taxes	(5)	(13)	(6)	(8)	(23)	(100)		(155)
Effect of accounting change								
Others	18	(19)	(41)	7	5	56		26
	(86)	(154)	(366)	(1)	(9)	(110)		(726)

	First semester of 2002 U.S.$ million							
	E&P	**SUPPLY**	**GAS & ENERGY**	**INTERN.**	**DISTRIB.**	**CORPOR.**	**ELIMIN.**	**TOTAL**
Contractual Contingencies with Thermoplants			(49)					(49)
Institution Relations and Culture Projects						(48)		(48)
Unscheduled stoppages - plant and equipment	(49)	(12)						(61)
Dividends		7						7
Losses as a result of Legal Proceedings	(21)	(5)				(17)		(43)
Petroleum & Alcohol Account Regularization						(6)		(6)
Other taxes		(13)	(4)	(4)	(18)	(137)		(176)
Others	7	32	(11)	28	10	81	14	161
	(63)	9	(64)	24	(8)	(127)	14	(215)

Selected Balance Sheet Data by Segment

	First semester of 2003 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Current assets	1,453	5,676	514	1,732	1,246	6,253	(2,883)	13,991
Cash and cash equivalents	2	435	53	449	43	4,617		5,599
Other currents assets	1,451	5,241	461	1,283	1,203	1,636	(2,883)	8,392
Property, plant and equipment, net	15,516	4,279	2,665	4,160	404	383		27,407
Investments in non-consolidated companies and other investments	9	281	149	496	21	81		1,037
Non-current assets	916	260	547	281	200	3,364	(2,276)	3,292
Petroleum and Alcohol Account						236		236
Government securities held-to-maturity						243		243
Other assets	916	260	547	281	200	2,885	(2,276)	2,813
Total assets	17,894	10,496	3,875	6,669	1,871	10,081	(5,159)	45,727

Selected Data for International Segment

	First semester of 2003 U.S.$ million INTERNATIONAL						
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
INTERNATIONAL							
ASSETS	4,190	1,105	529	162	2,874	(2,191)	6,669
STATEMENT OF INCOME							
Net Operating Revenues	240	532	48	274	6	(382)	718
Net operating revenues to third parties	90	220	48	274	6		638
Inter-segment net operating revenues	150	312				(382)	80
Net income	80	4	9	1	(4)	44	134

	Year ended December 31, 2002 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Current assets	1,181	4,323	819	736	973	3,124	(959)	10,197
Cash and cash equivalents	1	509	16	211	59	2,505		3,301
Other current assets	1,180	3,814	803	525	914	619	(959)	6,896
	7	168	70	11	16	62		334

Investments in non-consolidated companies and other investments								
Property, plant and equipment, net	11,611	3,186	1,881	1,024	296	226		18,224
Non current assets	385	211	556	1,092	141	1,932	(1,054)	3,263
Petroleum and Alcohol Account						182		182
Government securities						176		176
Other assets	385	211	556	1,092	141	1,574	(1,054)	2,905
Total assets	13,184	7,888	3,326	2,863	1,426	5,344	(2,013)	32,018

	U.S.$ million INTERNATIONAL						
	E&P	**SUPPLY**	**GAS & ENERGY**	**DISTRIB.**	**CORPOR.**	**ELIMIN.**	**TOTAL**
INTERNATIONAL							
ASSETS (As of December 31, 2002)	1,638	349	39	160	1,479	(802)	2,863
STATEMENT OF INCOME (First semester of 2002)							
Net Operating Revenues	128	432	15	189		(279)	485
Net operating revenues to third parties	38	205	15	189			447
Inter-segment net operating revenues	90	227				(279)	38
Net income	16	14		(24)	(35)		(29)

This press release contains statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realized. Prospective investors are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements, which speak only as of the date made.

For further information, please contact:

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: September 10, 2003

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By: /s/ José Sergio Gabrielli de Azevedo

José Sergio Gabrielli de Azevedo
Chief Financial Officer and Investor Relations Director

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 offuture 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.