

BRAZILIAN PETROLEUM CORP

Form 6-K

March 12, 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 March, 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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**PETROBRAS ANNOUNCES RESULTS FOR THE FOURTH QUARTER 2006**

**(Rio de Janeiro February 13, 2007) PETRÓLEO BRASILEIRO S.A. PETROBRAS today announced its consolidated results expressed in millions of Reais in accordance with Brazilian GAAP.**

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**PETROBRAS 2006 consolidated net income totaled R\$ 25,919 million (9% above the previous year), the highest income recorded in its history, as a result of an increase in domestic oil and NGL production (6%) and oil products (2%) and higher prices in both domestic and international markets. Lower international prices of oil and oil products limited net income during the fourth quarter to R\$ 5,200 million.**

**PETROBRAS total capital spending was R\$ 33,686 million (31% above 2005), of which R\$ 15,314 million were invested to expand future natural gas and oil production capacity in Brazil to meet the aggressive growth targets set by the Company and announced in its Business Plan 2007-2011. Operating Cash Flow for 2006, measured in terms of EBITDA, totaled R\$ 50,864 million, allowing the Company to pursue its investments plans and improve its debt profile. The Company's market value as of December 31, 2006 reached R\$ 230,372 million, which is 33% above its value from one year ago.**

- Consolidated net operating revenues in 4Q06 totaled R\$ 41,041 million, a 6% increase versus 4Q05 (R\$ 38,638 million).
- Petrobras's earned R\$ 5,200 million during the fourth quarter, a 36% decrease from 4Q05. The decline was caused by lower realized prices in both the domestic and international markets, higher costs stemming from continuing cost pressures throughout the international oil industry, and higher costs for import oil products in the domestic sales mix as a result of programmed refinery stoppages. It is worth noting that the positive effects from the declines in international oil prices on the cost of imports and government take was not fully reflected in the cost of goods sold during the fourth quarter, as inventories with a higher cost basis purchased during prior quarters were liquidated.
- During 4Q06 domestic crude oil and NGL production totaled 1,823 thousand barrels/day, a 5% increase from 4Q05. Of this amount, 82% was produced from the Campos Basin (1,503 thousand barrels/day). The increase was primarily the result of new production from platform P-50 located in the Albacora Leste field (initial production in April 2006) and platform FPSO-Capixaba located in the Golfinho field (initial production in May 2006).
- Proved reserves in Brazil at year-end 2006, using Society of Petroleum Engineers (SPE) criteria totaled 13.8 billion barrels of oil equivalent (BOE), an increase of 4% from 2005. Based on SPE criteria, the Reserve Replacement Index was 173.9%, with a reserve to production ratio of 19.5 years. International proved reserves using SPE criteria totaled 1.27 billion BOE in 2006, a decline of 0.41 billion BOE from 2005. Contractual adjustments to production terms, primarily from Venezuela, accounted for much of the decline. The international reserve to production ratio for the international operations was 14.3 years. In accordance with SEC criteria as of year end 2006, proved reserves totaled 10.6 billion BOE in Brazil and 0.885 billion BOE internationally (10.6 billion and 1.197 billion BOE in 2005, respectively).
- International installed refining capacity for primary processing nearly doubled in 4Q06 (241 thousand barrels/day) compared to 4Q05 (129 thousand barrels/day), as a result of the acquisition of a stake in the

Pasadena refinery, Texas, as well as a 91% increase in the production of oil products in the San Lorenzo, Argentina, refinery following investments in the processing units.

- As a result of higher operating cash flow consolidated net debt of PETROBRAS declined 24% from year ago levels (to R\$ 18,776 million from R\$ 24,825 million). Financial leverage was also reduced as a consequence of the appreciation of the Real against the U.S.dollar (9%).
- Net income for 2006 will allow the Board of Directors to propose a dividend amounting to R\$ 7,897 million (R\$ 1.80 per share, R\$ 7.20 per ADR) at the General Shareholders Meeting scheduled for April 2nd, 2007. The proposed dividend will include interest on own capital of R\$ 6,361 million (R\$ 1.45 per share), of which R\$ 4,387 million was distributed to shareholders on January 4, 2007 and R\$ 1,974 million which will be distributed on March 31, 2007. Interest on own capital is subject to a withholding tax of 15%, except for shareholders who are exempt.
- The value added by PETROBRAS System during 2006 totaled R\$ 120,695 million, 12% above 2005. Of this total, R\$ 72,041 million were paid as government take relating to production and for federal, state and municipal taxes, R\$ 10,884 million went to suppliers and to financial institutions for financing charges, rents and charters, R\$ 27,375 million were paid to shareholders and R\$ 10,395 million were used for salaries, benefits and charges.

**This document is divided into 5 sections:**

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## PETROBRAS SYSTEM

### Comments from the President, Mr. José Sérgio Gabrielli de Azevedo

Dear Shareholders,

It is with great satisfaction that we are able to present our results for the fiscal year 2006. We consolidated our strategy of growth with profitability and social and environmental responsibility was consolidated, as we marked the year with developing new businesses and markets.

The history of Petrobras, founded on great challenges and achievements, is leading us towards a model in which the Company is becoming a major international energy corporation. One example of our transformation is record net income of R\$ 25,919 million, similar to that of other major integrated oil companies, with the price of oil and its derivatives an important factor in the results. Following the tendency of international prices, we posted net income of R\$ 5,200 million during the fourth quarter of 2006, reflecting average price reduction of 14% when compared with the third quarter.

It is in this context that we are pleased to notify our shareholders that in light of our strong earnings and cash generation, the Company's Board of Directors has decided to recommend to the next General Shareholders Meeting on April 2 2007, a dividend distribution of R\$ 7,897 million (R\$ 1.80 per share, R\$7.20 per ADR). This dividend includes a payment of interest on shareholders equity of R\$ 6,361 million (R\$ 1.45 per share), of which R\$ 4,387 million was paid on January 4, 2007, and the remaining R\$ 1,974 million to be distributed on March 31, 2007.

Our shareholders are also benefiting from the impressive appreciation of the Company's common and preferred shares, which during the year rose by 32% and 34%, respectively. Similarly, our ADRs rose more than 40%, substantially surpassing the Dow Jones Industrial Average performance, which closed the year with a gain of 16%.

The Company registered numerous successes and achievements in its operating and corporate areas during 2006. In the Exploration & Production business unit, we installed and began operating several units, most notably P-50, FPSO Capixaba, and P-34, all of which have contributed to a significant increase of 5.6% in oil production in Brazil. Through our exploration efforts we were able to appropriate a further 1.226 billion BOE to Proved Reserves versus total production for the year of 705 million BOE. In effect, this means that for each barrel of oil equivalent produced in 2006, 1.739 barrels were replaced, resulting in a Reserve Replacement ratio of 173.9% and a Reserve/Production ratio of 19.5 years based on the Society of Petroleum Engineers (SPE) criteria.

With the objective of improving profitability on our downstream business unit, we continued to invest strongly in the conversion of our refineries, not only to increase their capacity to process larger volumes of heavy Brazilian crude but also to improve the quality of their products. An example of the latter was the launch of Podium Diesel, which is indicative of the Company's ability to meet market demand for high quality products. In addition, we began testing a new process at our refineries for increasing the production of diesel oil by injecting vegetable oil and hydrogen. Known as H-Bio, this new technology is being developed at our Research Center. Petrobras has already filed a petition to register the fuel with the National Institute of Industrial Property (INPI) for patent registration.

Correspondingly, the Company's International unit has continued implementing the targets established in our strategic plan. Particularly noteworthy are our investments in exploration and production in the Gulf of Mexico and Africa's west coast, in addition to the acquisition of a stake in the Pasadena refinery in the United States.

To position us strategically in our home market of Brazil, and take full advantage of a clear business opportunity, the Company has embarked on a concerted plan to rapidly expand alternative sources of natural gas supply. We have decided to accelerate investments in new natural gas fields in the southeast of Brazil and two LNG regasification terminals, one in the southeast and the other in the northeast of Brazil.

Another achievement that I would like to emphasize is the Company's record level of capital expenditures during 2006, when we invested a total of R\$ 33.686 million. It is important to note that we have a rich portfolio of opportunities - undoubtedly one of the most attractive in the industry - which will lead to continued high levels of capital spending to increase production while maintaining an attractive portfolio of exploration blocks.

Despite our record profits, one of management's top concerns is operating and capital costs, which have been systematically impacted across the board by the rising prices of oil-related goods and services. Undoubtedly, international oil prices and the returns these have generated for producing companies have compensated for the increase in costs. Nevertheless management and our technical teams continuously monitor such tendencies with the goal of maximizing the return in our investments. An example of our reaction to escalating costs was the cancellation of the tender bid for the P-57 platform, because the proposals exceeded the values we had projected. We are currently reexamining technical solutions to implement this project.

It is noteworthy to comment that the Company's overall activities have been reflected in an improved perception of risk by Standard & Poor's Ratings Services (S&P), which awarded Petrobras a BBB- investment grade rating for its long-term corporate credits for both domestic and foreign currencies. According to S&P, Petrobras' ratings reflect the Company's satisfactory business risk profile, characterized by the strength of its Exploration and Production activities (quality, reserve life and replacement ratio) and a dominant market position in all areas of Brazil's hydrocarbons industry. In addition, ratings are supported by the continual improvement of Petrobras' financial risk profile, mainly due to its excellent cash generation over the past few years.

With respect to sustainability, since September the Company has been a component of the Dow Jones Sustainability Index (DJSI), the most important sustainability index in the world and a parameter of analysis by social and environmentally responsible investors. Petrobras' entry to the DJSI means the recognition of the Company's effort over the past few years regarding its environmental performance, as well as transparency and good corporate governance. Similarly, the Company has successfully achieved a rank among the companies whose shares comprise Bovespa's Corporate Sustainability Stock Index (ISE).

To meet and overcome challenges with both creativity and determination has always been part of Petrobras' business dynamics. To this end, the Company's activities have been based on transparent management, respect for the rights of its shareholders and stakeholders as a whole, protection of the environment, the continued development of technical expertise, and promoting the improvement in the quality of life of the communities in which the Company operates. I am confident that the next few years will bring even greater accomplishments.

## PETROBRAS SYSTEM

## Financial Performance

## Net Income and Consolidated Economic Indicators

PETROBRAS reported a consolidated net income of R\$ 25,919 million in 2006, which is 9% above the consolidated net income recorded in 2005.

| R\$ million                       |         |         |      |                                      |         |         |      |  |
|-----------------------------------|---------|---------|------|--------------------------------------|---------|---------|------|--|
| 4th Quarter                       |         |         |      | Fiscal Year                          |         |         |      |  |
| 3Q -<br>2006                      | 2006    | 2005    | Δ%   |                                      | 2006    | 2005    | Δ%   |  |
| 55.846                            | 53.156  | 50.066  | 6    | Gross Operating Revenue              | 205.403 | 179.065 | 15   |  |
| 43.363                            | 41.041  | 38.638  | 6    | Net Operating Revenue                | 158.239 | 136.605 | 16   |  |
| 10.303                            | 7.829   | 10.285  | (24) | Operating Profit <sup>(1)</sup>      | 41.040  | 38.767  | 6    |  |
| (674)                             | (72)    | (473)   | (85) | Financial Result                     | (1.332) | (2.843) | (53) |  |
| 7.085                             | 5.200   | 8.142   | (36) | Net Income for the Period            | 25.919  | 23.725  | 9    |  |
| 1,61                              | 1,19    | 1,86    | (36) | Net Income per Share <sup>(2)</sup>  | 5,91    | 5,41    | 9    |  |
| 190.144                           | 230.372 | 173.584 | 33   | Market Value (Parent Company)        | 230.372 | 173.584 | 33   |  |
| 38                                | 35      | 43      | (8)  | Gross Margin (%)                     | 40      | 44      | (4)  |  |
| 24                                | 19      | 27      | (8)  | Operating Margin (%)                 | 26      | 28      | (2)  |  |
| 16                                | 13      | 21      | (8)  | Net Margin (%)                       | 16      | 17      | (1)  |  |
| 12.912                            | 10.225  | 12.205  | (16) | EBITDA R\$ million <sup>(3)</sup>    | 50.864  | 46.802  | 9    |  |
| Financial and Economic Indicators |         |         |      |                                      |         |         |      |  |
| 69,49                             | 59,68   | 56,90   | 5    | Brent (US\$/bbl)                     | 65,14   | 54,38   | 20   |  |
| 2,1710                            | 2,1517  | 2,2512  | (4)  | US Dollar Average Price - Sale (R\$) | 2,1752  | 2,4350  | (11) |  |
| 2,1742                            | 2,1380  | 2,3407  | (9)  | US Dollar Last Price - Sale (R\$)    | 2,1380  | 2,3407  | (9)  |  |

(1) Operating income before financial result, shareholders' equity and taxes.

(2) For comparison purposes, net income per share was recalculated for prior periods due to the stock split approved by the Extraordinary Shareholders' Meeting held on July 22, 2005.

(3) Operating income before financial result, shareholders' equity + depreciation/amortization.

| R\$ million |       |        |      |                                                 |        |        |      |  |
|-------------|-------|--------|------|-------------------------------------------------|--------|--------|------|--|
| 4th Quarter |       |        |      | Fiscal Year                                     |        |        |      |  |
| 3Q-2006     | 2006  | 2005   | Δ%   |                                                 | 2006   | 2005   | Δ%   |  |
| 9.990       | 7.777 | 10.104 | (23) | Operating Income as per Brazilian Corporate Law | 40.672 | 36.680 | 11   |  |
| 674         | 72    | 473    | (85) | (-) Financial Result                            | 1.332  | 2.843  | (53) |  |
| (55)        | (20)  | (292)  | (93) | (-) Equity Income Result                        | 233    | 250    | (7)  |  |

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|               |               |               |      |                             |               |               |     |
|---------------|---------------|---------------|------|-----------------------------|---------------|---------------|-----|
| (306)         | (369)         | (351)         | 5    | Employee Profit Sharing     | (1.197)       | (1.006)       | 19  |
| <b>10.303</b> | <b>7.460</b>  | <b>9.934</b>  | (25) | <b>Operating Profit</b>     | <b>41.040</b> | <b>38.767</b> | 6   |
| 2.609         | 2.765         | 2.271         | 22   | Depreciation & Amortization | 9.824         | 8.035         | 22  |
| <b>12.912</b> | <b>10.225</b> | <b>12.205</b> | (16) | <b>EBITDA</b>               | <b>50.864</b> | <b>46.802</b> | 9   |
| <b>30</b>     | <b>25</b>     | <b>32</b>     | (19) | <b>EBITDA Margin (%)</b>    | <b>33</b>     | <b>34</b>     | (6) |

The gains in consolidated net income during 2006 mainly stem from an increase in realized prices and volumes in both domestic and international markets, as well as other factors explained below:

- Increase in gross profit of R\$ 4.076 million:

|                                                                 |                                        | R\$ million  |                    |              |
|-----------------------------------------------------------------|----------------------------------------|--------------|--------------------|--------------|
|                                                                 |                                        | Changes      |                    |              |
|                                                                 |                                        | 2006 X 2005  |                    |              |
| Main Items                                                      |                                        | Net Revenues | Cost of Goods Sold | Gross Profit |
| . Domestic Market:                                              | - Effect of Volumes Sold               | 3.336        | (2.154)            | 1.182        |
|                                                                 | - Effect of Prices                     | 7.479        | -                  | 7.479        |
| . Intl. Market:                                                 | - Effect of Export Volumes             | 1.736        | (892)              | 844          |
|                                                                 | - Effect of Export Price               | 1.240        | -                  | 1.240        |
| . Increase in expenses: (*)                                     |                                        | -            | (4.172)            | (4.172)      |
| . Extraordinary items: (**)                                     | - adjustment to special participations | -            | (426)              | (426)        |
|                                                                 | - expenses with re-injected gas (***)  | -            | (406)              | (406)        |
| . Increase in Profitability of Distribution Segment             |                                        | 70           | -                  | 70           |
| . Increase (Decrease) in operations of commercialization abroad |                                        | 2.903        | (2.907)            | (4)          |
| . Increase (Decrease) in international sales                    |                                        | 3.960        | (4.164)            | (204)        |
| . FX effect on controlled companies abroad                      |                                        | (1.837)      | 1.149              | (688)        |
| . Others                                                        |                                        | 2.747        | (3.586)            | (839)        |
|                                                                 |                                        | 21.634       | (17.558)           | 4.076        |

(\*\*) New interpretation by the ANP disallowing deductibility of charges associated with project finance expenses for the Marlim field.

(\*\*\*) Expense adjustments with gas produced and re-injected in reservoirs in Solimões, Campos and Espírito Santo basins.

| (*) Expenses Composition:                   | Value   |
|---------------------------------------------|---------|
| - Import of gas. crude oil and oil products | (3.356) |
| - Domestic Government Take                  | (1.197) |
| - Third-Party Services                      | 381     |
|                                             | (4.172) |

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- Exploration expenses decreased by R\$ 186 million in 2006 as compared to the prior year. 2005 exploration expenses were impacted by higher write-offs of dry wells in Brazil, expenses for fields that were returned to ANP (R\$ 466 million) and expenses associated with revisions for future well abandonment (R\$ 148 million). In 2006 it should be noted the write-offs of international dry wells (R\$ 382 million).
- The following expenses increased from 2006 versus 2005:

Selling expenses (R\$ 314 million) increased as a result of higher expenses related to oil exports (R\$ 239 million) and international trading (R\$ 76 million), as well as expenses derived from company acquisitions in 2006;

General and administrative expenses (R\$ 357 million) grew as a result of salaries and benefits for employees (R\$ 272 million); greater costs for third party services (R\$ 52 million), special technical support for data processing and consultancy services;

Tax expenses (R\$ 368 million) increased given the regularization of tax payments from prior periods (R\$ 117 million), CPMF expenses (R\$ 35 million), taxes on dividend remittances from foreign controlled companies (R\$ 15 million) and on remittances for interest payments (R\$ 73 million);

Research and technology development increased (R\$ 645 million), as a result of the R\$ 542 million ANP settlement;

Other operational expenses (R\$ 265 million) grew as a result of the decline in hedging operations (R\$ 324 million) and the termination of the contract with Empresa Petrolera Andina S/A (R\$ 167 million), in addition to expenses generate by institutional and cultural projects (R\$ 255 million). Such expenses were partially compensated by the reduction of contingency expenses and other expenses related to state taxes agreements (R\$ 118 million), the reduction of operational expenses with thermo-electrical plants (R\$ 257 million), and the recovery of exploratory expenses in Nigeria (R\$ 69 million) and fiscal credits in Ecuador (R\$ 85 million).

- Net financial income was positively impacted by R\$ 1,511 million due to the following:

Final maturity of two oil hedging contracts related to PESA, which in 2005 generated a loss of R\$ 643 million;

Improved performance of financial investments when measured in Reais (R\$ 647 million), lower appreciation of the Real 8.66% for 2006 compared to 11.82% in 2005 (R\$ 317 million) and greater returns on funds invested abroad (R\$ 199 million), as well as higher amount of funds in 2006 when compared to 2005;

Lower financial expenses (R\$ 493 million) as a result of reduced borrowing costs and an increase in capitalized interest;

Lower financial expense related to loan renegotiations with the electric sector and other clients (R\$ 202 million).

These effects were partially offset by the following factors:

Premiums paid to investors to tender high coupon bonds and to liquidate a fixed series of *Senior Trust Certificates* (R\$ 344 million), as part of an exercise in liability management efforts to improve Petrobras' debt profile

Reduction of the monetary variation (R\$ 360 million) as a result of a lower appreciation of the Real against the US dollar in 2006 (8.66%) when compared to the prior year (11.82%).

- Fiscal benefits for interest on own capital totaled R\$ 2,163 million in 2006 when compared to R\$ 1,864 million in 2005.

The reduction of the consolidated net income in 4Q06 compared to 3Q06 stems mainly from lower realized prices for exports and the sale of oil products in the domestic market, following the decline in international market prices, as well as other factors listed below:

- Decrease in gross profit of R\$ 1.952 million:

**Changes 4Q-2006 X 3Q-2006  
MAIN INFLUENCES**

|                                                                 |                                      | R\$ million  |                    |              |
|-----------------------------------------------------------------|--------------------------------------|--------------|--------------------|--------------|
| Main Items                                                      |                                      | Net Revenues | Cost of Goods Sold | Gross Profit |
| . Domestic Market:                                              | - Effect of Volumes Sold             | (124)        | 153                | 29           |
|                                                                 | - Effect of Prices                   | (875)        | -                  | (875)        |
| . Intl. Market:                                                 | - Effect of Export Volumes           | 1.006        | (427)              | 579          |
|                                                                 | - Effect of Export Price             | (2.359)      | -                  | (2.359)      |
| . Increase in expenses: (*)                                     |                                      | -            | 560                | 560          |
| . Extraordinary items in 3Q06: participations (**)              | - adjustment to special              | -            | 426                | 426          |
|                                                                 | -expenses with re-injected gas (***) | -            | 406                | 406          |
| . Increase in Profitability of Distribution Segment             |                                      | (24)         | -                  | (24)         |
| . Increase (Decrease) in operations of commercialization abroad |                                      | (744)        | 742                | (2)          |
| . Increase (Decrease) in international sales                    |                                      | 1.582        | (1.782)            | (200)        |
| . FX effect on controlled companies abroad                      |                                      | (328)        | 483                | 155          |
| . Others                                                        |                                      | (456)        | (191)              | (647)        |
|                                                                 |                                      | (2.322)      | 370                | (1.952)      |

(\*\*) New interpretation by the ANP disallowing deductibility of charges associated with project finance expenses for the Marlim field.

(\*\*\*) Expense adjustments with gas produced and re-injected in Solimões, Campos and Espírito Santo basins.

| (*) Expenses Composition:                   | Value |
|---------------------------------------------|-------|
| - Import of gas, crude oil and oil products | (187) |
| - Domestic Government Take                  | 324   |
| - Third-Party Services                      | 423   |
|                                             | 560   |



The increase in operational expenses was primarily a result of the following items:

General and administrative expenses increased (R\$ 269 million) due to higher personnel expenses related to the Collective Bargaining Agreement 2005/2006 (R\$ 96 million); and services related to consulting and administrative support (R\$ 92 million);

Exploration expenses increased (R\$ 287 million) as a result of wells write-offs in Campos, Espírito Santo, Ceará and Sergipe basins (R\$ 166 million), and internationally in the U.S. (R\$ 111 million), Argentina (R\$ 20 million) and Nigeria (R\$ 13 million). The increase in exploration expenses were partially offset by the positive effect of the revision of estimated costs related to wells write-offs (R\$ 89 million);

Research and technology development increased (R\$ 103 million) with R\$ 116 million destined to ANP settlement;

Other taxes increased (R\$ 94 million) primarily as a result of higher CPMF expenses (R\$ 19 million) and higher taxes on international remittances and financial payments (R\$ 35 million).

Such effects were partially compensated by a favorable financial income of R\$ 602 million given:

Premium related to the bond buyback during 3Q06, affecting the comparison with the 4Q06 (R\$ 348 million);

Greater capitalization of financing interests related to projects (R\$ 170 million) and the reduction of extraordinary expenses related to tax charges (R\$ 79 million).

Financial gains as a result of the renegotiation with the electric sector (R\$ 70 million) and a crude oil and oil products hedge (R\$ 44 million);

Despite the appreciation of the Real in 4Q06 (1.66%) and the interest rate reduction in the country, the financial earnings from cash equivalent investments tied to the exchange rate and the DI were below those of 3Q06 (R\$ 153 million).

Improved non-operating result (R\$ 73 million) stems mainly from the sale of E&P assets in Argentina amounting to R\$ 69 million.

Tax benefits for interests of own capital of R\$ 671 million in 4Q06 were below the R\$ 1.492 million in 3Q06, and did not trigger higher taxes or social contributions than those paid in 3Q06, on the contrary, they allowed for a reduction of the taxable income in 4Q06 as stated above.

## PETROBRAS SYSTEM

## Operational Performance

## Physical Indicators

| 4th Quarter                                     |       |       |      | Fiscal Year                    |       |       |      |
|-------------------------------------------------|-------|-------|------|--------------------------------|-------|-------|------|
| 3Q-2006                                         | 2006  | 2005  | Δ%   |                                | 2006  | 2005  | Δ%   |
| Exploration & Production - Thousand bpd         |       |       |      |                                |       |       |      |
| Domestic Production                             |       |       |      |                                |       |       |      |
| 1.779                                           | 1.823 | 1.736 | 5    | Oil and LNG                    | 1.778 | 1.684 | 6    |
| 276                                             | 277   | 274   | 1    | Natural Gas (1)                | 276   | 274   | 1    |
| 2.055                                           | 2.100 | 2.010 | 4    | Total                          | 2.054 | 1.958 | 5    |
| Consolidated - International Production         |       |       |      |                                |       |       |      |
| 124                                             | 115   | 156   | (26) | Oil and LNG                    | 130   | 163   | (20) |
| 105                                             | 97    | 91    | 7    | Natural Gas (1)                | 98    | 96    | 2    |
| 229                                             | 212   | 247   | (14) | Total                          | 228   | 259   | (12) |
| Non Consolidated - Internacional Production (2) |       |       |      |                                |       |       |      |
| 17                                              | 22    | -     |      |                                | 15    | -     |      |
| 246                                             | 234   | 247   | (5)  | Total International Production | 243   | 259   | (6)  |
| 2.301                                           | 2.334 | 2.257 | 3    | Total production               | 2.297 | 2.217 | 4    |

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

(2) Non consolidated companies in Venezuela.

| Refining. Transport and Supply - Thousand bpd |                  |       |      |                                                     |                  |       |     |
|-----------------------------------------------|------------------|-------|------|-----------------------------------------------------|------------------|-------|-----|
| 373                                           | 408              | 360   | 13   | Crude oil imports                                   | 370              | 352   | 5   |
| 137                                           | 132              | 65    | 103  | Oil products imports                                | 118              | 94    | 26  |
| 510                                           | 540              | 425   | 27   | Import of crude oil and oil products                | 488              | 446   | 9   |
| 355                                           | 454              | 301   | 51   | Crude oil exports                                   | 335              | 263   | 27  |
| 221                                           | 215              | 269   | (20) | Oil products exports                                | 246              | 260   | (5) |
| 576                                           | 669              | 570   | 17   | Export of crude oil and oil products <sup>(3)</sup> | 581              | 523   | 11  |
| 66                                            | 129              | 145   | (11) | Net exports (imports) crude oil and oil products    | 93               | 77    | 21  |
| 170                                           | 162              | 154   | 5    | Import of gas and others                            | 157              | 141   | 11  |
| 6                                             | 3 <sup>(3)</sup> | 6     | (45) | Others Exports                                      | 4 <sup>(3)</sup> | 4     | 9   |
| 1.849                                         | 1.900            | 1.868 | 2    | Output of oil products                              | 1.892            | 1.839 | 3   |
| 1.753                                         | 1.696            | 1.761 | (4)  | Brazil                                              | 1.764            | 1.735 | 2   |
| 96                                            | 204              | 107   | 91   | International                                       | 128              | 104   | 23  |

|                                                                            |              |              |          |                                               |              |              |          |
|----------------------------------------------------------------------------|--------------|--------------|----------|-----------------------------------------------|--------------|--------------|----------|
| <b>2.115</b>                                                               | <b>2.227</b> | <b>2.114</b> | <b>5</b> | <b>Primary Processed Installed Capacity</b>   | <b>2.227</b> | <b>2.114</b> | <b>5</b> |
| 1.986                                                                      | 1.986        | 1.985        | -        | <b>Brazil<sup>(1)</sup></b>                   | 1.986        | 1.985        | -        |
| 129                                                                        | 241          | 129          | 87       | <b>International</b>                          | 241          | 129          | 87       |
|                                                                            |              |              |          | <b>Use of Installed Capacity (%)</b>          |              |              |          |
| 89                                                                         | 85           | 89           | (4)      | <b>Brazil</b>                                 | 89           | 87           | 2        |
| 74                                                                         | 84           | 83           | 1        | <b>International</b>                          | 81           | 80           | 1        |
|                                                                            |              |              |          | <b>Domestic crude as % of total feedstock</b> |              |              |          |
| 79                                                                         | 78           | 79           | (1)      | <b>processed</b>                              | 80           | 80           | -        |
| <b>(3) Volumes of oil and oil products exports include ongoing exports</b> |              |              |          |                                               |              |              |          |
| <b>(4) As per ownership recognized by the ANP</b>                          |              |              |          |                                               |              |              |          |

**Sales Volume - Thousand bpd**

|              |              |              |           |                                   |              |              |           |
|--------------|--------------|--------------|-----------|-----------------------------------|--------------|--------------|-----------|
| 693          | 701          | 674          | 4         | Diesel                            | 672          | 665          | 1         |
| 315          | 317          | 289          | 10        | Gasoline                          | 308          | 287          | 7         |
| 107          | 103          | 98           | 5         | Fuel Oil                          | 100          | 99           | 1         |
| 169          | 160          | 153          | 5         | Naphtha                           | 165          | 157          | 5         |
| 208          | 204          | 198          | (3)       | LPG                               | 201          | 198          | 2         |
| 60           | 65           | 66           | (2)       | QAV                               | 64           | 67           | (4)       |
| 194          | 157          | 157          | 14        | Others                            | 187          | 171          | 9         |
| <b>1.746</b> | <b>1.707</b> | <b>1.635</b> | <b>4</b>  | <b>Total Oil Products</b>         | <b>1.697</b> | <b>1.644</b> | <b>3</b>  |
| 35           | 20           | 33           | (39)      | Alcohol, Nitrogens and others     | 24           | 28           | (14)      |
| 250          | 252          | 239          | 5         | Natural Gas                       | 243          | 228          | 7         |
| <b>2.031</b> | <b>1.979</b> | <b>1.907</b> | <b>4</b>  | <b>Total domestic market</b>      | <b>1.964</b> | <b>1.900</b> | <b>3</b>  |
| <b>576</b>   | <b>669</b>   | <b>570</b>   | <b>17</b> | <b>Exports</b>                    | <b>581</b>   | <b>523</b>   | <b>11</b> |
| <b>509</b>   | <b>603</b>   | <b>375</b>   | <b>61</b> | <b>International Sales</b>        | <b>503</b>   | <b>385</b>   | <b>31</b> |
| <b>1.085</b> | <b>1.272</b> | <b>945</b>   | <b>35</b> | <b>Total international market</b> | <b>1.084</b> | <b>908</b>   | <b>19</b> |
| <b>3.116</b> | <b>3.251</b> | <b>2.852</b> | <b>14</b> | <b>Total</b>                      | <b>3.048</b> | <b>2.808</b> | <b>9</b>  |

## Prices and Costs Indicators

| 4th Quarter                             |        |        |     | Fiscal Year               |        |        |    |
|-----------------------------------------|--------|--------|-----|---------------------------|--------|--------|----|
| 3Q-2006                                 | 2006   | 2005   | Δ%  |                           | 2006   | 2005   | Δ% |
| Average Oil Products Realization Prices |        |        |     |                           |        |        |    |
| 157,31                                  | 152,10 | 155,41 | (2) | Domestic Market (R\$/bbl) | 154,45 | 142,38 | 8  |

## Average sales price - US\$ per bbl

|                                                                                           |       |       |    |                                              |       |       |    |
|-------------------------------------------------------------------------------------------|-------|-------|----|----------------------------------------------|-------|-------|----|
|                                                                                           |       |       |    | <b>Brazil</b>                                |       |       |    |
| 58,69                                                                                     | 48,70 | 46,05 | 6  | <b>Oil (US\$/bbl) <sup>(5)</sup></b>         | 54,71 | 45,42 | 20 |
| 15,70                                                                                     | 15,85 | 14,61 | 8  | <b>Natural Gas (US\$/bbl) <sup>(6)</sup></b> | 15,67 | 13,00 | 21 |
|                                                                                           |       |       |    | <b>International</b>                         |       |       |    |
| 48,29                                                                                     | 43,22 | 35,04 | 23 | <b>Oil (US\$/bbl)</b>                        | 44,07 | 34,44 | 28 |
| 13,72                                                                                     | 14,30 | 11,71 | 22 | <b>Natural Gas (US\$/bbl)</b>                | 12,98 | 9,77  | 33 |
| <b>(5) Average of the exports and the internal transfer prices from E&amp;P to Supply</b> |       |       |    |                                              |       |       |    |
| <b>(6) Internal transfer prices from E&amp;P to Gas &amp; Energy</b>                      |       |       |    |                                              |       |       |    |

## Cost - US\$/barrel

|       |       |       |    |                                                    |       |       |    |
|-------|-------|-------|----|----------------------------------------------------|-------|-------|----|
|       |       |       |    | <b>Lifting cost</b>                                |       |       |    |
|       |       |       |    | <b>Brazil<sup>(7)</sup></b>                        |       |       |    |
| 6,64  | 7,24  | 6,07  | 19 | <b>without government participation</b>            | 6,59  | 5,73  | 15 |
| 18,08 | 17,59 | 16,09 | 9  | <b>with government participation<sup>(8)</sup></b> | 17,64 | 14,73 | 20 |
| 3,11  | 4,36  | 3,57  | 22 | <b>International</b>                               | 3,36  | 2,90  | 16 |
|       |       |       |    | <b>Refining cost</b>                               |       |       |    |
| 2,48  | 2,71  | 2,03  | 33 | <b>Brazil<sup>(7)</sup></b>                        | 2,29  | 1,90  | 21 |
| 1,57  | 2,08  | 1,35  | 54 | <b>International</b>                               | 1,73  | 1,30  | 33 |
|       |       |       |    | <b>Corporate Overhead (US\$ million)</b>           |       |       |    |
| 493   | 630   | 490   | 28 | <b>Holding Company <sup>(7)</sup></b>              | 2,004 | 1,541 | 30 |

(7) The company, in order to promote a better indexes adherence to its operating and management models, has reviewed their concepts, recalculating the values of previous periods, as already mentioned on 4Q05 Report.

(8) Lifting cost with government take had its historical series adjusted, retroactive to 2005, due to ANP's (National Petroleum Agency) new interpretation of the deductibility of the expenses with Project Finance in the Marlim field over the accounting of special participation.

## Cost - R\$/barrel

|       |       |       |    |                                                    |       |       |   |
|-------|-------|-------|----|----------------------------------------------------|-------|-------|---|
|       |       |       |    | <b>Lifting cost</b>                                |       |       |   |
|       |       |       |    | <b>Brazil<sup>(7)</sup></b>                        |       |       |   |
| 14,26 | 15,46 | 13,73 | 13 | <b>without government participation</b>            | 14,20 | 13,83 | 3 |
| 39,60 | 37,75 | 36,43 | 4  | <b>with government participation<sup>(8)</sup></b> | 38,18 | 35,36 | 8 |
|       |       |       |    | <b>Refining cost</b>                               |       |       |   |
| 5,39  | 5,84  | 4,56  | 28 | <b>Brazil<sup>(7)</sup></b>                        | 4,98  | 4,59  | 8 |



**Exploration and Production    Thousand Barrels/day**

Domestic crude oil and NGL production in 2006 increased 6% when compared to the prior year. The increase stems mainly from the impact of a full year of peak production at the P-43 platform (Barracuda field, initial production in December 2004) and the P-48 platform (Caratinga field, initial production in February 2005), which did not reach full production until June 2005. Additionally, the P-50 platform (Albacora Leste) (initial production in April 2006, and FPSO-Capixaba (Golfinho, initial production in May 2006) added to the average production for 2006.

During 4Q06, domestic crude oil and NGL production increased 2% when compared to 3Q06, mainly as a result of additional wells being connected to P-50.

During 2006, international oil production from consolidated companies dropped 20% versus the same period in 2005, as a result of lower participation in Venezuela's operations as the existing operational agreements were converted to joint ventures in which the Venezuelan government gained a 60% controlling interest through PDVSA. Gas production from consolidated companies increased 3% when compared to 2005, as a result of growing demand for Bolivian gas from Brazil and Argentina.

International oil production in 4Q06 from consolidated companies declined 7% from 3Q06 due to strike in Argentina that affected production in some fields. Gas production of consolidated companies also declined 8% when compared to the third quarter as a result of lower demand for Bolivian gas from Brazil and Argentina, as well as the finalization of some repairs in the duct of San Antonio, which suffered a break in April 2006 following heavy rains.

**Refining, Transportation, and Supply    Thousand Barrels/day**

Throughput (primary processing) in the country's refineries in 2006 increased 1% from the prior period as a result of improved operational reliability and less scheduled maintenance downtime in 2006.

In 4Q06, feedstock processed by domestic refineries declined 1% from 3Q06, as a result of scheduled maintenance downtime in REVAP, REFAP and REMAN refineries.

Throughput (primary processing) by international refineries during 2006 increased 22% from the same period in 2005 as a result of the inclusion of the operations of the Pasadena (Texas) refinery commencing in 3Q06.

In 4Q06 feedstock processed by international refineries more than doubled from 3Q06, following the inclusion of Pasadena's refinery operations. Not considering Pasadena's production, feedstock processed increased 20% as a result of the production increase in San Lorenzo's (Argentina) refinery following scheduled maintenance downtime during 3Q06, which increased installed capacity for primary processing.

## **Costs**

### ***Lifting Cost (US\$/barrel)***

Lifting costs in Brazil for 2006, excluding government take, increased 15% when compared to 2005. After adjusting for the effect of the Real's 11% appreciation against the U.S. dollar, the increase lifting costs rose by 6% and was compensated by an increase in oil and gas production. The growth stems from higher costs for drilling rigs, as well as higher costs for maintenance and well intervention, salary adjustments, an increase of employees and higher unit costs than originally anticipated in the FPSO-Capixaba in Golfinho and P-34 in Jubarte projects, which will decline as production increases. Regarding FPSO-Capixaba maximum production capacity is now expected to reach 60 thousand barrels/day, which is below the original production estimate of 90 thousand barrels/day.

When compared to 3Q06, *lifting costs* in the country during 4Q06, excluding the government take, grew 9%, primarily from higher expenses of drilling rigs, corrective maintenance, services and materials for well and pipeline interventions and oil rigs, mainly the chemical cleansing in Marlim Sul, as well as personnel cost increases due to a salary readjustment and higher number of employees, which were partially compensated by higher oil production.

Considering the government take, *lifting cost* in 2006 increased 20% from 2005 as a result of rising lifting costs, the already commented increase in the average reference price for domestic oil used to calculate government take, (which are based on international prices), and higher production in the Barracuda and Caratinga fields following stabilization at full capacity in June 2005, allowing for higher *royalties* and special participations, as well as the start of operation in the Albacora Leste and Golfinho fields.

Considering the government take, the *lifting cost* in the country during 4Q06 was 3% below that of 3Q06 due to a decrease in the average reference price for domestic oil, (linked to the decrease of the international oil prices), but which was partially compensated by the increase in tax bracket in Albacora Leste basin, as a result of a greater production and the increase in lifting costs already mentioned.

During 2006, the international *lifting cost* increased 16% from 2005 as a result of lower volumes produced and greater expenses associated with third party services (explained by higher tariffs for contracted services), materials due the pipeline reforms, equipment and repairs in wells, in addition to salaries increases due to labor negotiations, the expense increase in Angola due to a new operator that will seek to restructure and intervene in Block 2 to maintain and improve installations and recover production of mature wells.

In 4Q06, the international *lifting cost* increased by 40% from 3Q06 as production decline, expenses associated with well repairs and maintenance increased in Argentina along with higher salaries derived from collective contractual agreements and an increase in the expenses passed on by the new operator in Angola for the restructuring and intervention in Block 2 to maintain and improve installations and work over mature wells.

#### **Refining Costs (US\$/Barrel)**

Domestic refining costs for 2006 increased 21% versus the prior year, primarily as a result of the increasing complexity of our refineries as they are adapted to process heavy oil and to meet more stringent fuel quality standards. After adjusting for the effect of the 11% appreciation of the Real against the dollar, for refining costs denominated in local currency, refining costs increased 8%.

When compared to 3Q06, domestic refining costs increased 9%, reflecting an increase in personnel expenses (salaries and benefits) in accordance with the Collective Bargaining Agreement 2006/2007.

During 2006, the average international refining cost increased 33% from 2005 as a result of the inclusion of the Pasadena (U.S.) refinery. Discounting the effect of Pasadena, the increase was 16% and reflects salary increases as well as the tariff increases for services contracted in Argentina.

The average international refining cost in 4Q06 increased 33% from 3Q06 with the inclusion of the Pasadena refinery. Discounting the effect of Pasadena, there was no change in the refining costs when compared to the third quarter.

**Corporate Overhead    Controller (US\$ million)**

When compared to 2005, corporate *overhead* increased 30% in 2006, reflecting growth and a more complex operational structure. Excluding the effects of the Real's appreciation of 11% against versus the dollar, (given that virtually all such costs are denominated in Reais), corporate *overhead* increased 19% from 2005. The increase is primarily a result of higher expenses related to sponsorship of cultural projects, which are in part considered as fiscal benefits contemplated by Rouanet Law maintenance and infrastructure of administrative facilities, as well as higher expenses related to salaries and benefits due to a larger workforce and the Collective Bargaining Agreement.

When compared to 3Q06, corporate *overhead* in 4Q06 increased 28% mainly due to expenses related to services linked to cultural sponsorships and personnel expenses as agreed in the Collective Bargaining Agreement and a larger workforce.

**Sales Volume    Thousand Barrels/day**

Domestic sales volume in 2006 increased 3% from 2005.

Sales growth resulted primarily from higher volumes of gasoline sold (7%), naphta (5%) and natural gas (7%) in the domestic market as well as higher oil export volumes.

The increase of gasoline sales is associated with the growth in the number of vehicles, a reduction in the required percentage of alcohol mixed with gasoline, the improvement in purchasing power among consumers, and the reduced price competitiveness of alcohol relative to gasoline.

Naphta sales increased as a result of greater availability of domestic naphta in the PETROBRAS system, associated with more attractive pricing than that in the international market. It is also worth noting that naphta deliveries in 2005 fell because of operational problems.

Natural gas sales volumes increased as natural gas continues to displace fuel oil from industrial activities, particularly in such sectors as pulp and paper, ceramics, and chemicals. Additional gas consumption also occurred because of the higher number of vehicles capable of being powered with natural gas

International sales volume grew 31% due to an increase in offshore operations designed to capture international commercial opportunities, as well as the inclusion of sales made by companies acquired in 2006. These gains were partially offset by a reduction of sales in Venezuela, and declining production in mature fields located in Angola and the closing of our main producing fields in the Gulf of Mexico after the hurricanes Rita and Katrina.

| Result by Business Area R\$ million <sup>(1)</sup> |             |       |       |                              |         |             |      |
|----------------------------------------------------|-------------|-------|-------|------------------------------|---------|-------------|------|
| 3Q-2006                                            | 4th Quarter |       |       |                              |         | Fiscal Year |      |
|                                                    | 2006        | 2005  | Δ%    |                              |         | 2006        | 2005 |
|                                                    |             |       |       |                              |         |             | Δ%   |
| 6.433                                              | 4.640       | 4.948 | (6)   | EXPLORATION & PRODUCTION     | 24.762  | 22.835      | 8    |
| 1.006                                              | 1.462       | 1.325 | 10    | SUPPLY                       | 6.110   | 5.546       | 10   |
| (581)                                              | (307)       | (145) | 112   | GAS & ENERGY                 | (1.188) | (520)       | 128  |
| 160                                                | 130         | 207   | (37)  | DISTRIBUTION                 | 585     | 761         | (23) |
| 107                                                | (247)       | 415   | (160) | INTERNATIONAL <sup>(2)</sup> | 352     | 1.450       | (76) |
| (377)                                              | (798)       | 298   | (368) | CORPORATE                    | (4.184) | (5.180)     | (19) |
|                                                    |             |       |       | ELIMINATIONS AND             |         |             |      |
| 337                                                | 320         | 1.094 | (71)  | ADJUSTMENTS                  | (518)   | (1.167)     | (56) |
| 7.085                                              | 5.200       | 8.142 | (36)  | CONSOLIDATED NET INCOME      | 25.919  | 23.725      | 9    |

(1) Comments about the results by business segment are presented as of page 20 and the financial statements by business segment are presented starting page 32.

(2) For the international segment, comparison between periods is influenced by the foreign exchange rate, considering that all operations are conducted internationally, in dollars or other currencies from the country of origin in which said companies are based, results may vary significantly in Reais terms.

(3) With the goal of aligning the financial statements by business segment with the best practices of the Oil and Gas sector, and with the aim of better presenting PETROBRAS businesses, as of 1Q06 the Company switched to allocating all financial results and items of financial nature to the corporate level. As a result of this change, the income tax, and minority interest line items were adjusted.

For comparison purposes, we present segmented accounting statements for previous periods in accordance with the new assumptions.

## RESULTS BY BUSINESS SEGMENT

PETROBRAS is an integrated company with the largest production of oil and gas in which the Exploration and Production area is composed by transfers made from other areas of the Company.

Outlined below are the main criteria used to report results by business segment:

- a) Net operating revenue: revenues are considered revenues if said sales were made to external clients, and billing and transfers are made between the business areas, using as reference the internal transfer prices defined by said areas with a methodology based on market parameters;
- b) Included in the computation of the operating income are: net operating revenues costs of goods and services sold, which are reported by each business segment, considering the internal price of transfer and other operating costs relative to each business area, as well as operating expenses effectively incurred in each area considered;
- c) Financial results are allocated to the corporate group;
- d) Assets: include identified assets in each area. Equity accounts of financial nature are allocated to the corporate group.

**E&P** In 2006 net income for the Exploration and Production segment totaled R\$ 24,762 million, 8% above the net income of 2005 (R\$ 22,835 million), as a result of an increase of R\$ 2,794 million in gross operating income generated primarily by a 6% increase in oil and NGL production, which allowed for oil exports to grow, coupled with a 20% increase in the average domestic price for sale/transfer (US\$/bbl). These gains were partially offset by a lower valuation of heavy oil relative to light oil, higher expenses related to government take, higher daily rates for drilling rigs, higher costs for intervention services in wells and fields, and the effects derived from the appreciation of the Real of 11% against the US dollar.

The *spread* between the average domestic price of oil sold/transferred and the average price of *Brent* increased from US\$ 8.96/bbl in 2005 to US\$ 10.43/bbl in 2006.

When comparing quarterly figures, net income was 28% lower, as gross profit declined R\$ 2,539 million due to lower international oil prices as well as lower heavy oil prices when compared to light oils. Said effects were partially compensated by the 2% volume growth in oil and NGL production.

The *spread* between the average domestic sold/transferred price and the average price of *Brent* increased from US\$ 10.80/bbl in 3Q06 to US\$ 10.98/bbl in 4Q06.

**SUPPLY** Net income in 2006 for the Supply segment totaled R\$ 6,110 million, 10% above net income in 2005 (R\$ 5,546 million), an increase in gross operating profit of R\$ 1,126 million due to the following factors:

Higher realized average prices for oil products sold both in domestic and international markets;

A 3% increase in oil products volumes sold in the domestic market;

Lower valuation of heavy oils compared to light oils.

These effects were partially offset by the following factors:

An increase in acquisition costs for oil and oil products purchased/transferred as a result of the general rise in international prices;

A 9% increase in oil and oil products imports.

In 4Q06 net income for the Supply segment was R\$ 1,462 million, 45% above that registered during the previous quarter (R\$ 1,006 million), due to the R\$ 641 million increase in gross profit as gasoline and diesel prices remained stable while the cost of crude oil purchased/transferred declined and the light/heavy oil price differential increased. These positive factors were partially offset by the following:

A 2% reduction in the sales volume of oil products in the domestic market;

Sales of inventories during the quarter with a higher cost basis, as a result of acquisitions in prior quarters when international oil prices were higher;

A 3% decrease in the realized average price for basic oil products sold in the domestic market.

**GAS AND ENERGY** The net loss registered by the Gas and Energy segment during 2006 of R\$ 1,188 million was 128% above the loss of 2005 (R\$ 520 million) due to the following factors:

A R\$ 413 million decrease in gross profit due to lower sales margins for energy, given higher costs to acquire energy as a result of declining hydroelectric reserves in the South of Brazil until September 2006. Part of said effects were partially compensated by a 7% increase in sales volume of natural gas;

A R\$ 116 million increase in research and development, of which R\$ 81 million were for the ANP settlement;

Recognition of the R\$ 167 million loss for the termination of the hedge contract aimed at reducing the volatility of natural gas prices signed with the Andina company (A gain of R\$ 419 million was registered in 2005).

These variations were partially offset by the reduction in general and administrative expenses, which in 2005 included expenses related to contractual contingencies for thermoelectric plants and credit losses for doubtful gas supply contracts.

In 4Q06 the Gas and Energy segment registered a loss of R\$ 307 million, which is 47% below the loss registered in the previous quarter, and is explained by the following factors:

A R\$ 199 million increase in gross profit as margins for energy sales improved as acquisition costs dropped following the replenishment of hydroelectric reserves in the Southern region of Brazil, as well as the 1% increase in natural gas volume commercialized;

Recognition of the loss in the previous quarter of the R\$ 167 million loss related to the termination of the hedge contract to reduce natural gas prices volatility with the Andina company.

**DISTRIBUTION** During 2006 the Distribution segment registered a net income of R\$ 585 million, 23% below that of 2005 (R\$ 761 million). The gross profit increase was generated by higher volumes of oil products sold during the period, which was offset by the increase in operational expenses. Among the highest expenses were product commercialization and contingency provisions.

The Company's market share in the combustible distribution market totaled 33.6% in 2006 compared to 33.8% in the previous year.

During 4Q06, net income for the Distribution segment reached R\$ 130 million, which is 19% below that of the previous quarter (R\$ 160 million). The loss is explained by a 2% decline in gross profit due to lower commercialization margins for oil products as a result of the efforts made by the Company to increase sales and expand its market share in the combustible distribution market. Said effect was partially compensated by the 2% increase in volume sales. As a result of such strategy, the market share during the quarter reached 35.1% at the close 4Q06 when compared to 34.2% in the third quarter.

**INTERNATIONAL** Net income in the International segment during 2006 totaled R\$ 352 million, a decrease of 76% from the net income registered in 2005 (R\$ 1,450 million). The following factors were responsible for the decline:

A R\$ 572 million increase in exploration expenses, because of write-offs of exploration costs in the US and Bolivia and higher seismic expenses in the US, Iran and other countries;

A R\$ 544 million decline in gross profit due to: i) a reduction in the participation of the operations in Venezuela; ii) higher government take in Bolivia; iii) a 9% appreciation of the Real against the US dollar used for conversion purposes in the accounting statements; and iv) lower margins for oil products sold in Argentina due to the local government price controls. These effects were partially compensated by the following factors: i) increase in international oil prices; ii) higher volumes and prices for electric energy sold in Argentina; iii) higher export prices for oil products in Bolivia;

A R\$ 116 million increase in general and administrative expenses as a result of higher employee costs due to the collective agreement in Argentina and the inclusion of costs associated with the company acquisitions in Uruguay, Paraguay, Colombia and the US.

These effects were partially compensated by the recovery of exploration costs in Nigeria of R\$ 69 million, and the recovery of fiscal credits in Ecuador in the amount of R\$ 85 million.

In 4Q06 the International segment registered a loss equal to R\$ 247 million compared to net income of R\$ 107 million in the previous quarter.

The decline in net income was a result of the following factors:

A R\$ 261 million decrease in gross profit due to: i) a decline in international oil prices; ii) lower sales volume in Argentina due to the strike of private oil producers; iii) lower sales volume in Bolivia following a stoppage to repair damages to the gas pipeline San Antonio caused by heavy rains; and

Write-off of exploratory wells in the US and higher seismic costs in Argentina and in the US amounting to R\$ 195 million.

Said effects were partially compensated by the reduction in other operational expenses, mainly due to the recovery of fiscal credits in the amount of R\$ 51 million, and the reduction of *ship or pay* expenses of R\$ 10 million, both in Ecuador.

**CORPORATE** Corporate activities for the PETROBRAS System in 2006 generated a loss of R\$ 4,184 million, which was 19% below the loss registered in 2005 (R\$ 5,180 million), primarily as a result of the decline in financial expenses of R\$ 1,511 million.

The reduction in corporate financial expenses activities was partially offset by an increase of R\$ 432 million in general and administrative expenses, mainly driven by higher costs associated with third party services and employee costs due to an increase in the workforce during 2006 and the salary adjustment negotiated at the end of 2005 and 2006.

When compared to the third quarter, the loss generated by the corporate group in 4Q06 was R\$ 798 million compared to R\$ 377 million, and was mainly driven by:

A reduction in the fiscal benefit related to the interest on own capital provisions of R\$ 671 million in 4Q06 compared to R\$ 1,492 million in 3Q06;

An increase in other operational expenses generated by higher expenses associated with sponsorships of cultural projects, which are in part being considered as fiscal benefits contemplated by the the Rouanet law, as well as the expenses associated with the FIA Fund of Chidlhood and Adolescence, which will allow the company to reduce its income tax payment by R\$ 150 million.

These effects were partially compensated by the reduction of R\$ 603 million in net financial expenses.

**Consolidated Indebtedness**

|                                                                  | <b>R\$ million</b> |                   |            |
|------------------------------------------------------------------|--------------------|-------------------|------------|
|                                                                  | <b>12.31.2006</b>  | <b>12.31.2005</b> | <b>Δ %</b> |
| <b>Short-term Debt <sup>(1)</sup></b>                            | 13.074             | 11.116            | 18         |
| <b>Long-term Debt <sup>(1)</sup></b>                             | 33.531             | 37.126            | (10)       |
| <b>Total</b>                                                     | 46.605             | 48.242            | (3)        |
| <b>Net Debt <sup>(2)</sup></b>                                   | 18.776             | 24.825            | (24)       |
| <b>Net Debt/(Net Debt + Shareholder's Equity) <sup>(1)</sup></b> | 16%                | 24%               | (8)        |
| <b>Total Net Liabilities <sup>(1) (3)</sup></b>                  | 185.249            | 163.404           | 13         |
| <b>Capital Structure</b>                                         |                    |                   |            |
| <b>(Third Parties Net / Total Liabilities Net)</b>               | 47%                | 52%               | (5)        |

(1) Included indebtedness through leasing contracts (R\$ 2,540 million as of December 31, 2006 and R\$ 3,300 million as of December 31, 2005).

(2) Total Indebtedness Cash and cash equivalents.

(3) Net short term liabilities/ financial applications.

Petrobras's total consolidated indebtedness totaled R\$ 18,776 million at year-end 2006; a 24% reduction from December 31, 2005. Operational cash generation along with the appreciation of the Real against the US dollar (9%) contributed to the reduction of total indebtedness and leverage, especially since 75% of the long-term debt is denominated in U.S. dollars.

The level of indebtedness measured by the ratio of net debt/EBITDA, fell from 0.53 at year end 2005, to 0.37 at year end 2006. The capital structure represented by third capital participation was 47%, a reduction of five basis points from December 31, 2005.



**Consolidated Investments**

PETROBRAS, to meet the targets set forth in its strategic plan, continues to invest heavily in the development of its oil and natural gas production capacities through its own investments and as well as new ventures with partners. During 2006, total investments reached R\$ 33,686 million, an increase of 31% from 2005.

| R\$ million                             |               |            |                  |            |           |
|-----------------------------------------|---------------|------------|------------------|------------|-----------|
|                                         | 2006          |            | Fiscal Year 2005 |            | Δ %       |
|                                         |               | %          |                  | %          |           |
| <b>Own Investments</b>                  | <b>29.769</b> | <b>88</b>  | <b>22.927</b>    | <b>90</b>  | <b>30</b> |
| Exploration & Production                | 15.314        | 45         | 13.934           | 54         | 10        |
| Supply                                  | 4.181         | 12         | 3.286            | 13         | 27        |
| Gas and Energy                          | 1.566         | 5          | 1.527            | 6          | 3         |
| International                           | 7.161         | 21         | 3.153            | 12         | 127       |
| Distribution                            | 642           | 2          | 495              | 2          | 30        |
| Corporate                               | 905           | 3          | 532              | 3          | 70        |
| <b>Special Purpose Companies (SPCs)</b> | <b>3.507</b>  | <b>11</b>  | <b>2.385</b>     | <b>9</b>   | <b>47</b> |
| <b>Ventures under Negotiation</b>       | <b>409</b>    | <b>1</b>   | <b>311</b>       | <b>1</b>   | <b>32</b> |
| <b>Structured Projects</b>              | <b>1</b>      | <b>-</b>   | <b>87</b>        | <b>-</b>   | <b>-</b>  |
| <b>Total Investments</b>                | <b>33.686</b> | <b>100</b> | <b>25.710</b>    | <b>100</b> | <b>31</b> |

| R\$ million              |              |            |                  |            |            |
|--------------------------|--------------|------------|------------------|------------|------------|
|                          | 2006         |            | Fiscal Year 2005 |            | Δ %        |
|                          |              | %          |                  | %          |            |
| <b>International</b>     |              |            |                  |            |            |
| Exploration & Production | 5.300        | 74         | 2.758            | 87         | 92         |
| Supply                   | 1.250        | 18         | 212              | 7          | 490        |
| Gas and Energy           | 134          | 2          | 79               | 3          | 70         |
| Distribution             | 308          | 4          | 38               | 1          | 711        |
| Others                   | 169          | 2          | 66               | 2          | 156        |
| <b>Total Investments</b> | <b>7.161</b> | <b>100</b> | <b>3.153</b>     | <b>100</b> | <b>127</b> |

| R\$ million                       |       |    |                  |    |      |
|-----------------------------------|-------|----|------------------|----|------|
|                                   | 2006  |    | Fiscal Year 2005 |    | Δ %  |
|                                   |       | %  |                  | %  |      |
| <b>Projects Developed by SPCs</b> |       |    |                  |    |      |
| Marlim Leste                      | 1.052 | 30 | 789              | 33 | 33   |
| PDET Off Shore                    | 286   | 8  | 231              | 10 | 24   |
| Barracuda and Caratinga           | 64    | 2  | 288              | 12 | (78) |
| Malhas                            | 653   | 19 | 834              | 35 | (22) |
| Cabiúnas                          | -     | -  | 5                | -  | -    |
| Gasene                            | 567   | 16 | -                | -  | -    |
| EVM                               | 30    | 1  | -                | -  | -    |

|                          |              |            |              |            |           |
|--------------------------|--------------|------------|--------------|------------|-----------|
| CDMPI                    | 315          | 9          | -            | -          | -         |
| Mexilhão                 | 119          | 3          | -            | -          | -         |
| Amazônia                 | 421          | 12         | 238          | 10         | 77        |
| <b>Total Investments</b> | <b>3.507</b> | <b>100</b> | <b>2.385</b> | <b>100</b> | <b>47</b> |

In line with its strategic objectives, PETROBRAS acts in consortia with other companies as concessionaires of the rights to explore, develop, and produce oil and natural gas. Presently, the Company has partnerships with 83 consortiums. For these projects to be developed in consortia, estimated total investment are expected to reach US\$ 23,998 million.

## PETROBRAS SYSTEM

## Financial Statements

## Income Statement Consolidated

| R\$ million  |              |              |                                         |               |               |
|--------------|--------------|--------------|-----------------------------------------|---------------|---------------|
| 4th Quarter  |              |              | Fiscal Year                             |               |               |
| 3Q-2006      | 2006         | 2005         |                                         | 2006          | 2005          |
| 55.846       | 53.156       | 50.066       | <b>Gross Operating Revenues</b>         | 205.403       | 179.065       |
| (12.483)     | (12.115)     | (11.428)     | Sales Deductions                        | (47.164)      | (42.460)      |
| 43.363       | 41.041       | 38.638       | <b>Net Operating Revenues</b>           | 158.239       | 136.605       |
| (27.066)     | (26.696)     | (22.030)     | Cost of Goods Sold                      | (94.666)      | (77.108)      |
| 16.297       | 14.345       | 16.608       | <b>Gross profit</b>                     | 63.573        | 59.497        |
|              |              |              | <b>Operating Expenses</b>               |               |               |
| (1.546)      | (1.550)      | (1.709)      | Sales                                   | (5.791)       | (5.477)       |
| (1.459)      | (1.728)      | (1.660)      | General and Administratives             | (5.788)       | (5.431)       |
| (531)        | (818)        | (1.254)      | Cost of Prospecting, Drilling & Lifting | (2.037)       | (2.223)       |
| -            | (45)         | (126)        | Losses on recovery of assets            | (45)          | (126)         |
| (370)        | (473)        | (270)        | Research & Development                  | (1.580)       | (935)         |
| (262)        | (356)        | (275)        | Taxes                                   | (1.263)       | (895)         |
| (484)        | (487)        | (456)        | Pension and Health Plan                 | (1.941)       | (2.011)       |
| (1.036)      | (1.059)      | (573)        | Others                                  | (2.891)       | (2.626)       |
| (5.688)      | (6.516)      | (6.323)      |                                         | (21.336)      | (19.724)      |
|              |              |              | <b>Net Financial Expenses</b>           |               |               |
| 719          | 688          | 1.149        | Income                                  | 2.379         | 1.351         |
| (1.297)      | (604)        | (1.322)      | Expenses                                | (3.720)       | (4.565)       |
|              |              |              | Monetary & FX Correction -              |               |               |
| (28)         | (677)        | 1.006        | Assets                                  | (2.278)       | (1.112)       |
|              |              |              | Monetary & FX Correction -              |               |               |
| (68)         | 521          | (1.306)      | Liabilities                             | 2.287         | 1.483         |
| (674)        | (72)         | (473)        |                                         | (1.332)       | (2.843)       |
| (6.362)      | (6.588)      | (6.796)      |                                         | (22.668)      | (22.567)      |
| 55           | 20           | 292          | Gains from Investments in Subsidiaries  | (233)         | (250)         |
| 9.990        | 7.777        | 10.104       | <b>Operating Profit</b>                 | 40.672        | 36.680        |
| (38)         | 35           | 68           | Non-operating Income (Expenses)         | (67)          | (124)         |
| (2.262)      | (1.901)      | (2.442)      | Income Tax & Social Contribution        | (11.896)      | (10.802)      |
| (299)        | (342)        | 763          | Minority Interest                       | (1.593)       | (1.023)       |
| (306)        | (369)        | (351)        | Employee Profit Sharing Plan            | (1.197)       | (1.006)       |
| <b>7.085</b> | <b>5.200</b> | <b>8.142</b> | <b>Net Income</b>                       | <b>25.919</b> | <b>23.725</b> |

Some values related to prior periods have been reclassified with the goal of aligning the financial statements and allowing comparisons.

**Balance Sheet   Consolidated**

| <b>Assets</b>                          | <b>R\$ million</b> |                   |                   |
|----------------------------------------|--------------------|-------------------|-------------------|
|                                        | <b>12.31.2006</b>  | <b>09.30.2006</b> | <b>12.31.2005</b> |
| <b>Current Assets</b>                  | <b>67.219</b>      | <b>65.491</b>     | <b>60.235</b>     |
| Cash and Cash Equivalents              | 27.829             | 24.519            | 23.417            |
| Accounts Receivable                    | 14.412             | 14.365            | 14.148            |
| Inventories                            | 15.941             | 16.592            | 13.607            |
| Taxes Recoverable                      | 6.826              | 7.796             | 6.551             |
| Others                                 | 2.211              | 2.219             | 2.512             |
| <b>Non-current Assets</b>              | <b>143.319</b>     | <b>135.103</b>    | <b>123.286</b>    |
| <b>Long-term Assets</b>                | <b>16.361</b>      | <b>15.087</b>     | <b>14.102</b>     |
| Petroleum & Alcohol Account            | 786                | 782               | 770               |
| Advances to Suppliers                  | 707                | 701               | 684               |
| Marketable Securities                  | 410                | 567               | 618               |
| Deferred Taxes and Social Contribution | 6.399              | 4.458             | 4.337             |
| Advance for Pension Plan Migration     | 1.242              | 1.249             | 1.205             |
| Prepaid Expenses                       | 1.839              | 1.935             | 1.363             |
| Accounts Receivable                    | 1.122              | 2.066             | 1.588             |
| Deposits - Legal Matters               | 1.750              | 1.757             | 1.818             |
| Others                                 | 2.106              | 1.572             | 1.719             |
| <b>Investments</b>                     | <b>4.755</b>       | <b>5.084</b>      | <b>2.281</b>      |
| <b>Fixed Assets</b>                    | <b>115.341</b>     | <b>108.552</b>    | <b>100.824</b>    |
| <b>Intangible</b>                      | <b>4.414</b>       | <b>4.272</b>      | <b>4.605</b>      |
| <b>Deferred</b>                        | <b>2.448</b>       | <b>2.108</b>      | <b>1.474</b>      |
| <b>Total Assets</b>                    | <b>210.538</b>     | <b>200.594</b>    | <b>183.521</b>    |

| Liabilities                            | R\$ million    |                |                |
|----------------------------------------|----------------|----------------|----------------|
|                                        | 12.31.2006     | 09.30.2006     | 12.31.2005     |
| <b>Current Liabilities</b>             | <b>48.157</b>  | <b>43.406</b>  | <b>42.360</b>  |
| Short-term Debt                        | 12.522         | 11.308         | 10.503         |
| Suppliers                              | 11.510         | 10.216         | 8.976          |
| Taxes and Social Contribution Payable  | 8.413          | 9.485          | 8.931          |
| Project Finance and Joint Ventures     | 34             | 34             | 28             |
| Pension Fund Obligations               | 415            | 405            | 483            |
| Dividends                              | 7.897          | 4.387          | 7.018          |
| Salaries, Benefits and Charges         | 1.452          | 1.653          | 1.196          |
| Others                                 | 5.914          | 5.918          | 5.225          |
| <b>Non Current Liabilities</b>         | <b>56.962</b>  | <b>53.719</b>  | <b>55.714</b>  |
| Long-term Debt                         | 31.543         | 30.101         | 34.439         |
| Pension Fund Obligations               | 3.048          | 2.810          | 1.898          |
| Health Care Benefits                   | 8.419          | 8.066          | 7.031          |
| Deferred Taxes and Social Contribution | 9.116          | 8.792          | 8.462          |
| Others                                 | 4.836          | 3.950          | 3.884          |
| <b>Deferred Income</b>                 | <b>413</b>     | <b>424</b>     | <b>483</b>     |
| <b>Minority Interest</b>               | <b>7.475</b>   | <b>7.175</b>   | <b>6.179</b>   |
| <b>Shareholders Equity</b>             | <b>97.531</b>  | <b>95.870</b>  | <b>78.785</b>  |
| Capital Stock                          | 48.264         | 48.264         | 33.235         |
| Reserves                               | 23.348         | 26.887         | 21.825         |
| Net Income                             | 25.919         | 20.719         | 23.725         |
| <b>Total Liabilities</b>               | <b>210.538</b> | <b>200.594</b> | <b>183.521</b> |

In accordance with international accounting practices as stated in the bulletin CVM nº 488 the IBRACON NPC nº 27 was approved, which establishes new presentation and distribution models for the financial statements. As per said bulletin, assets will be classified into Current and Non-Current, being the latter the line to include long-term, investments, property, intangible and differed assets. Liabilities will also be classified as Current and Non-Current.

## Statement of Cash Flow Consolidated

| R\$ million |          |         |                                                 |          |          |
|-------------|----------|---------|-------------------------------------------------|----------|----------|
| 4th Quarter |          |         | Fiscal Year                                     |          |          |
| 3Q-2006     | 2006     | 2005    |                                                 | 2006     | 2005     |
| 7.085       | 5.200    | 8.142   | Net Income                                      | 25.919   | 23.725   |
| 3.124       | 8.044    | 315     | (+) Adjustments                                 | 18.206   | 13.164   |
| 2.609       | 2.765    | 2.271   | Depreciation & Amortization                     | 9.824    | 8.035    |
| 761         | 532      | 1.722   | Charges on Financing and Connected Companies    | 869      | (1.477)  |
| 299         | 342      | (732)   | Minority interest                               | 1.593    | 1.023    |
| (55)        | (20)     | (292)   | Result of Participation in Material Investments | 233      | 250      |
| (194)       | 486      | (1.778) | Foreign Exchange on Fixed Assets                | 3.057    | 4.000    |
| (1.141)     | 1.307    | (264)   | Deferred Income Tax and Social Contribution     | 766      | 890      |
| 725         | 651      | 1.208   | Inventory Variation                             | (2.334)  | 657      |
| 569         | 534      | (947)   | Supplier Variation                              | 2.470    | (484)    |
| 604         | 601      | 617     | Pension and Health Plan Variation               | 2.430    | 2.640    |
| (1.053)     | 846      | (1.490) | Others                                          | (702)    | (2.370)  |
| 10.209      | 13.244   | 8.457   | (=) Net Cash Generated by Operating Activities  | 44.125   | 36.889   |
| (8.341)     | (12.061) | (7.022) | (-) Cash used for Cap.Expend.                   | (33.059) | (23.026) |
| (4.343)     | (5.558)  | (3.583) | Investment in E&P                               | (17.672) | (13.558) |
| (1.262)     | (1.687)  | (997)   | Investment in Refining & Transport              | (4.592)  | (3.328)  |
| (470)       | (1.351)  | (502)   | Investment in Gas and Energy                    | (2.446)  | (1.655)  |
| (137)       | (232)    | (124)   | Project Finance                                 | (633)    | (491)    |
| (1.818)     | (2.990)  | (1.305) | Investment in International Segment             | (6.727)  | (2.885)  |
| 24          | 24       | 59      | Dividends                                       | 102      | 130      |
| (335)       | (267)    | (570)   | Other investments                               | (1.091)  | (1.239)  |
| 1.868       | 1.183    | 1.435   | (=) Free cash flow                              | 11.066   | 13.863   |
| (62)        | 2.127    | 772     | (-) Cash used in Financing Activities           | (6.654)  | (10.433) |
| (60)        | 2.128    | 769     | Financing                                       | 97       | (5.603)  |
| (2)         | (1)      | 3       | Dividends                                       | (6.751)  | (4.830)  |
| 1.806       | 3.310    | 2.207   | (=) Net cash generated in the period            | 4.412    | 3.430    |
| 22.713      | 24.519   | 21.210  | Cash at the Beginning of Period                 | 23.417   | 19.987   |
| 24.519      | 27.829   | 23.417  | Cash at the End of Period                       | 27.829   | 23.417   |

Some values related to prior periods have been reclassified with the goal of aligning the financial statements and allowing comparisons.

**Statement of Added Value Consolidated**

|                                                                  | <b>R\$ million</b> |                |
|------------------------------------------------------------------|--------------------|----------------|
|                                                                  | <b>Fiscal Year</b> |                |
|                                                                  | <b>2006</b>        | <b>2005</b>    |
| <b>Description</b>                                               |                    |                |
| Sales of Products and Services and Non-Operating Revenues*       | 206.285            | 179.391        |
| Raw Materials Used                                               | (10.018)           | (4.004)        |
| Products for Resale                                              | (45.862)           | (36.104)       |
| Materials, Energy, Services & Other                              | (22.597)           | (23.594)       |
| <b>Added Value Generated</b>                                     | <b>127.808</b>     | <b>115.689</b> |
| Depreciation & Amortization                                      | (9.823)            | (8.035)        |
| Participation in Related Companies, Goodwill & Negative Goodwill | (233)              | (250)          |
| Financial Result                                                 | 2.388              | 239            |
| Rent and Royalties                                               | 555                | 598            |
| <b>Total Distributable Added Value</b>                           | <b>120.695</b>     | <b>108.241</b> |
| <b>Distribution of Added Value</b>                               |                    |                |
| <b>Personnel</b>                                                 |                    |                |
| Salaries, Benefits and Charges                                   | 10.395             | 9.643          |
|                                                                  | 10.395             | 9.643          |
| <b>Government Entities</b>                                       |                    |                |
| Taxes, Fees and Contributions                                    | 54.730             | 49.336         |
| Government Take                                                  | 17.311             | 14.474         |
|                                                                  | 72.041             | 63.810         |
| <b>Financial Institutions and Suppliers</b>                      |                    |                |
| Interest, FX Rate and Monetary Changes                           | 3.720              | 4.915          |
| Rent and Freight Expenses                                        | 7.164              | 5.158          |
|                                                                  | 10.884             | 10.073         |
| Minority Interest                                                | 1.593              | 1.023          |
| <b>Shareholders</b>                                              |                    |                |
| Dividends/Interest on Own Capital                                | 7.897              | 7.018          |
| Retained Earnings                                                | 17.885             | 16.674         |
|                                                                  | 25.782             | 23.692         |
|                                                                  | 27.375             | 24.715         |
| <b>Distributed Added Value</b>                                   | <b>120.695</b>     | <b>108.241</b> |

\* Liquid Reserves for Doubtful Loans.

Some values related to prior periods have been reclassified with the goal of aligning the financial statements and allowing comparisons.

**Consolidated Result by Business Area - 12.31.2006**

|                                                          | R\$ MILLION        |                |                |                |                |                |                  |                 |
|----------------------------------------------------------|--------------------|----------------|----------------|----------------|----------------|----------------|------------------|-----------------|
|                                                          | GAS<br>&<br>ENERGY |                |                |                |                |                |                  |                 |
|                                                          | E&P                | SUPPLY         |                | DISTRIB.       | INTERN.        | CORPOR.        | ELIMIN.          | TOTAL           |
| <b>INCOME STATEMENTS</b>                                 |                    |                |                |                |                |                |                  |                 |
| <b>Net Operating Revenues</b>                            | <b>77.764</b>      | <b>125.744</b> | <b>9.588</b>   | <b>40.608</b>  | <b>14.092</b>  | <b>-</b>       | <b>(109.557)</b> | <b>158.239</b>  |
| Intersegments                                            | 70.848             | 32.476         | 2.848          | 625            | 2.760          | -              | (109.557)        | -               |
| Third Parties                                            | 6.916              | 93.268         | 6.740          | 39.983         | 11.332         | -              | -                | 158.239         |
| Cost of Products and Services Sold                       | (35.165)           | (112.471)      | (8.360)        | (36.849)       | (10.518)       | -              | 108.697          | (94.666)        |
| <b>Gross Profit</b>                                      | <b>42.599</b>      | <b>13.273</b>  | <b>1.228</b>   | <b>3.759</b>   | <b>3.574</b>   | <b>-</b>       | <b>(860)</b>     | <b>63.573</b>   |
| <b>Operating Expenses</b>                                | <b>(3.216)</b>     | <b>(3.801)</b> | <b>(2.247)</b> | <b>(2.812)</b> | <b>(2.339)</b> | <b>(6.995)</b> | <b>74</b>        | <b>(21.336)</b> |
| Sales, General & Administrative                          | (1.031)            | (3.160)        | (840)          | (2.481)        | (1.322)        | (2.791)        | 46               | (11.579)        |
| Taxes                                                    | (68)               | (162)          | (96)           | (169)          | (147)          | (621)          | -                | (1.263)         |
| Exploratory Costs                                        | (1.119)            | -              | -              | -              | (918)          | -              | -                | (2.037)         |
| Impairment                                               | (43)               | -              | -              | -              | (2)            | -              | -                | (45)            |
| Research & Development                                   | (758)              | (312)          | (169)          | (11)           | (5)            | (325)          | -                | (1.580)         |
| Benefits Expenses                                        | -                  | -              | -              | -              | -              | (1.941)        | -                | (1.941)         |
| Others                                                   | (197)              | (167)          | (1.142)        | (151)          | 55             | (1.317)        | 28               | (2.891)         |
| <b>Operating Income (Loss)</b>                           | <b>39.383</b>      | <b>9.472</b>   | <b>(1.019)</b> | <b>947</b>     | <b>1.235</b>   | <b>(6.995)</b> | <b>(786)</b>     | <b>42.237</b>   |
| Interest Income                                          |                    |                |                |                |                |                |                  |                 |
| (Expenses)                                               | -                  | -              | -              | -              | -              | (1.332)        | -                | (1.332)         |
| Equity Results                                           | -                  | 129            | (20)           | (14)           | 67             | (395)          | -                | (233)           |
| Non-operating Income (Expenses)                          | (181)              | (47)           | (8)            | 38             | 50             | 81             | -                | (67)            |
| <b>Income (Loss) Before Taxes and Minority Interests</b> | <b>39.202</b>      | <b>9.554</b>   | <b>(1.047)</b> | <b>971</b>     | <b>1.352</b>   | <b>(8.641)</b> | <b>(786)</b>     | <b>40.605</b>   |
| Income Tax & Social Contribution                         | (13.182)           | (3.094)        | 360            | (308)          | (527)          | 4.587          | 268              | (11.896)        |
| Minority Interests                                       | (824)              | (26)           | (469)          | -              | (393)          | 119            | -                | (1.593)         |
| Employee Profit Sharing Plan                             | (434)              | (324)          | (32)           | (78)           | (80)           | (249)          | -                | (1.197)         |
| <b>Net Income (Loss)</b>                                 | <b>24.762</b>      | <b>6.110</b>   | <b>(1.188)</b> | <b>585</b>     | <b>352</b>     | <b>(4.184)</b> | <b>(518)</b>     | <b>25.919</b>   |

**Consolidated Result by Business Area - 12.31.2005**

**R\$ MILLION**

|                                       | <b>GAS<br/>&amp;<br/>ENERGY</b> |                |                |                 |                |                |                  |                 |
|---------------------------------------|---------------------------------|----------------|----------------|-----------------|----------------|----------------|------------------|-----------------|
|                                       | <b>E&amp;P</b>                  | <b>SUPPLY</b>  |                | <b>DISTRIB.</b> | <b>INTERN.</b> | <b>CORPOR.</b> | <b>ELIMIN.</b>   | <b>TOTAL</b>    |
| <b>INCOME STATEMENTS</b>              |                                 |                |                |                 |                |                |                  |                 |
| <b>Net Operating Revenues</b>         | <b>69.487</b>                   | <b>109.599</b> | <b>8.088</b>   | <b>38.309</b>   | <b>11.468</b>  | <b>-</b>       | <b>(100.346)</b> | <b>136.605</b>  |
| Intersegments                         | 65.007                          | 30.027         | 2.402          | 545             | 2.365          | -              | (100.346)        | -               |
| Third Parties                         | 4.480                           | 79.572         | 5.686          | 37.764          | 9.103          | -              | -                | 136.605         |
| Cost of Goods Sold                    | (29.682)                        | (97.452)       | (6.447)        | (34.620)        | (7.350)        | -              | 98.443           | (77.108)        |
| <b>Gross Profit</b>                   | <b>39.805</b>                   | <b>12.147</b>  | <b>1.641</b>   | <b>3.689</b>    | <b>4.118</b>   | <b>-</b>       | <b>(1.903)</b>   | <b>59.497</b>   |
| <b>Operating Expenses</b>             | <b>(3.287)</b>                  | <b>(3.665)</b> | <b>(2.097)</b> | <b>(2.451)</b>  | <b>(1.931)</b> | <b>(6.427)</b> | <b>134</b>       | <b>(19.724)</b> |
| Sales, General & Administrative       | (873)                           | (3.000)        | (1.365)        | (2.314)         | (1.131)        | (2.359)        | 134              | (10.908)        |
| Taxes                                 | (30)                            | (79)           | (61)           | (164)           | (129)          | (432)          | -                | (895)           |
| Loss in assets recovery               | (49)                            | -              | -              | -               | (77)           | -              | -                | (126)           |
| Research & Development                | (372)                           | (134)          | (53)           | (2)             | (5)            | (369)          | -                | (935)           |
| Health and Pension Plan               | -                               | -              | -              | -               | -              | (2.011)        | -                | (2.011)         |
| Others                                | (86)                            | (452)          | (618)          | 29              | (243)          | (1.256)        | -                | (2.626)         |
| <b>Operating Profit (Loss)</b>        | <b>36.518</b>                   | <b>8.482</b>   | <b>(456)</b>   | <b>1.238</b>    | <b>2.187</b>   | <b>(6.427)</b> | <b>(1.769)</b>   | <b>39.773</b>   |
| Interest Income                       |                                 |                |                |                 |                |                |                  |                 |
| (Expenses)                            | -                               | -              | -              | -               | -              | (2.843)        | -                | (2.843)         |
| Equity Income                         | -                               | 200            | (42)           | -               | 100            | (508)          | -                | (250)           |
| Non-operating Income                  |                                 |                |                |                 |                |                |                  |                 |
| (Expense)                             | (98)                            | (19)           | (38)           | (9)             | (6)            | 46             | -                | (124)           |
| <b>Income (Loss) Before Taxes and</b> |                                 |                |                |                 |                |                |                  |                 |
| <b>Minority Interests</b>             | <b>36.420</b>                   | <b>8.663</b>   | <b>(536)</b>   | <b>1.229</b>    | <b>2.281</b>   | <b>(9.732)</b> | <b>(1.769)</b>   | <b>36.556</b>   |
| Income Tax & Social Contribution      | (12.258)                        | (2.781)        | 177            | (392)           | (687)          | 4.537          | 602              | (10.802)        |
| Minority Interests                    | (958)                           | (52)           | (134)          | -               | (99)           | 220            | -                | (1.023)         |
| Employee Profit Sharing Plan          | (369)                           | (284)          | (27)           | (76)            | (45)           | (205)          | -                | (1.006)         |
| <b>Net Income (Loss)</b>              | <b>22.835</b>                   | <b>5.546</b>   | <b>(520)</b>   | <b>761</b>      | <b>1.450</b>   | <b>(5.180)</b> | <b>(1.167)</b>   | <b>23.725</b>   |

With the objective of aligning the financial statements per business segment and adopting the best corporate practices used by Oil and Gas companies and to better present PETROBRAS businesses starting 1Q06 the Company allocated all its financial results and patrimonial accounts of financial nature to the corporate level. As a result of this change, the income tax social contribution, employee profit share and minority interest lines were also adjusted.

In order to facilitating comparisons, we present business segments financial statements for prior with the new classification.

**EBITDA(1) Consolidated Statement by Business Area - 12.31.2006**

|                                | <b>R\$ MILLION</b> |               |                                 |                 |                |                |                |               |
|--------------------------------|--------------------|---------------|---------------------------------|-----------------|----------------|----------------|----------------|---------------|
|                                | <b>E&amp;P</b>     | <b>SUPPLY</b> | <b>GAS<br/>&amp;<br/>ENERGY</b> | <b>DISTRIB.</b> | <b>INTERN.</b> | <b>CORPOR.</b> | <b>ELIMIN.</b> | <b>TOTAL</b>  |
| Operating Income (Loss)<br>(2) | 38.949             | 9.148         | (1.051)                         | 869             | 1.155          | (7.244)        | (786)          | 41.040        |
| Depreciation &<br>Amortization | 5.573              | 1.732         | 772                             | 398             | 1.143          | 206            | -              | 9.824         |
| <b>EBITDA (1)</b>              | <b>44.522</b>      | <b>10.880</b> | <b>(279)</b>                    | <b>1.267</b>    | <b>2.298</b>   | <b>(7.038)</b> | <b>(786)</b>   | <b>50.864</b> |

(1) Operating income before the financial results and equity results + depreciation /amortization.

(2) Adjusted with the Employee Profit Sharing Plan

**Statement of Other Operating Income (Expenses) - 12.31.2006**

|                                                                       | <b>R\$ MILLION</b> |               |                                 |                 |                |                |                |                |
|-----------------------------------------------------------------------|--------------------|---------------|---------------------------------|-----------------|----------------|----------------|----------------|----------------|
|                                                                       | <b>E&amp;P</b>     | <b>SUPPLY</b> | <b>GAS<br/>&amp;<br/>ENERGY</b> | <b>DISTRIB.</b> | <b>INTERN.</b> | <b>CORPOR.</b> | <b>ELIMIN.</b> | <b>TOTAL</b>   |
| Institutional relations<br>and cultural projects                      | (39)               | (58)          | -                               | (101)           | -              | (1.035)        | -              | (1.233)        |
| Operating expenses with<br>thermoelectric                             | -                  | -             | (869)                           | -               | -              | -              | -              | (869)          |
| Losses and<br>Contingencies related to<br>Legal Proceedings           | (27)               | 66            | -                               | 33              | (11)           | (201)          | -              | (140)          |
| Unscheduled stoppages<br>at installations and<br>production equipment | (59)               | (79)          | -                               | -               | -              | -              | -              | (138)          |
| Contractual losses from<br>ship-or-pay transport<br>services          | -                  | -             | -                               | -               | (122)          | -              | -              | (122)          |
| Result from hedge<br>operations                                       | -                  | 47            | (167)                           | -               | -              | -              | -              | (120)          |
| Recovery of Exploratory<br>Expenses in Nigeria                        | -                  | -             | -                               | -               | 69             | -              | -              | 69             |
| Others                                                                | (72)               | (143)         | (106)                           | (83)            | 119            | (81)           | 28             | (338)          |
|                                                                       | <b>(197)</b>       | <b>(167)</b>  | <b>(1.142)</b>                  | <b>(151)</b>    | <b>55</b>      | <b>(1.317)</b> | <b>28</b>      | <b>(2.891)</b> |

## Statement of Other Operating Revenues (Expenses) - 12.31.2005

|                                                                 | R\$ MILLION |        |                    |          |         |         |         |         |
|-----------------------------------------------------------------|-------------|--------|--------------------|----------|---------|---------|---------|---------|
|                                                                 | E&P         | SUPPLY | GAS<br>&<br>ENERGY | DISTRIB. | INTERN. | CORPOR. | ELIMIN. | TOTAL   |
| Institutional relations and cultural projects                   | -           | (7)    | -                  | (99)     | -       | (872)   | -       | (978)   |
| Operating expenses with thermoelectric                          | -           | -      | (1.126)            | -        | -       | -       | -       | (1.126) |
| Losses and Contingencies related to Legal Proceedings           | (28)        | (316)  | -                  | 83       | (31)    | (51)    | -       | (343)   |
| Unscheduled stoppages at installations and production equipment | (68)        | (89)   | -                  | -        | -       | -       | -       | (157)   |
| Contractual losses from ship-or-pay transport services          | -           | -      | -                  | -        | (147)   | -       | -       | (147)   |
| Result from hedge operations                                    | -           | (18)   | 419                | -        | -       | -       | -       | 401     |
| Others                                                          | 10          | (22)   | 89                 | 45       | (65)    | (333)   | -       | (276)   |
|                                                                 | (86)        | (452)  | (618)              | 29       | (243)   | (1.256) | -       | (2.626) |

## Statement of Extraordinary Items in 12.31.2006

|                                                                           | R\$ MILLION |        |                    |          |       |
|---------------------------------------------------------------------------|-------------|--------|--------------------|----------|-------|
|                                                                           | E&P         | SUPPLY | GAS<br>&<br>ENERGY | DISTRIB. | INTER |
| Net Income (Loss) by Business Segment                                     | 39.383      | 9.472  | (1.019)            | 947      | 1.23  |
| Extraordinary Items:                                                      |             |        |                    |          |       |
| New ANP Interpretation (Project Finance Expense Deducibility)             | 426         | -      | -                  | -        |       |
| Adjustment of the Expenses with Natural Gas Re-injection                  | 408         | -      | -                  | -        |       |
| Effect of the negotiated Hedge Operation termination with Andina          | -           | -      | 167                | -        |       |
| Contractual Losses from Ship-or-Pay Transport Services                    | -           | -      | -                  | -        | 12    |
| Tax Expenses - PIS/COFINS on other Revenues                               | 22          | 73     | 15                 | -        |       |
| Lawsuit Loss Related to ICMS Tax                                          |             | (129)  |                    |          |       |
| Extraordinary Items Subtotal                                              | 856         | (56)   | 182                | -        | 12    |
| Operating Income (Loss) by business Segment before<br>Extraordinary Items | 40.239      | 9.416  | (837)              | 947      | 1.35  |
| Net Income (Loss) by Business Segment                                     | 24.762      | 6.110  | (1.188)            | 585      | 35    |
| Extraordinary Items                                                       | 856         | (56)   | 182                | -        | 12    |
| Tax Effects                                                               | (291)       | 19     | (5)                | -        | (4)   |
| Operating Income (Loss) by business Segment before<br>Extraordinary Items | 25.327      | 6.073  | (1.011)            | 585      | 43    |

## Statement of Extraordinary Items in 12.31.2005

|                                                                      | R\$ MILLION |        |                    |          |       |
|----------------------------------------------------------------------|-------------|--------|--------------------|----------|-------|
|                                                                      | E&P         | SUPPLY | GAS<br>&<br>ENERGY | DISTRIB. | INTER |
| Operating Income (Loss) by Business Segment                          | 36.518      | 8.482  | (456)              | 1.238    | 2     |
| Extraordinary Items:                                                 |             |        |                    |          |       |
| Contractual Losses from Ship-or-Pay Transport Services               | -           | -      | -                  | -        |       |
| Net Profit in Assets Exchange                                        | -           | -      | -                  | -        |       |
| Lawsuit Loss Related to ICMS Tax                                     | -           | 286    | -                  | -        |       |
| Making up for thermo-plant short fall in the Northeast               | -           | -      | 118                | -        |       |
| Cost incurred to renegotiate existing contracts with thermo-eletrics | -           | -      | 376                | -        |       |

|                                                                               |               |              |              |              |           |
|-------------------------------------------------------------------------------|---------------|--------------|--------------|--------------|-----------|
| <b>Others</b>                                                                 | -             | -            | -            | -            |           |
| <b>Extraordinary Items Subtotal</b>                                           | -             | <b>286</b>   | <b>494</b>   | -            |           |
| <b>Operating Income (Loss) by business Segment before Extraordinary Items</b> | <b>36.518</b> | <b>8.768</b> | <b>38</b>    | <b>1.238</b> | <b>2.</b> |
| <b>Net Income (Loss) by Business Segment</b>                                  | <b>22.835</b> | <b>5.546</b> | <b>(520)</b> | <b>761</b>   | <b>1.</b> |
| <b>Extraordinary Items</b>                                                    | -             | 286          | 494          | -            |           |
| <b>Tax Effects</b>                                                            | -             | (98)         | (93)         | -            |           |
| <b>Operating Income (Loss) by business Segment before Extraordinary Items</b> | <b>22.835</b> | <b>5.734</b> | <b>(119)</b> | <b>761</b>   | <b>1.</b> |

**Consolidated Assets by Business Area - 12.31.2006**

|                                   | <b>R\$ MILLION</b> |               |                                 |                 |                |                |                |                |
|-----------------------------------|--------------------|---------------|---------------------------------|-----------------|----------------|----------------|----------------|----------------|
|                                   | <b>E&amp;P</b>     | <b>SUPPLY</b> | <b>GAS<br/>&amp;<br/>ENERGY</b> | <b>DISTRIB.</b> | <b>INTERN.</b> | <b>CORPOR.</b> | <b>ELIMIN.</b> | <b>TOTAL</b>   |
| <b>ASSETS</b>                     | <b>77.642</b>      | <b>42.917</b> | <b>21.951</b>                   | <b>7.814</b>    | <b>23.713</b>  | <b>43.926</b>  | <b>(7.425)</b> | <b>210.538</b> |
| <b>CURRENT ASSETS</b>             | <b>6.892</b>       | <b>20.852</b> | <b>2.965</b>                    | <b>4.176</b>    | <b>5.429</b>   | <b>33.812</b>  | <b>(6.907)</b> | <b>67.219</b>  |
| CASH AND CASH<br>EQUIVALENTS      | -                  | -             | -                               | -               | -              | 27.829         | -              | 27.829         |
| OTHERS                            | 6.892              | 20.852        | 2.965                           | 4.176           | 5.429          | 5.983          | (6.907)        | 39.390         |
| <b>NON-CURRENT<br/>ASSETS</b>     | <b>70.750</b>      | <b>22.065</b> | <b>18.986</b>                   | <b>3.638</b>    | <b>18.284</b>  | <b>10.114</b>  | <b>(518)</b>   | <b>143.319</b> |
| LONG-TERM ASSETS                  | 4.464              | 1.102         | 2.201                           | 596             | 1.023          | 7.493          | (518)          | 16.361         |
| PROPERTY, PLANTS<br>AND EQUIPMENT | 63.173             | 19.924        | 15.720                          | 2.599           | 12.533         | 1.392          | -              | 115.341        |
| OTHERS                            | 3.113              | 1.039         | 1.065                           | 443             | 4.728          | 1.229          | -              | 11.617         |

**Consolidated Assets by Business Area - 09.30.2006**

|                                                | <b>R\$ MILLION</b> |               |                                 |                 |                |                |                |                |
|------------------------------------------------|--------------------|---------------|---------------------------------|-----------------|----------------|----------------|----------------|----------------|
|                                                | <b>E&amp;P</b>     | <b>SUPPLY</b> | <b>GAS<br/>&amp;<br/>ENERGY</b> | <b>DISTRIB.</b> | <b>INTERN.</b> | <b>CORPOR.</b> | <b>ELIMIN.</b> | <b>TOTAL</b>   |
| <b>ASSETS</b>                                  | <b>74.645</b>      | <b>43.041</b> | <b>20.678</b>                   | <b>8.104</b>    | <b>21.480</b>  | <b>40.856</b>  | <b>(8.210)</b> | <b>200.594</b> |
| <b>CURRENT ASSETS</b>                          | <b>6.160</b>       | <b>21.644</b> | <b>3.043</b>                    | <b>4.479</b>    | <b>5.375</b>   | <b>32.917</b>  | <b>(8.127)</b> | <b>65.491</b>  |
| CASH AND CASH<br>EQUIVALENTS                   | -                  | -             | -                               | -               | -              | 24.519         | -              | 24.519         |
| OTHERS                                         | 6.160              | 21.644        | 3.043                           | 4.479           | 5.375          | 8.398          | (8.127)        | 40.972         |
| <b>NON-CURRENT<br/>ASSETS</b>                  | <b>68.485</b>      | <b>21.397</b> | <b>17.635</b>                   | <b>3.625</b>    | <b>16.105</b>  | <b>7.939</b>   | <b>(83)</b>    | <b>135.103</b> |
| LONG-TERM<br>PROPERTY, PLANTS<br>AND EQUIPMENT | 4.737              | 1.108         | 2.186                           | 676             | 1.126          | 5.337          | (83)           | 15.087         |
| OTHERS                                         | 61.126             | 19.152        | 14.421                          | 2.547           | 9.960          | 1.346          | -              | 108.552        |
| OTHERS                                         | 2.622              | 1.137         | 1.028                           | 402             | 5.019          | 1.256          | -              | 11.464         |

**Consolidated Assets by Business Area - 12.31.2005**

|                                               | <b>R\$ MILLION</b> |               |                                 |                 |                |                |                |                |
|-----------------------------------------------|--------------------|---------------|---------------------------------|-----------------|----------------|----------------|----------------|----------------|
|                                               | <b>E&amp;P</b>     | <b>SUPPLY</b> | <b>GAS<br/>&amp;<br/>ENERGY</b> | <b>DISTRIB.</b> | <b>INTERN.</b> | <b>CORPOR.</b> | <b>ELIMIN.</b> | <b>TOTAL</b>   |
| <b>ASSETS</b>                                 | <b>66.330</b>      | <b>38.741</b> | <b>19.445</b>                   | <b>8.442</b>    | <b>19.526</b>  | <b>37.947</b>  | <b>(6.910)</b> | <b>183.521</b> |
| <b>CURRENT ASSETS</b>                         | <b>5.857</b>       | <b>19.069</b> | <b>2.717</b>                    | <b>4.494</b>    | <b>4.791</b>   | <b>29.762</b>  | <b>(6.455)</b> | <b>60.235</b>  |
| CASH AND CASH<br>EQUIVALENTS                  | -                  | -             | -                               | -               | -              | 23.417         | -              | 23.417         |
| OTHERS                                        | 5.857              | 19.069        | 2.717                           | 4.494           | 4.791          | 6.345          | (6.455)        | 36.818         |
| <b>NON-CURRENT<br/>ASSETS</b>                 | <b>60.473</b>      | <b>19.672</b> | <b>16.728</b>                   | <b>3.948</b>    | <b>14.735</b>  | <b>8.185</b>   | <b>(455)</b>   | <b>123.286</b> |
| LONG-TERM<br>PROPERTY PLANTS<br>AND EQUIPMENT | 3.026              | 1.186         | 2.158                           | 1.095           | 776            | 5.971          | (110)          | <b>14.102</b>  |
| OTHERS                                        | 55.168             | 17.371        | 13.602                          | 2.377           | 11.381         | 955            | -              | <b>100.824</b> |
|                                               | 2.279              | 1.145         | 968                             | 472             | 2.578          | 1.259          | (345)          | <b>8.360</b>   |

In order to aligning the financial statements per business segment and adopting the best corporate practices used by Oil and Gas companies and to better present PETROBRAS' businesses starting 1Q06 the Company allocated all its financial results and patrimonial accounts of financial nature to the corporate level. As a result of this change, the income tax, social contribution and minority interest lines were also adjusted.

In order to facilitating comparisons, we present business segments financial statements for prior periods with the new classification.

**Consolidated Results International Business Area - 12.31.2006**

|                                | <b>R\$ MILLION<br/>INTERNATIONAL</b> |               |                |                     |                |                |               |
|--------------------------------|--------------------------------------|---------------|----------------|---------------------|----------------|----------------|---------------|
|                                | <b>E&amp;P</b>                       | <b>SUPPLY</b> | <b>G&amp;E</b> | <b>DISTRIBUTION</b> | <b>CORPOR.</b> | <b>ELIMIN.</b> | <b>TOTAL</b>  |
| <b>INTERNATIONAL<br/>AREA</b>  |                                      |               |                |                     |                |                |               |
| <b>ASSETS</b>                  | <b>16.351</b>                        | <b>4.967</b>  | <b>4.483</b>   | <b>749</b>          | <b>2.072</b>   | <b>(4.909)</b> | <b>23.713</b> |
| <b>Income Statement</b>        |                                      |               |                |                     |                |                |               |
| <b>Net Operating Revenues</b>  | <b>5.424</b>                         | <b>7.493</b>  | <b>2.618</b>   | <b>3.202</b>        | <b>56</b>      | <b>(4.701)</b> | <b>14.092</b> |
| Intersegments                  | 3.916                                | 3.107         | 424            | 14                  | -              | (4.701)        | 2.760         |
| Third Parties                  | 1.508                                | 4.386         | 2.194          | 3.188               | 56             | -              | 11.332        |
| <b>Operating Income (Loss)</b> | <b>1.372</b>                         | <b>40</b>     | <b>554</b>     | <b>(205)</b>        | <b>(547)</b>   | <b>21</b>      | <b>1.235</b>  |
| <b>Net Income (Loss)</b>       | <b>396</b>                           | <b>32</b>     | <b>249</b>     | <b>(60)</b>         | <b>(277)</b>   | <b>12</b>      | <b>352</b>    |

**Consolidated Results International Business Area**

|                                          | <b>R\$ MILLION<br/>INTERNATIONAL</b> |               |                |                     |                |                |               |
|------------------------------------------|--------------------------------------|---------------|----------------|---------------------|----------------|----------------|---------------|
|                                          | <b>E&amp;P</b>                       | <b>SUPPLY</b> | <b>G&amp;E</b> | <b>DISTRIBUTION</b> | <b>CORPOR.</b> | <b>ELIMIN.</b> | <b>TOTAL</b>  |
| <b>INTERNATIONAL<br/>AREA</b>            |                                      |               |                |                     |                |                |               |
| <b>ASSETS (09.30.2006)</b>               | <b>14.856</b>                        | <b>4.062</b>  | <b>4.375</b>   | <b>723</b>          | <b>1.367</b>   | <b>(3.903)</b> | <b>21.480</b> |
| <b>Income Statement<br/>(12.31.2005)</b> |                                      |               |                |                     |                |                |               |
| <b>Net Operating Revenues</b>            | <b>5.583</b>                         | <b>5.399</b>  | <b>2.296</b>   | <b>2.486</b>        | <b>51</b>      | <b>(4.347)</b> | <b>11.468</b> |
| Intersegments                            | 3.399                                | 2.915         | 390            | 8                   | -              | (4.347)        | 2.365         |
| Third Parties                            | 2.184                                | 2.484         | 1.906          | 2.478               | 51             | -              | 9.103         |
| <b>Operating Income (Loss)</b>           | <b>2.175</b>                         | <b>187</b>    | <b>370</b>     | <b>(21)</b>         | <b>(575)</b>   | <b>51</b>      | <b>2.187</b>  |
| <b>Net Income (Loss)</b>                 | <b>1.400</b>                         | <b>99</b>     | <b>279</b>     | <b>(7)</b>          | <b>(358)</b>   | <b>37</b>      | <b>1.450</b>  |
| <b>ASSETS (12.31.2005)</b>               | <b>14.311</b>                        | <b>3.143</b>  | <b>4.081</b>   | <b>455</b>          | <b>5.594</b>   | <b>(8.058)</b> | <b>19.526</b> |

In order to aligning the financial statements per business segment and adopting the best corporate practices used by Oil and Gas companies and to better present PETROBRAS' businesses starting 1Q06 the Company allocated all its financial results and patrimonial accounts of financial nature to the corporate level. As a result of this change, the income tax, social contribution share and minority interest lines were also adjusted.

In order to facilitating comparisons, we present business segments financial statements for prior period with the new classification.

**PETROBRAS SYSTEM**

Appendices

**1. Changes in Petroleum and Alcohol Accounts**

**SETTLING OF ACCOUNTS WITH FEDERAL GOVERNMENT**

The balance of the Petroleum and Alcohol accounts as a result of the reconciliation of said accounts with the Federal Government, which includes reciprocal debits and credits as stated in the Law N° 10,742 dated October 6, 2003, should have been finalized by June 30, 2004. After PETROBRAS presenting all information required by the National Treasury Secretary STN, is seeking through this secretary, to resolve existing disparities among the parties and to conclude the account reconciliation as agreed in the Provisory Measure N° 2,181 dated August 24, 2001.

The outstanding amount could be paid through the issuance of debt by the National Treasury in the amount equal to the final balance obtained through the account reconciliation or with other amounts that PETROBRAS owes to the Federal Government, including tax payments or a combination of the mentioned options.

| R\$ million |        |        |      |                                 |        |        |     |  |
|-------------|--------|--------|------|---------------------------------|--------|--------|-----|--|
| 4th Quarter |        |        |      | Fiscal Year                     |        |        |     |  |
| 3Q-2006     | 2006   | 2005   | Δ %  |                                 | 2006   | 2005   | Δ % |  |
|             |        |        |      |                                 |        |        |     |  |
|             |        |        |      | Economic Contribution - Country |        |        |     |  |
| 4.736       | 4.447  | 4.248  | 5    | Value Added Tax (ICMS)          | 17.731 | 15.518 | 14  |  |
| 2.023       | 2.033  | 1.888  | 8    | CIDE <sup>(1)</sup>             | 7.833  | 7.444  | 5   |  |
| 3.096       | 2.914  | 2.926  | -    | PASEP/COFINS                    | 11.637 | 10.385 | 12  |  |
|             |        |        |      | Income Tax & Social             |        |        |     |  |
| 3.181       | 1.365  | 2.363  | (42) | Contribution                    | 11.430 | 10.401 | 10  |  |
| 594         | 643    | 407    | 58   | Others                          | 2.313  | 2.010  | 15  |  |
| 13.630      | 11.402 | 11.832 | (4)  | Subtotal                        | 50.944 | 45.758 | 11  |  |
|             |        |        |      | Economic Contribution - Foreign |        |        |     |  |
| 1.059       | 883    | 1.021  | (14) |                                 | 3.786  | 3.578  | 6   |  |
| 14.689      | 12.285 | 12.853 | (4)  | Total                           | 54.730 | 49.336 | 11  |  |

### 3. Government Take

Government take in Brazil increased 17%, from 2005, reflecting a 15% increase in the reference price for domestic oil, which in 2006, total an average price of R\$ 115.85 (US\$ 53.25), in addition to the increase in the Special Participation tax bracket in the fields of Barracuda and Caratinga as a result of higher production levels and the

beginning of operations in the fields of Albacora Leste and Golfinho.

**4. Consolidated Reconciliation of Shareholders' Equity and Net Income**

|                                                                         | R\$ million          |            |
|-------------------------------------------------------------------------|----------------------|------------|
|                                                                         | Shareholders' Equity | Net Income |
| . According to PETROBRAS information as of 12.31.2006                   | 99.382               | 26.063     |
| . Profit in the sales of products in affiliated inventories             | (362)                | (362)      |
| . Reversal of profits on inventory in previous years                    | -                    | 326        |
| . Capitalized interest                                                  | (790)                | (232)      |
| . Absorption of negative shareholders' equity in affiliated companies * | (19)                 | 239        |
| . Other eliminations                                                    | (680)                | (115)      |
| . According to consolidated information as of 12.31.2006                | 97.531               | 25.919     |

\* As per the CVM Instruction N° 247/96, losses are considered non-permanent (temporary) in investments that have been appraised by the equity method, in which invested companies presenting signs of paralysis or in need of financial support from the investor company, will be limited to the valuation of the controlling company's investment. Therefore, losses generated by unfunded liabilities (negative net shareholders' equity) of controlled companies will not affect the results or the net shareholders' equity of PETROBRAS in 2005, generating a conciliatory item between the Financial Statements of PETROBRAS and the Consolidated Financial Statements.

**5. Performance of PETROBRAS shares and ADRs**

| Nominal Change |        |        |                     |        |        |
|----------------|--------|--------|---------------------|--------|--------|
| 4th Quarter    |        |        | Fiscal Year         |        |        |
| 3Q-2006        | 2006   | 2005   | 2006                | 2005   |        |
| -6,30%         | 20,15% | 2,61%  | Petrobras ON        | 31,94% | 55,09% |
| -6,00%         | 22,69% | 4,38%  | Petrobras PN        | 33,83% | 53,19% |
| -6,14%         | 22,86% | -0,31% | ADR- Nível III - ON | 44,51% | 79,16% |
| -6,26%         | 23,94% | 0,97%  | ADR- Nível III - PN | 44,10% | 77,77% |
| -0,49%         | 22,01% | 5,93%  | IBOVESPA            | 32,93% | 27,71% |
| 4,74%          | 6,71%  | 1,41%  | DOW JONES           | 16,29% | -0,61% |
| 3,97%          | 6,95%  | 2,49%  | NASDAQ              | 9,52%  | 1,37%  |

PETROBRAS shares book value as of December 31, 2006 reached R\$ 22.65.

**6. Parent Company Net Income for Dividend purposes**

|                                                                                                                                      | <b>R\$ million</b> |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| <b>Fiscal Year</b>                                                                                                                   |                    |
| <b>2006</b>                                                                                                                          |                    |
| Net Income in the Fiscal Year                                                                                                        | 26.063             |
| Appropriation:                                                                                                                       |                    |
| Legal Reserve                                                                                                                        | (1.303)            |
|                                                                                                                                      | 24.760             |
| (+) Reversal of Reserves/Adjustments:                                                                                                |                    |
| Re-evaluation Reserve                                                                                                                | 10                 |
| Adjustments made to Previous Fiscal Years                                                                                            | 480                |
| (=) Basic Profit for Dividend Purposes                                                                                               | 25.250             |
| Proposed dividend, equivalent to 31,27% of basic net income - R\$ 1,80 per share (31,49% in 2005, R\$ 1,60 per share), comprised of: |                    |
| Interest on Own Capital                                                                                                              | 6.361              |
| Dividend                                                                                                                             | 1.536              |
| Total Dividends Proposed                                                                                                             | 7.897              |

Proposed dividends for 2006 amounted to R\$ 7,897 million (R\$ 1.80 per share), and are structured the following way:

**DIVIDENDS TO BE DELIBERATED AT THE GENERAL ORDINARY MEETING**

|                                                                                                                                                                                                        | <b>Value per Share</b> | <b>Value</b>       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|--------------------|
|                                                                                                                                                                                                        | <b>ON and PN</b>       | <b>R\$ Million</b> |
| Interest on Own Capital - Approved by the Board of Directors on 10.20.2006 - Paid on 01.04.2007. on the shareholder position of 10.31.2006                                                             | 1,00                   | 4.387              |
| Interest on Own Capital - Approved by the Board of Directors 12.15.2006. to be held upto 03.31.2007. on the shareholder position of 12.28.2006                                                         | 0,45                   | 1.974              |
| Dividends - Proposed by the Board of Directors on 02.12.2007 - The payment date will be determined at the General Ordinary Meeting to be held 04.02.2007. on the shareholder position of the same date | 0,35                   | 1.536              |
| <b>TOTAL DIVIDENDS</b>                                                                                                                                                                                 | <b>1,80</b>            | <b>7.897</b>       |

Dividends and interests on own capital will be available in its current monetary equivalent as of December 31, 2006 through the payment date agreed and using the variable SELIC rate.

PETROBRAS administration is proposing that both Extraordinary General Assembly and General Shareholders Meeting take place on the same date on April 2, 2007. In addition, they are proposing a capital increase of the

Company, currently at R\$ 48,264 million to R\$ 52,644 million, through the capitalization of income reserves from prior fiscal years amounting to R\$ 4,380 million, of which R\$ 1,008 million is statutory reserve and R\$ 3,372 million are retained earnings, without the issuance of new shares as stated in the agreement under Article N°. 169, paragraph 1°, of the Law N° 6.404/76.

**7. Currency Exposure**

Currency exposure of the PETROBRAS System is measured as detailed in the following table:

| <b>Assets</b>                           | <b>R\$ million</b> |            |            |
|-----------------------------------------|--------------------|------------|------------|
|                                         | 12.31.2006         | 09.30.2006 | 12.31.2005 |
| <b>Current Assets</b>                   | 25.537             | 17.922     | 17.531     |
| Cash and Cash Equivalents               | 13.494             | 6.321      | 4.658      |
| Others Current Assets                   | 12.043             | 11.601     | 12.873     |
| <b>Non-current Assets</b>               | 38.008             | 36.661     | 32.106     |
| Long-term Assets                        | 5.264              | 5.485      | 3.009      |
| Investments                             | 941                | 1.225      | (272)      |
| Property, plant and equipment           | 29.338             | 27.831     | 26.900     |
| Intangible                              | 1.446              | 1.430      | 1.877      |
| Deferred                                | 1.019              | 690        | 592        |
| <b>Total Assets</b>                     | 63.545             | 54.583     | 49.637     |
| <b>Liabilities</b>                      | <b>R\$ million</b> |            |            |
|                                         | 12.31.2006         | 09.30.2006 | 12.31.2005 |
| <b>Current Liabilities</b>              | 18.286             | 16.047     | 15.141     |
| Short-term Debt                         | 8.948              | 7.960      | 7.393      |
| Suppliers                               | 5.732              | 4.505      | 4.583      |
| Other Current Liabilities               | 3.606              | 3.582      | 3.165      |
| <b>Long-term Liabilities</b>            | 26.367             | 25.494     | 30.082     |
| Long-term Debt                          | 23.647             | 22.974     | 28.498     |
| Other Long-term Liabilities             | 2.720              | 2.520      | 1.584      |
| <b>Total Liabilities</b>                | 44.653             | 41.541     | 45.223     |
| Net Assets (Liabilities) in Reais       | 18.892             | 13.042     | 4.414      |
| (+) Investment Funds - Exchange         | 3.631              | 6.110      | 11.469     |
| (-) FINAME Loans - dollar-indexed reais | 553                | 559        | 627        |

|                                                                                                                           |        |        |        |
|---------------------------------------------------------------------------------------------------------------------------|--------|--------|--------|
| <b>Net Assets (Liabilities) in Reais</b>                                                                                  | 21.970 | 18.593 | 15.256 |
| <b>Net Assets (Liabilities) in Dollar</b>                                                                                 | 10.276 | 8.552  | 6.518  |
| Exchange rate (*)                                                                                                         | 2,1380 | 2,1742 | 2,3407 |
| (*) Conversion takes into account the sale exchange rate of the Reais to the US dollar at the closing date of the period. |        |        |        |

## PETROBRAS SYSTEM

## Financial Statements

## Income Statement Parent Company

| R\$ million  |              |              |                                             |               |               |
|--------------|--------------|--------------|---------------------------------------------|---------------|---------------|
| 4th Quarter  |              |              | Fiscal Year                                 |               |               |
| 3Q-2006      | 2006         | 2005         |                                             | 2006          | 2005          |
| 43.725       | 41.709       | 39.014       | <b>Gross Operating Revenues</b>             | 162.226       | 143.666       |
| (11.151)     | (11.118)     | (9.955)      | <b>Sales Deductions</b>                     | (42.508)      | (37.843)      |
| 32.574       | 30.591       | 29.059       | <b>Net Operating Revenues</b>               | 119.718       | 105.823       |
| (18.941)     | (18.270)     | (15.899)     | Cost of Products Sold                       | (65.798)      | (57.513)      |
| 13.633       | 12.321       | 13.160       | <b>Gross Profit</b>                         | 53.920        | 48.310        |
|              |              |              | <b>Operating Expenses</b>                   |               |               |
| (1.318)      | (1.318)      | (1.295)      | Sales                                       | (4.975)       | (4.195)       |
| (1.029)      | (1.135)      | (909)        | General & Administrative                    | (3.967)       | (3.454)       |
| (320)        | (412)        | (1.067)      | Exploratory Costs                           | (1.119)       | (1.876)       |
| -            | (40)         | (49)         | Impairment                                  | (40)          | (49)          |
| (368)        | (470)        | (271)        | Research & Development                      | (1.569)       | (933)         |
| (147)        | (199)        | (120)        | Taxes                                       | (680)         | (443)         |
| (456)        | (456)        | (419)        | Benefit expenses                            | (1.824)       | (1.889)       |
| (793)        | (923)        | (583)        | Others                                      | (2.428)       | (2.692)       |
| (4.431)      | (4.953)      | (4.713)      |                                             | (16.602)      | (15.531)      |
|              |              |              | <b>Net Financial Expense</b>                |               |               |
| 991          | 970          | 1.325        | Income                                      | 3.038         | 2.369         |
| (671)        | (567)        | (522)        | Expense                                     | (2.226)       | (2.243)       |
|              |              |              | Monetary & Foreign Exchange                 |               |               |
| (34)         | (628)        | 2.189        | Variation - Assets                          | (3.002)       | (4.068)       |
|              |              |              | Monetary & Foreign Exchange                 |               |               |
| 12           | 375          | (1.935)      | Variation - Liabilities                     | 2.224         | 2.881         |
| 298          | 150          | 1.057        |                                             | 34            | (1.061)       |
| (4.133)      | (4.803)      | (3.656)      |                                             | (16.568)      | (16.592)      |
| (478)        | (155)        | 692          | <b>Equity Results</b>                       | 424           | 1.782         |
| 9.022        | 7.363        | 10.196       | <b>Operating Income</b>                     | 37.776        | 33.500        |
| (31)         | (27)         | 15           | <b>Non-operating Income (Expense)</b>       | (112)         | (200)         |
| (1.915)      | (1.824)      | (1.943)      | <b>Income Tax &amp; Social Contribution</b> | (10.608)      | (9.004)       |
| (263)        | (275)        | (303)        | <b>Employee Profit Sharing Plan</b>         | (993)         | (846)         |
| <b>6.813</b> | <b>5.237</b> | <b>7.965</b> | <b>Net Income (Loss)</b>                    | <b>26.063</b> | <b>23.450</b> |

Some values related to prior periods have been reclassified with the goal of aligning the financial statements and allowing comparisons.

**Balance Sheet Parent Company**

| <b>Assets</b>                          | <b>R\$ million</b> |                   |                   |
|----------------------------------------|--------------------|-------------------|-------------------|
|                                        | <b>12.31.2006</b>  | <b>09.30.2006</b> | <b>12.31.2005</b> |
| <b>Current Assets</b>                  | <b>67.219</b>      | <b>65.491</b>     | <b>60.235</b>     |
| Cash and Cash Equivalents              | 27.829             | 24.519            | 23.417            |
| Accounts Receivable                    | 14.412             | 14.365            | 14.148            |
| Inventories                            | 15.941             | 16.592            | 13.607            |
| Taxes Recoverable                      | 6.826              | 7.796             | 6.551             |
| Others                                 | 2.211              | 2.219             | 2.512             |
| <b>Non-current Assets</b>              | <b>143.319</b>     | <b>135.103</b>    | <b>123.286</b>    |
| <b>Long-term Assets</b>                | <b>16.361</b>      | <b>15.087</b>     | <b>14.102</b>     |
| Petroleum & Alcohol Account            | 786                | 782               | 770               |
| Advances to Suppliers                  | 707                | 701               | 684               |
| Marketable Securities                  | 410                | 567               | 618               |
| Deferred Taxes and Social Contribution | 6.399              | 4.458             | 4.337             |
| Advance for Pension Plan Migration     | 1.242              | 1.249             | 1.205             |
| Prepaid Expenses                       | 1.839              | 1.935             | 1.363             |
| Accounts Receivable                    | 1.122              | 2.066             | 1.588             |
| Deposits - Legal Matters               | 1.750              | 1.757             | 1.818             |
| Others                                 | 2.106              | 1.572             | 1.719             |
| <b>Investments</b>                     | <b>4.755</b>       | <b>5.084</b>      | <b>2.281</b>      |
| <b>Fixed Assets</b>                    | <b>115.341</b>     | <b>108.552</b>    | <b>100.824</b>    |
| <b>Intangible</b>                      | <b>4.414</b>       | <b>4.272</b>      | <b>4.605</b>      |
| <b>Deferred</b>                        | <b>2.448</b>       | <b>2.108</b>      | <b>1.474</b>      |
| <b>Total Assets</b>                    | <b>210.538</b>     | <b>200.594</b>    | <b>183.521</b>    |

| <b>Liabilities</b>                    | <b>R\$ million</b> |                   |                   |
|---------------------------------------|--------------------|-------------------|-------------------|
|                                       | <b>12.31.2006</b>  | <b>09.30.2006</b> | <b>12.31.2005</b> |
| <b>Current Liabilities</b>            | <b>48.157</b>      | <b>43.406</b>     | <b>42.360</b>     |
| Short-term Debt                       | 12.522             | 11.308            | 10.503            |
| Suppliers                             | 11.510             | 10.216            | 8.976             |
| Taxes and Social Contribution Payable | 8.413              | 9.485             | 8.931             |
| Project Finance and Joint Ventures    | 34                 | 34                | 28                |
| Pension Fund Obligations              | 415                | 405               | 483               |
| Dividends                             | 7.897              | 4.387             | 7.018             |
| Salaries, Benefits and Charges        | 1.452              | 1.653             | 1.196             |
| Others                                | 5.914              | 5.918             | 5.225             |
| <b>Non Current Liabilities</b>        | <b>56.962</b>      | <b>53.719</b>     | <b>55.714</b>     |
| Long-term Debt                        | 31.543             | 30.101            | 34.439            |

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|                                        |                |                |                |
|----------------------------------------|----------------|----------------|----------------|
| Pension Fund Obligations               | 3.048          | 2.810          | 1.898          |
| Health Care Benefits                   | 8.419          | 8.066          | 7.031          |
| Deferred Taxes and Social Contribution | 9.116          | 8.792          | 8.462          |
| Others                                 | 4.836          | 3.950          | 3.884          |
| <b>Deferred Income</b>                 | <b>413</b>     | <b>424</b>     | <b>483</b>     |
| <b>Minority Interest</b>               | <b>7.475</b>   | <b>7.175</b>   | <b>6.179</b>   |
| <b>Shareholders Equity</b>             | <b>97.531</b>  | <b>95.870</b>  | <b>78.785</b>  |
| Capital Stock                          | 48.264         | 48.264         | 33.235         |
| Reserves                               | 23.348         | 26.887         | 21.825         |
| Net Income                             | 25.919         | 20.719         | 23.725         |
| <b>Total Liabilities</b>               | <b>210.538</b> | <b>200.594</b> | <b>183.521</b> |

Some values related to prior periods have been reclassified with the goal of aligning the financial statements and allowing comparisons.

In accordance with international accounting practices as stated in the bulletin CVM nº 488 the IBRACON NPC nº 27 was approved, which establishes new presentation and distribution models for the financial statements. As per said bulletin, assets will be classified into Current and Non-Current, being the latter the line to include long-term, investments, property, plant and equipment, intangible and deferred assets. Liabilities will also be classified as Current and Non-Current.

## Statement of Cash Flow Parent Company

| R\$ million    |                |                |                                                       |                 |                 |
|----------------|----------------|----------------|-------------------------------------------------------|-----------------|-----------------|
| 4th Quarter    |                |                | Fiscal Year                                           |                 |                 |
| 3Q-2006        | 2006           | 2005           |                                                       | 2006            | 2005            |
| <b>6.813</b>   | <b>5.237</b>   | <b>7.965</b>   | <b>Net Income (Loss)</b>                              | <b>26.063</b>   | <b>23.450</b>   |
| 3.590          | 2.715          | (3.203)        | (+) Adjustments                                       | 9.225           | 774             |
| 1.357          | 1.361          | 990            | Depreciation & Amortization                           | 4.934           | 3.739           |
| (6)            | (4)            | (5)            | Oil and Alcohol Accounts                              | (16)            | (21)            |
| 667            | 596            | (1.055)        | Oil and Oil Products Supply - Foreign                 | 4.147           | (962)           |
|                |                |                | Charges on Financing and Affiliated                   |                 |                 |
| (496)          | 79             | (1.555)        | Companies                                             | 482             | (694)           |
| 2.068          | 683            | (1.578)        | Other Adjustments                                     | (322)           | (1.288)         |
| <b>10.403</b>  | <b>7.952</b>   | <b>4.762</b>   | <b>(=) Net Cash Generated by Operating Activities</b> | <b>35.288</b>   | <b>24.224</b>   |
| <b>(4.270)</b> | <b>(5.201)</b> | <b>(6.138)</b> | <b>(-) Cash used for Cap.Expend.</b>                  | <b>(17.403)</b> | <b>(16.024)</b> |
| (2.836)        | (2.848)        | (2.948)        | Investment in E&P                                     | (11.416)        | (9.895)         |
| (919)          | (1.874)        | (2.669)        | Investment in Refining & Transport                    | (4.089)         | (4.404)         |
| (179)          | (230)          | 483            | Investment in Gas and Energy                          | (1.356)         | (850)           |
| (261)          | (100)          | (217)          | Structured Projects Net of Advance                    | (724)           | (591)           |
| 86             | 6              | -              | Dividends                                             | 928             | 531             |
| (161)          | (155)          | (787)          | Other Investments                                     | (746)           | (815)           |
| <b>6.133</b>   | <b>2.751</b>   | <b>(1.376)</b> | <b>(=) Free Cash Flow</b>                             | <b>17.885</b>   | <b>8.200</b>    |
| <b>(4.846)</b> | <b>(203)</b>   | <b>3.712</b>   | <b>(-) Cash used in Financing Activities</b>          | <b>(15.268)</b> | <b>(2.298)</b>  |
| <b>1.287</b>   | <b>2.548</b>   | <b>2.336</b>   | <b>(=) Cash Generated in the Period</b>               | <b>2.617</b>    | <b>5.902</b>    |
| 16.264         | 17.551         | 15.146         | Cash at the Beginning of Period                       | 17.482          | 11.580          |
| 17.551         | 20.099         | 17.482         | Cash at the End of Period                             | 20.099          | 17.482          |

Some values related to prior periods have been reclassified with the goal of aligning the financial statements and allowing comparisons.

**Statement of Value Added    Parent Company**

| <b>Description</b>                                              | <b>R\$ million</b> |                |
|-----------------------------------------------------------------|--------------------|----------------|
|                                                                 | <b>Fiscal Year</b> |                |
|                                                                 | <b>2006</b>        | <b>2005</b>    |
| Sale of products and services and non operating income *        | 163.155            | 143.987        |
| Raw Materials Used                                              | (14.544)           | (11.964)       |
| Products for Resale                                             | (9.824)            | (6.961)        |
| Materials, Energy, Services & Others                            | (20.283)           | (20.081)       |
| <b>Added Value Generated</b>                                    | <b>118.504</b>     | <b>104.981</b> |
| Depreciation & Amortization                                     | (4.934)            | (3.739)        |
| Participation in subsidiaries, goodwill / discount amortization | 412                | 1.816          |
| Financial Income                                                | 2.597              | 1.923          |
| Premium and discount amortization                               | 12                 | (34)           |
| Rent and royalties                                              | 403                | 401            |
| <b>Total Distributable Added Value</b>                          | <b>116.994</b>     | <b>105.348</b> |
| <b>Distribution of Added Value</b>                              |                    |                |
| <b>Personnel</b>                                                |                    |                |
| Salaries, Benefits and Charges                                  | 7.927              | 7.498          |
|                                                                 | 7.927              | 7.498          |
| <b>Government Entities</b>                                      |                    |                |
| Taxes, Fees and Contributions                                   | 53.888             | 48.045         |
| Government Participation                                        | 16.109             | 13.754         |
| Deferred Income Tax & Social Contribution                       | 1.242              | 423            |
|                                                                 | 71.239             | 62.222         |
| <b>Financial Institutions and Suppliers</b>                     |                    |                |
| Interest, FX Rate and Monetary Variations                       | 2.563              | 2.984          |
| Rent and Freight Expenses                                       | 9.202              | 9.194          |
|                                                                 | 11.765             | 12.178         |
| <b>Shareholders</b>                                             |                    |                |
| Dividend / Interest on own capital                              | 7.897              | 7.018          |
| Net Income                                                      | 18.166             | 16.432         |
|                                                                 | 26.063             | 23.450         |
| <b>Value Added distributed</b>                                  | <b>116.994</b>     | <b>105.348</b> |

\* Liquid Reserves for Doubtful Credits.

Some values related to prior periods have been reclassified with the goal of aligning the financial statements and allowing comparisons.

**PETROBRAS SYSTEM**

<http://www.petrobras.com.br/ri/english>

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**Contacts:**

**Petróleo Brasileiro S.A. PETROBRAS**

**Investor Relations Department**

Raul Adalberto de Campos Executive Manager

E-mail: [petroinvest@petrobras.com.br](mailto:petroinvest@petrobras.com.br)

Av. República do Chile, 65 - 22<sup>nd</sup> floor

20031-912 Rio de Janeiro, RJ

(55-21) 3224-1510 / 9947

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This document may contain forecasts that merely reflect the expectations of the Company's management. Such terms as anticipate, believe, expect, forecast, intend, plan, project, seek, should, along with similar expressions, are used to identify such forecasts. These predictions evidently involve risks and uncertainties, whether foreseen or not by the Company. Therefore, the future results of operations may differ from current expectations, and readers must not base their expectations exclusively on the information presented herein.

## 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: March 12, 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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