BRAZILIAN PETROLEUM CORP
Form 6-K
August 20, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of August, 2003

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65
20035-900 - Rio de Janeiro, RJ
Federative Republic of Brazil
(Address of principal executive office)

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

Form 20-F ___X___ Form 40-F _______

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

Yes _______ No___X____

PETROBRAS RELEASES ITS SECOND QUARTER 2003 RESULTS
(Rio de Janeiro August 14, 2003) PETRÓLEO BRASILEIRO S.A. PETROBRAS
today released its consolidated results expressed in millions of reais according to Brazilian GAAP.

PETROBRAS reported consolidated net income of R$ 3,827 million in the second quarter of 2003 (2Q03). In 1H03, PETROBRAS reported consolidated net income of R$ 9,372 million, a 223% increase over 1H02. In 2Q03, consolidated net operating revenue was R$ 23,391 million, and the Company s market value was R$ 58,950 million on June 30, 2003.

- Consolidated net income in 2Q03 was R$ 3,827 million, a function of the gross margin of 44%, which increased 4% over 2Q02. This result is essentially due to the pass-through to prices of sales of some oil by-products on the domestic market, international prices and devaluation of the real. In addition, the result was impacted by lower expenses as a function of a new accounting procedure adopted in 2003 regarding well abandonment, and by the R$ 2,634 million impact of the appreciation of the real in relation to the US dollar (14.3% in 2Q03). The currency appreciation was partially offset by higher domestic oil production expenses, which were affected by the increased expenses related to governmental participation in Brazil and with third-party participation in consortiums.
- Consolidated gross revenue in 2Q03 was R$ 32,471 million, while net operating revenue was R$ 23,391 million, reflecting international prices of petroleum by-products. In the same quarter of the previous year, gross revenue and net revenue were R$ 22,862 million and R$ 15,799 million, respectively.
- With the approval on May 13, 2003, by the CNDC National Agency for Defense of Competition (an Argentine regulatory agency) of PETROBRAS acquisition of shareholder control of Petrobras Energia Participaciones S.A. - PEPSA (ex-PECOM) and of Petrolera Entre Lomas PELSA (ex-Perez Companc), the assets, liabilities and results of these companies for the period December 2002 to May 2003 were included in PETROBRAS financial statements this quarter. Development of operating activities at PEPSA and PELSA contributed R$ 361 million to consolidated net income in 2Q03.
- In the first half of 2003 (1H03), PETROBRAS invested R$ 8,910 million, principally in its oil and natural gas production capacity. This was a 55% increase over investments made in the same period of 2002.
- PETROBRAS net debt on June 30, 2003, had increased 9% over March 31, 2003, in spite of the appreciation of the real. This increase reduced consolidated debt by R$ 3,249 million, principally as a function of additional debt raised by PETROBRAS in 2Q03 (US$ 750 million in May 2003), and inclusion of PEPSA s net debt of R$ 5,803 million.
- PETROBRAS economic contribution to Brazil in 2Q03, measured by the generation of taxes, fees, social contributions and government participation, totaled R$ 11,738 million, a 27% growth over the same period in 2002.
- On June 30, 2003, the Company s market value was R$ 58,950 million, representing 121% of the controlling company s Shareholders Equity (R$ 48,440 million).

This document is divided in 5 sections:

PETROBRAS SYSTEM

Comments of the CEO, José Eduardo de Barros Dutra

In the first half of 2003, net income was R$ 9,732 million, a 223% increase over the same period of the previous year. A policy of realistic pricing in answer to the issues arising from the volatility of oil and oil by-products prices in the international market, was a fundamental factor in obtaining this result.

In the second quarter of 2003, results were once again robust, reaching R$ 3,827 million. This result reflected the erratic behavior of international markets and their effects on the Brazilian economy.

Besides being significant, the quarter s results include important adjustments intended to expand and consolidate the consistency and transparency with which PETROBRAS presents its financial statements.

Against this background, this quarter s numbers include for the first time the result of the acquisition of PEPSA (ex-Perez Companc), which was purchased at the end of last year, and the adjustment to the loss provision related to the energy business for reevaluation of equipment acquired previously and not utilized.

We made an important operational advance during the quarter when our average oil and natural gas production reached 2,146 thousand barrels per day. In addition, important discoveries that should positively impact the Company s reserves were announced.

We invested more than R$ 8.4 billion in the first half, most of which was directed toward increasing our oil and natural gas production capacity. We continued reducing costs and increasing the share of oil produced in Brazil in the load processed in refineries, thus fulfilling the goals established in our strategic plan.

From the financial point of view, an important milestone was PETROBRAS return to the international capital markets. In the first half, the Company raised US$ 2.3 billion in corporate financing, and contracted an additional US$ 1 billion for project finance concerns. Together these resources assure fulfillment of our investment program. Our successful financing program indicates not only our consistent improvement in accessing capital markets, but also reinforces the confidence investors have shown in the Company and in its ability to generate results. There has likewise been an enormous improvement in international perception regarding Brazil risk and the success of the country s prevailing economic policies.

I would also like to highlight PETROBRAS notable contribution through its policies regarding social responsibility, health, safety and the environment. In this half we contributed close to R$ 26 billion in taxes, fees and contributions to Brazil, an increase of approximately 45% over the same period of 2002. At the same time, we continue to successfully pursue our goals relating to reduction of fatalities, frequency of accidents and oil spills.

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

Net Income and Consolidated Economic Indicators

PETROBRAS, its subsidiaries and controlled companies, reported consolidated net income of R$ 9,372 million in 1H03, with operating profit (1) increasing 153% over 1H02 operating profit.

R$ million							
	2nd Quarter				1st Half		
1Q-2003	2003	2002	Δ %		2003	2002	Δ %
33,365	**32,471**	22,862	42	**Gross Operating Revenue**	**65,836**	40,640	62
24,500	**23,391**	15,799	48	**Net Operating Revenue**	**47,891**	27,038	77
8,491	**6,614**	4,403	50	**Operating Profit (1)**	**15,103**	5,979	153
703	**1,535**	(1,827)	(184)	**Financial Result**	**2,238**	(1,684)	233
5,545	**3,827**	2,035	88	**Net Income for the Period**	**9,372**	2,901	223
5.06	**3.49**	87	86	**Net Income per Share**	**8.55**	2.67	218
53,451	**58,950**	56,127	5	**Market Value (Parent Company)**	**58,950**	56,127	5
49	**44**	40	4	**Gross Margin (%)**	**46**	37	9
34	**28**	28	(0)	**Operating Margin (%)**	**32**	22	10
23	**16**	13	3	**Net Margin (%)**	**20**	11	9
9,409	**8,039**	5,557	45	**EBITDA R$ million**	**17,448**	8,044	116

(1) Before revenues, financial expenses and shareholders equity.

The principal factors affecting consolidated net income in the first half of 2003 were:

- Gross margin in 1H03 increased 9% over 1H02, due basically to the pass-through of prices of some oil by-products in the domestic market during the fiscal year 2002, international prices and devaluation of the real. These items were partially offset by the increased costs of oil and oil by-product imports, which reflected international prices, and in the production costs of domestic oil, which were impacted by increased expenses with government participation in Brazil and participation in consortiums with third parties. These are established in line with international market prices and the exchange rate. Inclusion of the revenues and costs of PEPSA and Petrolera Entre Lomas in PETROBRAS 1H03 financial statements reduced the gross margin by 1%.
- In 1H03, the operating margin of 32% was higher than in 1H02 due principally to the gross margin. This increase was partially offset by the R$ 708 million loss provision in relation to financial exposure to contracts with thermoelectric generators. Another factor was recognition of the R$ 330 million adjustment to the market value of gas-driven (turbine) generators, which were originally to be used in thermoelectric projects, but are currently not planning to be used. PEPSA and Petrolera Entre Lomas impacted the consolidated operating margin with a 1% reduction.
- Net margin in 1H03 increased 9% over the same period of the prior year as a function of the gross margin and the reduction of net financial expenses with the appreciation of the real against the dollar in 1H03 (19% compared with the 23% devaluation in 1H02). This result was despite the provision in the half for financial exposure losses of R$ 708 million in contracts with thermoelectric generators. Another factor was recognition of the R$ 330 million adjustment to the market value of gas-driven (turbines) generators, which were originally to be used in thermoelectric projects and are currently not planning to be used. The other main impact was the exchange rate loss in the conversion of the foreign controlling companies Shareholder Equity in the amount of R$ 1,307, million because of the appreciation of the real. Inclusion of the accounting statements of PEPSA and Petrolera Entre Lomas did not affect the consolidated net margin in 1H03.
- The increase (2% in relation to 1H02) in domestic production of oil and natural gas, which caused an expansion in the share of domestic oil processed in refineries (81% in 1H03 and 79% in 1H02).
- Net positive financial result of R$ 2,238 million, essentially due to appreciation of the real in relation to the US dollar in the period (19%).

PETROBRAS SYSTEM **Operating Highlights**

	2nd Quarter				1st Half		
1Q-2003	2003	2002	Δ %		2003	2002	Δ %
Exploration & Production - Thousands bpd							
1,613	**1,775**	**1,564**	**13**	**Oil and LNG production**	**1,695**	**1,545**	**10**
1,573	1,512	1,531	(1)	Domestic	1,543	1,510	2
40	263	33	697	International	152	35	334
140	163	33	394	International - Pro Forma**	152	35	334
283	**371**	**281**	**32**	**Natural Gas production ***	**327**	**281**	**16**
249	242	260	(7)	Domestic	245	261	(6)
34	129	21	514	International	82	20	310
78	85	21	305	International - Pro Forma**	82	20	310
1,896	**2,146**	**1,845**	**16**	**Total production**	**2,022**	**1,826**	**11**

*** Does not include liquified gas. Includes reinjected gas.**
**** Includes pro forma PEPSA and PELSA information in the 1Q03.**

Average Sales Price - US$ per bbl / mcf							
				Oil (US$/bbl)			
29.67	**25.21**	23.19	9	**Brazil**	**27.56**	20.42	35
31.07	**23.39**	23.81	(2)	**International**	**27.82**	21.23	31
				Natural Gas (US$/mcf)			
1.57	**1.81**	1.29	40	**Brazil**	**1.69**	1.38	22
1.72	**1.03**	1.37	(25)	**International**	**1.67**	1.33	26
Refining, Transport and Supply - Thousands bpd							
321	269	360	(25)	**Crude oil imports**	295	321	(8)
111	127	161	(21)	**Oil product imports**	119	148	(20)
72	95	50	90	**Import of gas, alcohol and others**	84	65	29
225	203	287	(29)	**Crude oil exports**	214	224	(4)
226	231	269	(14)	**Oil product exports**	228	205	11
53	**57**	**15**	**283**	**Net imports**	56	105	(46)
1,693	**1,720**	**1,658**	4	**Output of oil products**	1,702	1,690	1
1,623	1,605	1,624	(1)	**Brazil**	1,614	1,643	(2)
70	**115**	34	238	**International**	**88**	**47**	87
87	**90**	34	165	**International - Pro - Forma ****	**88**	**47**	87
2,047	**2,085**	**2,022**	3	**Primary Processed Installed Capacity**	2,085	2,022	3
1,956	1,956	1,931	1	**Brazil**	1,956	1,931	1
91	129	91	42	**International**	129	91	42
92	129	91	42	**International - Pro - Forma ****	129	91	42
				Use of Installed Capacity			
83	83	82	1	**Brazil**	83	84	(1)
70	**92**	79	13	**International**	71	68	3
69	**72**	79	(7)	**International - Pro - Forma ****	71	68	3
80	82	77	5	**Domestic crude as % of total feedstock**	81	79	2

processed

** Includes pro forma PEPSA and PELSA information in the 1Q03.

Cost - US$/barrel

				Lifting Costs:			
				Brazil			
2.85	**3.33**	2.94	13	**without government participation**	**3.08**	3.16	(3)
8.45	**8.05**	6.98	15	**with government participation**	**8.25**	6.84	21
1.97	**2.42**	2.22	9	**International**	**2.35**	2.21	6
2.50	**2.21**	2.22	(0)	**International - Pro - Forma ** **	**2.35**	2.21	6
				Refining cost			
0.90	**1.07**	1.00	7	**Brazil**	**0.98**	1.01	(3)
1.07	**1.27**	0.96	32	**International**	**1.20**	0.99	21
1.23	**1.16**	0.96	21	**International - Pro - Forma ** **	**1.20**	0.99	21
138	**155**	138	13	**Overhead in US$ million (1)**	**293**	307	(5)

(1) In order to make the "Corporate Overhead" indicator more meaningful in its management model, the Company reviewed its components, and recalculated for previous periods.

** Includes pro forma PEPSA and PELSA information in the 1Q03.

Sales Volume - Thousands bpd

1,480	1,478	1,592	(7)	**Total Oil Products**	1,480	1,593	(7)
29	27	32	(16)	Alcohol, Nitrogen and others	27	29	(7)
148	174	147	18	Natural Gas	161	144	12
1,657	1,679	1,771	(5)	**Total domestic market**	1,668	1,766	(6)
458	440	575	(23)	**Exports**	449	446	1
119	389	148	163	**International Sales**	250	175	43
577	829	723	15	**Total international market**	699	621	13
2,234	2,508	2,494	1	**Total**	2,367	2,387	(1)
231	278	148	88	**Total Pro Forma International Market**	250	175	43

** Includes pro forma PEPSA and PELSA information in the 1Q03.

Exploration and Production Thousands bpd

Domestic oil and natural gas production in 2Q03 dropped 4% from production levels in 1Q03, largely due to production stops on platforms P-35 and P-19 (Marlim) in May and June 2003 to repair the flares.

International oil and gas production in 2Q03, including the production of Petrobras Energia Participaciones S.A. PEPSA, and Petrolera Entre Lomas PELSA in 1Q03 (pro forma), rose 14% in relation to the preceding quarter. This was due principally to normalization of production operations at PEPSA-Venezuela, which was impacted by the oil workers strike in Venezuela in 1Q03, and to increased production in Bolivia, a reflection of the contracted demand for gas in the period.

Domestic oil and natural gas production in 1H03 increased 2% over the same period of 2002, largely due to the start-up of six wells in the Marlim field, two wells in Espadarte (ESPF), and installation of the production system in the Marlim Sul field, which currently has ten producing wells. The start-up of FPSO Brasil in Roncador in December 2002, the Jubarte field in October 2002, and the Coral field in February 2003, also contributed to increased production in the half.

In 1H03, international oil and natural gas production increased 325% in relation to the same period of 2002, principally due to inclusion of production of Petrolera Santa Fe, Petrolera Entre Lomas and PEPSA in Argentina. Increased production in Bolivia, a reflection of the contracted gas demand in the period, also impacted the production number. Part of this increase was offset by the expected reduction in the mature fields in Angola, Colombia and the United States.

Refining, Transport and Supply Thousands bpd

Higher profitability was achieved with the 2% year-over-year increase in domestic oil processed by the refineries in 1H03. This result is due to continuous improvement in refinery performance.

Petrobras recorded in 1H03 a commercial trade surplus in oil and oil products of 28 thousand barrels per day, equivalent to US$ 97 million.

Costs US$/barrel

The lifting cost in Brazil, excluding government participation in 1H03, decreased 3% in relation to the same period of the prior year. This mainly reflected the translation effect of costs in local currency into dollars, a function of the devaluation of the real against the US dollar, the decreased usage of contracted exploratory drilling rigs, and the transport of oil in the Marlim, Albacora, Enchova, Linguado and Pampo fields. The increase of 17% in 2Q03 over 1Q03 is mainly due to higher expenses for technical services in drilling, restoration and well intervention, underseas operations, inspections, maintenance and increased rent costs for exploratory rigs, principally in the Marlim, Albacora, Garoupa, Carapeba, Cherne, Namorado, Corvina, Enchova, Marimbá and Pargo fields.

In 1H03, the lifting cost in Brazil, including government participation, increased 21% over 1H02 due to the new special participation rate at the Marlim Sul field, a function of the greater volume produced. The increase was also affected by inclusion of the Canto do Amaro and Roncador fields in the taxable range for special participation payment, and to the growth of reference prices for domestic oil. When compared to 1Q03, the lifting cost in Brazil, including government participation, dropped 5% because of the decrease in reference prices for domestic oil.

The international lifting cost in 1H03 increased 6% over the same period in 2002, a function of incorporating the costs of Petrolera Santa Fe, Petrolera Entre Lomas and PEPSA, in Argentina. This increase was partly offset by the decrease in maintenance expenses at the Arauca field, and to lower consumption of natural gas and diesel oil at the Upia field, both in Colombia.

Domestic unit refining costs in 1H03 decreased 3% in relation to the same period in the prior year, mainly reflecting the translation effect into dollars of costs in reais, a function of the devaluation of the real against the US dollar. Compared with 1Q03, the refining cost in Brazil in 2Q03 increased 19% due to greater acquisition of chemical products and catalyzers, third-party services, principally in technical services for specialized companies, and to the impacts from devaluation of the dollar, whose average variation exceeded 15% in the previous quarter.

In 1H03, international unit refining costs increased 21% over the same period of 2002, due basically to inclusion of PEPSA s costs.

The 5% reduction in overhead expenses in 1H03, compared with the same period of the prior year, is due to the translation effect of costs in local currency into dollars, a function of the average devaluation of the real against the US dollar in this half in relation to the same period of the prior year, and to the lower personnel expenses due to extraordinary costs in 1H02, with an incentive to retired employees to move to the Company s new pension plan. These items were offset by increased expenses for salaries and benefits connected with the most recent salary adjustment in effect since September 2002. Entry of new employees and appreciation of the real against the dollar caused overhead to increase by 12% in 2Q03 compared to 1Q03.

Sales volume Thousands bpd

Reduced economic activity in Brazil and the consequent loss of the population s purchasing power is being felt in the decreased market for oil by-products, mainly in sales of diesel oil, gasoline, QAV and fuel oil. Also in this half, the level of pure alcohol in c gasoline was increased (from 20% to 25%). Thus, 1H03 sales volumes dropped 6% in the domestic market in relation to the first half of 2002.

Consolidated Statement of Results by Business Area

Result by Segment Area R$ million (1)						
	2nd Quarter			1st Half		
1Q-2003	2003	2002	Δ %	2003	2002	Δ %

						(3)	
5,617	3,252	2,331	40	**EXPLORATION & PRODUCTION**	8,869	3,561	149
1,465	1,257	773	63	**SUPPLY**	2,722	1,112	145
(335)	(123)	(90)	37	**GAS & ENERGY**	(458)	(188)	144
97	86	99	(13)	**DISTRIBUTION**	183	134	37
185	397	21	1,790	**INTERNATIONAL** (2)	582	(42)	(1,486)
(377)	(1,418)	(720)	97	**CORPORATE**	(1,795)	(1,093)	64
(1,107)	376	(379)	(199)	**ELIMINATIONS AND ADJUSTS**	(731)	(583)	25
5,545	3,827	2,035	88	**CONSOLIDATED NET INCOME**	9,372	2,901	223

(1) Financial statements by business area and their respective comments are shown starting on page 18.

(2) In the International business area, the comparison between periods is influenced by foreign exchange rate variations, given that all operations are transacted overseas either in dollars or in the currency of the country in which each company is domiciled. There may be cases in which fluctuations in the real are significant and due almost exclusively to foreign exchange rate variations, principally during high periods of volatility.

(3) As of 4Q02, the International business area also includes the Argentine operations of Petrolera Santa Fe, acquired in October 2002. As of 2Q03, approval by the CNDC National Agency for Defense of Competition (Argentine regulatory agency) of acquisition of 58.62% of the capital of Perez Companc (current Petrobras Energia Participaciones S.A. - PEPSA), and 39.67% of the capital of Petrolera Perez Companc S.A. (current Petrolera Entre Lomas) by Petrobras Participações S.L., a company indirectly controlled by PETROBRAS, the International area also includes the operations of these two new companies.

Results by Business Area

PETROBRAS operates on an integrated basis, with the majority of oil and gas production in the Exploration and Production area transferred to other sectors of PETROBRAS.

Highlighted below are the principal criteria used in determining the results of each business area:

a) Net operating revenue: considers all revenue from sales to external clients, plus sales between business areas benchmarked to internal transfer prices that are agreed upon between the areas.

b) Operating income is determined from net operating revenue, the cost of goods and services sold, which is calculated by each business area based on the internal transfer price, other operating costs for each segment, and operating expenses that are defined as the expenses effectively incurred in each area.

c) Assets: includes the assets identified as pertaining to each area.

E&P In 1H03, the Exploration and Production area reported net income of R$ 8,869 million, 149% higher than the net income recorded in the same period of the previous year (R$ 3,561 million). This result was mainly due to the R$ 8,042 million increase in gross profit from the sale/transfer of oil, and it reflected price increases on the international market, foreign exchange rates, and the 2% growth in oil and NGL production.

In 2Q03, net income in the Exploration and Production area was R$ 3,252 million, 42% lower than net income in the previous quarter (R$ 5,617 million). This result was attributed to the R$ 4,312 million reduction in gross income from the sale/transfer of oil, which reflected the decreases in international oil prices and foreign exchange rates, as well as a 4% reduction in oil and NGL production.

SUPPLY 1H03 net income from Supply was R$ 2,722 million, 145% higher than the net income reported for the same period of the previous year (R$ 1,112 million). This result was due to a R$2,449 million increase in gross income, arising from the increase in the average price of basic oil by-products in the domestic market. Higher oil by-product prices reflected the partial pass-through to prices, as of October 2002, of the higher international prices for oil by-products and the exchange rate devaluation, as well as a higher share of domestic oil in processed loads (81% in 1H03 and 79% in 1H02).

This result was partially offset by a 5% reduction in the total volume of oil products sold, principally gasoline, diesel, LPG and QAV.

In 2Q03, net income from Supply was R$ 1,257 million, 14% less than net income reported in the previous quarter (R$ 1,465 million). The result came mainly from the R$ 310 million reduction in gross income, due to the occurrence of higher-cost inventories than in the previous quarter, the decrease in the average price of oil by-products on the domestic market, reflecting the partial pass-through to some oil by-product prices of lower international by-product prices, the appreciation of the real against the dollar, and the 5% decrease in total volumes sold of oil by-products.

These effects were partially offset by the greater share of domestic oil in the load processed in 2Q03 compared with the preceding quarter (82% and 80%, respectively).

GAS AND ENERGY In 1H03, the Gas and Energy sector reported a loss of R$ 458 million, 143% higher than the R$ 188 million loss reported in 1H02.

Although the energy businesses generated gross profit of R$82 million in 1H03, with the start-up of some thermoelectric operations in 4Q02 and Petrobras Energia Ltda in 1Q03, the overall result was negative, due principally to the following:

- An additional R$ 708 million provision for estimated financial exposure losses connected to the energy businesses. Of the total provision (R$ 1,432 million), R$ 784 million was taken in 1H03, R$ 372 million in 1Q03, and R$ 412 million in 2Q03;;
- Recognition of a provision for adjustment of market value relative to gas-powered turbines that were initially intended to be employed at thermoelectric plants but are currently without plans for use, and considering the current environment of the energy sector, reducing these assets and, consequently, R$ 330 million from the results of the Gas & Energy sector.;

Losses from the energy businesses were partially offset by net income of R$ 332 million in the Natural Gas business (net income was R$ 33 million in 1H02), considering the following:

- Increase in the average realization value of the exchange rate devaluation and the increase of fuel oil prices in international markets;
- The 12% increase in volumes sold, a result of continuous substitution to fuel oil (ceramics industries and thermoelectric plants) and increased automotive use;
- Financial revenues from the 19% appreciation of the real to the dollar on debt related to construction of the Bolivia-Brazil pipeline.

In 2Q03, the loss from the Energy and Gas segment was R$ 123 million, due mainly to recognition of the provision of loss in the amount of R$ 330 million to adjust the turbines according to market value. This absorbed net financial revenues of R$ 272 million caused by the 14% appreciation of real to the dollar on the net debt of the segment. This result was 63% lower than the R$ 335 million loss reported in the previous quarter, which was impacted by the R$ 708 million loss from energy businesses.

Gross income from natural gas sales dropped R$ 99 million in the 2Q03, considering the lower realization value in the period. This was mainly due to the effect of the real s appreciation against the dollar on the transport parcel included in the price, and the increase from 35% to 39% of gas share imported from Bolivia in the mix of gas sold. The volume sold rose 18% due to continual substitution of fuel oil (ceramics industries and thermoelectric plants), and to increased automotive use.

DISTRIBUTION In the 1H03, the Distribution area reported net income of R$ 183 million, 37% higher than the net income reported in the same period of the prior year (R$ 134 million). This result was caused by the R$ 181 million increase in gross income, which reflected the partial pass-through of oil by-product price increases in refineries despite the gross margin reductions in commercialization of 10.9% to 8.7%. Volumes sold suffered a 9% drop, and the Distribution area s market share similarly fell (31.1% by June 2003, and 33.2% by June 2002).

This income was partially offset by the R$ 138 million increase in net financial expenses, mainly from debt charges in the corporate sector.

In 2Q03, the Distribution area reported net income of R$ 86 million, 11% less than net income in the prior quarter (R$ 97 million). This was mainly due to the decrease of R$ 64 million in gross income, reflecting the pass-through of refinery acquisition prices, with a decrease from 8.9% to 8.4% in the gross commercialization margin, and the R$50 million increase in net financial expenses due essentially to the changes on the Corporate segment s debt. Volumes sold rose 0.7%, despite the fact that the market share loss in the Distribution area through June 2003 was less than market share position in March 2003 (31.1% and 33.2%, respectively).

These results were partially offset by the R$ 70 million reduction in operating expenses, due mainly to lower provisioning for bad debt.

INTERNATIONAL In line with strategic planning, the operations of the International area are focused on the integration of businesses in Latin America, particularly in the Southern Cone (Argentina), where the acquisitions for shareholder control of Petrolera Santa Fe, Perez Companc (actual Petrobras Energia Participaciones), and Petrolera Perez Companc (actual Petrolera Entre Lomas) were recently made.

In 1H03, the International business area reported net income of R$ 582 million (equivalent to US$ 202 million), compared with a loss of R$42 million (equivalent to US$ 14 million) in the same period of the previous year. This result was mainly due to recognition of PEPSA s results, with the following highlights:

- Increase of R$ 1,244 million in gross income, driven by higher international prices for oil and oil by-products;
- Appreciation of the Argentine peso against the US dollar in 1H03, which resulted in net financial income of R$ 761 million, mainly due to dollar-denominated debt. This was partially offset by a R$ 305 million conversion loss on corporate investments, principally those of PEPSA in other foreign companies. In 1H02 the opposite occurred, when devaluation of the Argentine peso against the dollar caused financial expenses to increase and resulted in a conversion gain on corporate investments in Argentina;
- There was a monetary correction to the Balance Sheet in Argentine companies as of December 2002, causing an expense of R$ 137 million in 1H03 and considering the verified deflation in the period.

Excluding the impact of consolidating PEPSA, the International business area reported net income of R$ 71 million in 1H03 (equivalent to US $24 million), due basically to the following:

- A R$ 309 million increase to gross income, reflecting higher international prices for oil and oil by-products, and devaluation of the real against the dollar;
- Appreciation of the Argentine peso against the US dollar in 1H03, which caused a R$ 193 million reduction in net financial expenses and conversion gains on corporate investments in Argentina. In 1H02 the opposite occurred, when devaluation of the Argentine peso against the dollar caused financial expenses to increase and a conversion loss on corporate investments in Argentina.
- In 2Q03, the International business area reported net income of R$ 397 million (equivalent to US$ 147 million). This result was 115% higher than the net income of R$ 185 million (equivalent to US$ 55 million) reported in the previous quarter, mainly because of consolidation of PEPSA s results, which offset lower oil and oil by-product prices in the international market and appreciation of the real against the dollar in 2Q03.

Excluding the effect of PEPSA consolidation, a R$ 113 million loss was reported in 2Q03, due to the R$ 92 million reduction in gross income driven by lower oil and oil by-product prices on the international market and appreciation of the real against the dollar. There was also a R$ 38 million expense related to monetary correction at Argentine companies that considered deflation in the period. In the previous quarter the monetarily corrected revenues were R$ 16 million.

CORPORATE The units that comprise PETROBRAS Corporate area reported a R$ 1,795 million loss in 1H03, 64% higher than in the same period of the prior year (R$ 1,093 million). This was mainly due to the R$ 1,002 million exchange rate loss on conversion on overseas corporate investments (in 1H02 there was a R$ 674 million gain). There was also a R$ 538 million increase in operating expenses, mainly attributable to personnel and reflecting the 7.4% salary adjustment retroactive to September 2002, and the health plan for retirees and pension holders.

These results were partially offset by net financial expenses of R$ 1,022 million, reflecting the 19% appreciation of the real against the dollar on corporate debt. In 1H02, net financial expenses were R$ 712 million, considering the 23% devaluation of the real against the dollar.

In 2Q03, the Corporate entities reported a loss of R$ 1,418 million, 276% higher than the R$ 377 million loss in the previous quarter, reflecting the effects of the 14% appreciation of the real against the dollar in 2Q03 on corporate debt, which resulted in exchange rate losses on overseas corporate investments in the amount of R$ 806 million (R$ 196 million in the previous quarter).

Consolidated Debt

	R$ million			
	June 30, 2003	March 31, 2003	Δ %	Dec. 31, 2002
Short-term Debt (1)	11,269	9,664	17	9,611
Long-term Debt (1)	42,977	40,473	6	40,774
Total Debt	54,246	50,137	8	50,385
Net Debt (1)	37,924	34,926	9	38,510
Net Debt/(Net Debt + Equity Ratio) (1)	45%	45%	-	53%
Total Net Liabilities (1) (2)	117,583	111,285	6	103,174
Capital Structure (Debt to Equity Ratio)	59%	61%	(1)	67%

(1) Includes debt contracted by special purpose companies used by PETROBRAS to structure project finance transactions (R$ 10,650 million on June 30, 2003, R$ 10,977 million on March 31, 2003, and R$ 10,761 million on December 31, 2002), as well as advances for the project in consortium with Nova Marlim S.A. (R$ 1,620 million on June 30, 2003, R$ 1,706 million on March 31, 2003 and R$ 1,794 million on December 31, 2002), and debt contracted through leasing contracts (R$ 5,277 million on June 30, 2003, R$ 6,422 million on March 31, 2003 and R$ 7,028 million on December 31, 2002).

(2) Total liabilities net of cash/cash equivalents.

PETROBRAS net debt on June 30, 2003, had increased 9% over March 31, 2003, mainly due to debt raised by PETROBRAS System in 2Q03 (US$ 750 million in May 2003), and inclusion of PEPSA s net debt of R$ 5,803 million, offset by appreciation of the real against the dollar, which reduced consolidated debt by R$ 3,249 million (R$ 1,472 million refer to Project Finance and Leasing).

Inclusion of PEPSA s net debt increased the indicator by two percentage points.

The Company has been taking steps to lengthen its debt maturity profile, engaging in long-term operations and simultaneously paying down short-term debt. The short-term debt of Petrobras increased by 17% on June 30, 2003, in relation to March 31, 2003, as a result of the incorporation of PEPSA s own short term debt in the amount of R$1,633 million, and as a result of the maturity of the first installment of the export pre-payment in the amount of R$176 million. The debt-to-equity ratio was 60% on June 30, 2003, a 1% reduction from March 31, 2003.

Consolidated Capital Expenditures

In accordance with the objectives established in the strategic plan, PETROBRAS continues to prioritize capital expenditures towards developing oil and natural gas on its own and through joint ventures. In the first half of 2003, total investments were R$ 8,910 million (excluding investments through SPC s on an off-balance sheet basis and totaling approximately US$ 491 million in 1H03), a year-over-year increase of 55%.

R$ millions	1st Half				
	2003	**%**	**2002**	**%**	**Δ %**
Own Investments	**7,743**	**87**	**4,943**	**86**	**57**
Exploration & Production	4,315	48	2,828	49	53
Supply	1,813	20	768	13	136
Gas and Energy	208	2	602	10	(65)
Internacional	1,065	12	453	8	135
Distribution	160	2	175	3	(9)
Corporate	182	3	117	3	56
Ventures under Negotiation	**895**	**10**	**289**	**5**	**210**
Structured Projects	**272**	**3**	**523**	**9**	**(48)**
Exploration & Production	**272**	**3**	**523**	**9**	**(48)**
Albacora	-	-	118	2	-
Espadarte/Marimbá/Voador	29	-	212	4	(86)
Cabiúnas	31	-	28	-	11
Marlim / Nova Marlim Petróleo	178	3	120	2	48
Others	34	-	45	1	(24)
Total Investments	**8,910***	**100**	**5,755**	**100**	**55**

* In addition to this amount, approximately US$491 million was invested through SPC's as mentioned above.

R$ millions	1st Half				
	2003	**%**	**2002**	**%**	**Δ %**
International	**1,065**	**100**	**453**	**100**	**135**
Exploration & Production	792	74	348	77	128
Supply	141	13	14	3	907

Gas and Energy	81	8	86	19	(6)
Distribution	17	2	2	-	750
Others	34	3	3	1	1,033
Total Investments	**1,065**	**100**	**453**	**100**	**135**

- In the first half of 2003, 65% of capital expenditures from the Company s own resources in Brazil went towards exploration and production activities.
- In line with its objectives of increasing production, 65 joint venture contracts have been signed for investing in exploration and development of production in the areas in which PETROBRAS has already made commercial discoveries. Of this total, 21 blocks were returned to the National Petroleum Agency, of which there was a partial return of areas in 3 blocks, with a consequent delay of the period for exploratory drilling in the retained areas. Additionally, the BMS-3 Consortium was dissolved, leaving PETROBRAS with the entire share of that block. Currently there are 46 consortium contracts in effect, with forecasted investments of approximately US$ 4,977 million.

PETROBRAS SYSTEM **Financial Statements**

Consolidated Income Statement

R$ million					
	2nd Quarter			1st Half	
1Q-2003	2003	2002		2003	2002
33,365	32,471	22,862	**Gross Operating Revenues**	65,836	40,640
(8,865)	(9,080)	(7,063)	**Sales Deductions**	(17,945)	(13,602)
24,500	23,391	15,799	**Net Operating Revenues**	47,891	27,038
(12,480)	(13,172)	(9,498)	Cost of Goods Sold	(25,652)	(17,035)
12,020	10,219	6,301	**Gross Profit**	22,239	10,003
			Operating Expenses		
(1,561)	(1,624)	(1,248)	Sales, General & Administrative	(3,185)	(2,315)
(227)	(409)	(286)	Cost of Prospecting, Drilling & Lifting	(636)	(518)
(140)	(126)	(81)	Research & Development	(266)	(169)
(235)	(238)	(268)	Taxes	(473)	(441)
(1,366)	(1,208)	(15)	Other	(2,574)	(581)
			Net Financial Expenses		
774	(215)	1,002	Income	559	1,704
(640)	(948)	(551)	Expenses	(1,588)	(993)
(137)	(1,303)	907	Monetary & FX Correction - Assets	(1,440)	1,492
706	4,001	(3,185)	Monetary & FX Correction - Liabilities	4,707	(3,887)
703	1,535	(1,827)		2,238	(1,684)
(2,826)	(2,070)	(3,724)		(4,896)	(5,708)
(89)	(1,233)	594	Gains from Investments in Subsidiaries	(1,322)	554
9,105	6,916	3,170	**Operating Profit**	16,021	4,849
16	(153)		**Balance Sheet Monetary Correction**	(137)	
(56)	(182)	(8)	**Non-operating Income (Expenses)**	(238)	(1)
(3,314)	(2,130)	(1,510)	**Income Tax & Social Contribution**	(5,444)	(2,225)
(206)	(624)	383	**Minority Interest**	(830)	278
5,545	3,827	2,035	**Net Income**	9,372	2,901

Balance Sheet - Consolidated

Assets	R$ million	
	June 30,2003	March 31,2003
Current Assets	**41,555**	**43,492**
Cash and Cash Equivalents	16,322	15,211
Accounts Receivable	7,803	8,537
Inventories	11,274	13,984
Other	6,156	5,760

Non-current Assets	**15,926**	**16,889**
Petroleum & Alcohol Account	677	668
Ventures under Negotiation	1,931	1,159
Advances to Suppliers	1,047	1,287
Marketable Securities	959	1,495
Investments in Companies to be Privatizable	344	291
Deferred Taxes and Social Contribution	1,477	1,539
Advance for Pension Plan Migration	1,148	1,100
Other	8,343	9,350
Fixed Assets	**61,151**	**48,716**
Investments	2,973	814
Property, Plant & Equipment	57,414	47,075
Deferred	764	827
Total Assets	**118,632**	**109,097**

Liabilities	**R$ million**	
	June 30,2003	**March 31,2003**
Current Liabilities	**28,862**	**31,591**
Short-term Debt	7,992	6,222
Suppliers	5,641	6,036
Taxes and Social Contribution Payable	7,305	9,658
Project Finance and Joint Ventures	1,620	1,706
Pension Fund Obligations	296	312
Dividends	1	1,727
Other	6,007	5,930
Long-term Liabilities	**41,226**	**35,117**
Long-term Debt	28,707	24,810
Pension Fund Obligations	502	474
Health Care Benefits	4,157	3,951
Deferred Taxes and Social Contribution	5,558	3,866
Other	2,302	2,016
Provision for Future Earnings	**433**	**403**
Minority Interest	**1,449**	**(907)**
Shareholders' Equity	**46,662**	**42,894**
Capital Stock	20,202	20,176
Reserves	17,088	17,173
Net Income	9,372	5,545
Total Liabilities	**118,632**	**109,097**

Cash Flow Statement Consolidated

R$ million

1Q-2003	2nd Quarter 2003	2nd Quarter 2002		1st Half 2003	1st Half 2002
5,545	**3,827**	**2,035**	**Net Income (Loss)**	**9,372**	**2,901**
1,675	1,797	2,209	(+) Adjustments	3,472	3,068
918	1,427	1,153	Depreciation & Amortization	2,345	2,064
(25)	(8)	(675)	Petroleum & Alcohol Account	(33)	(651)
(13)	(4,200)	2,265	Charges on Financing and Connected Companies	(4,213)	2,592
206	624	106	Minority interest	830	(278)
89	1,232	41	Result of Participation in Material Investments	1,321	(554)
330	753	(6)	Foreign Exchange on Fixed Assets	1,083	(1,349)
92	364	391	Residual Value of Write-off on Fixed Assets	456	602
165	770	(72)	Deferred Income Tax and Social Contribution	935	354
(1,775)	2,227	(373)	Inventory Variation	452	(1,991)
(658)	2,032	309	Account Receivable variation on third party and Parent Co.	1,374	(2,634)
(379)	(782)	(147)	Supplier Variation	(1,161)	688
2,725	(3,420)	(783)	Variation of Other L.T. Assets and Liabilities	(695)	4,225
0	778	0	Effect on Cash from Incorporation of Controlled/Affiliated Co.	778	0
7,220	**5,624**	**4,244**	**(=) Net Cash Generated by Operating Activities**	**12,844**	**5,969**
3,672	**4,974**	**3,369**	**(-) Cash used for Cap.Expend.**	**8,647**	**6,077**
2,582	2,600	2,288	Investment in E&P	5,182	3,599
638	1,370	420	Investment in Refining & Transport	2,008	802
97	108	384	Investment in Gas and Energy	205	568
130	549	373	Project Finance	679	778
(17)	(14)	(22)	Dividends	(31)	(38)
242	362	(74)	Other investments	604	368
3,548	**649**	**875**	**(=) Free cash flow**	**4,197**	**(108)**
212	**(462)**	**3,749**	**(-) Cash used in Financing Activities**	**(250)**	**4,709**
3,336	**1,111**	**(2,874)**	**(=) Net cash generated in the period**	**4,447**	**(4,817)**
11,875	15,211	15,034	Cash at the Beginning of Period	11,875	17,108
15,211	16,322	12,289	Cash at the End of Period	16,322	12,289

Value Added Statement Consolidated

Description	Millions of Reais (R$) First Half 2003	2002
Gross Operating Revenue from Sales &/ Services	65,841	40,574
Raw Materials Used	(1,645)	(2,587)
Products for Resale	(8,576)	(6,078)
Materials, Energy, Services & Others	(10,587)	(4,589)
Value Added Generated	**45,033**	**27,320**
Depreciation & Amortization	(2,344)	(2,064)
Participation in Associated Companies	(1,322)	554
Financial Income	(880)	3,196

Balance Sheet Monetary Correction	(137)	-
Total Distributable Value Added	**40,350**	**29,006**
Distribution of Value Added		
Personnel		
Salaries, Benefits and Charges	2,366	1,659
Participations		
	2,366	**1,659**
Government Entities		
Taxes, Fees and Contributions	22,024	15,033
Government Participation	5,162	2,630
Deferred Income Tax & Social Contribution	535	370
	27,721	18,033
Financial Institutions and Suppliers		
Financial Expenses,Interest	1,645	1,082
Monetary & Foreign Exchange Correction - Liabilities	(4,708)	3,763
Rent & Freigt Expenses	3,124	1,846
	61	6,691
Shareholders		
Dividends	-	-
Minority Interest	830	(278)
Net Income	9,372	2,901
Value added distributed	10,202	2,623

Consolidated Result by Business Area June 30, 2003

	R$ Million							
	E&P	**SUPPLY**	**GAS & ENERGY**	**DISTRIB.**	**INTERN.**	**CORPOR.**	**ELIMIN.**	**TOTAL**
INCOME STATEMENTS								
Net Operating Revenues	**25,862**	**36,843**	**2,156**	**12,289**	**4,505**	**-**	**(33,764)**	**47,891**
Intersegments	22,195	10,582	328	200	459	-	(33,764)	-
Third Parties	3,667	26,261	1,828	12,089	4,046	-	-	47,891
Cost of Goods Sold	(11,209)	(31,371)	(1,356)	(11,224)	(3,044)	-	32,552	(25,652)
Gross Profit	**14,653**	**5,472**	**800**	**1,065**	**1,461**	**-**	**(1,212)**	**22,239**
Operating Expenses	**(1,247)**	**(1,709)**	**(1,463)**	**(660)**	**(535)**	**(1,640)**	**120**	**(7,134)**
Sales, General & Administrative	(205)	(1,099)	(273)	(608)	(463)	(657)	120	(3,185)
Taxes	-	(43)	(8)	(75)	(22)	(325)	-	(473)
Prospection, Drilling and Lifting Costs	(582)	-	-	-	(54)	-	-	(636)
Research & Development	(132)	(53)	(18)	-	-	(63)	-	(266)

Others	(328)	(514)	(1,164)	23	4	(595)	-	(2,574)
Operating Profit	**13,406**	**3,763**	**(663)**	**405**	**926**	**(1,640)**	**(1,092)**	**15,105**
Interest Income (Expenses)	85	194	297	(121)	761	1,022	-	2,238
Gains from Investment in Subsidiaries	-	166	17	-	(499)	(1,006)	-	(1,322)
Balance Sheet Monetary Correction	-	-	-	-	(137)	-	-	(137)
Non-operating Income (Expense)	(19)	(54)	1	(3)	(173)	10	-	(238)
Income before Taxes and Minority interests	**13,472**	**4,069**	**(348)**	**281**	**878**	**(1,614)**	**(1,092)**	**15,646**
Income Tax & Social Contribution	(4,603)	(1,293)	486	(97)	(117)	(181)	361	(5,444)
Minority interests	-	(54)	(596)	(1)	(179)	-	-	(830)
Net Income (Loss)	**8,869**	**2,722**	**(458)**	**183**	**582**	**(1,795)**	**(731)**	**9,372**

Consolidated Result by Business Area June 30, 2002

	R$ Million							
INCOME STATEMENTS	**E&P**	**SUPPLY**	**GAS & ENERGY**	**DISTRIB.**	**INTERN.**	**CORPOR.**	**ELIMIN.**	**TOTAL**
Net Operating Revenues	**14,214**	**21,424**	**1,065**	**8,139**	**1,475**	**-**	**(19,279)**	**27,038**
Intersegments	11,976	6,775	217	154	157	-	(19,279)	
Third Parties	2,238	14,649	848	7,985	1,318	-	-	27,038
Cost of Goods Sold	(7,603)	(18,401)	(942)	(7,255)	(1,258)	-	18,424	(17,035)
Gross Profit	**6,611**	**3,023**	**123**	**884**	**217**	**-**	**(855)**	**10,003**
Operating Expenses	**(819)**	**(1,189)**	**(237)**	**(617)**	**5**	**(1,103)**	**(64)**	**(4,024)**
Sales, General & Administrative	(101)	(982)	(65)	(577)	(128)	(462)	-	(2,315)
Taxes	-	(32)	(9)	(45)	(11)	(344)	-	(441)
Prospection, Drilling and Lifting Costs	(453)	-	-	-	(65)	-	-	(518)
Research & Development	(76)	(49)	(5)	-	-	(39)	-	(169)
Others	(189)	(126)	(158)	5	209	(258)	(64)	(581)
Operating Profit	**5,792**	**1,834**	**(114)**	**267**	**222**	**(1,103)**	**(919)**	**5,979**
Interest Income (Expenses)	(318)	(70)	(402)	17	(199)	(712)	-	(1,684)
Gains from Investment in Subsidiaries	-	(26)	9	-	(103)	674	-	554
Balance Sheet Monetary Correction	-	-	-	-	-	-	-	-
Non-operating Income (Expense)	(2)	(5)	(1)	2	13	(8)	-	(1)
Income before Taxes and Minority interests	**5,472**	**1,733**	**(508)**	**286**	**(67)**	**(1,149)**	**(919)**	**4,848**
Income Tax & Social Contribution	(1,911)	(608)	(112)	(101)	26	145	336	(2,225)
Minority interests	-	(13)	432	(51)	(1)	(89)	-	278
Net Income (Loss)	**3,561**	**1,112**	**(188)**	**134**	**(42)**	**(1,093)**	**(583)**	**2,901**

Consolidated Capital Expenditures

Consolidated Other Operating Expenses/Revenues June 30,2003

	R$ Million							
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	INTERN.	CORPOR.	ELIMIN.	TOTAL
Provision Losses on Financial exposure - Thermoplants			(708)					(708)
Pension fund obligations and health care benefits				(20)		(398)		(418)
Institutional relations and cultural projects		(1)				(123)		(124)
Unscheduled Stoppages Plant & Equipment	(156)	(112)						(268)