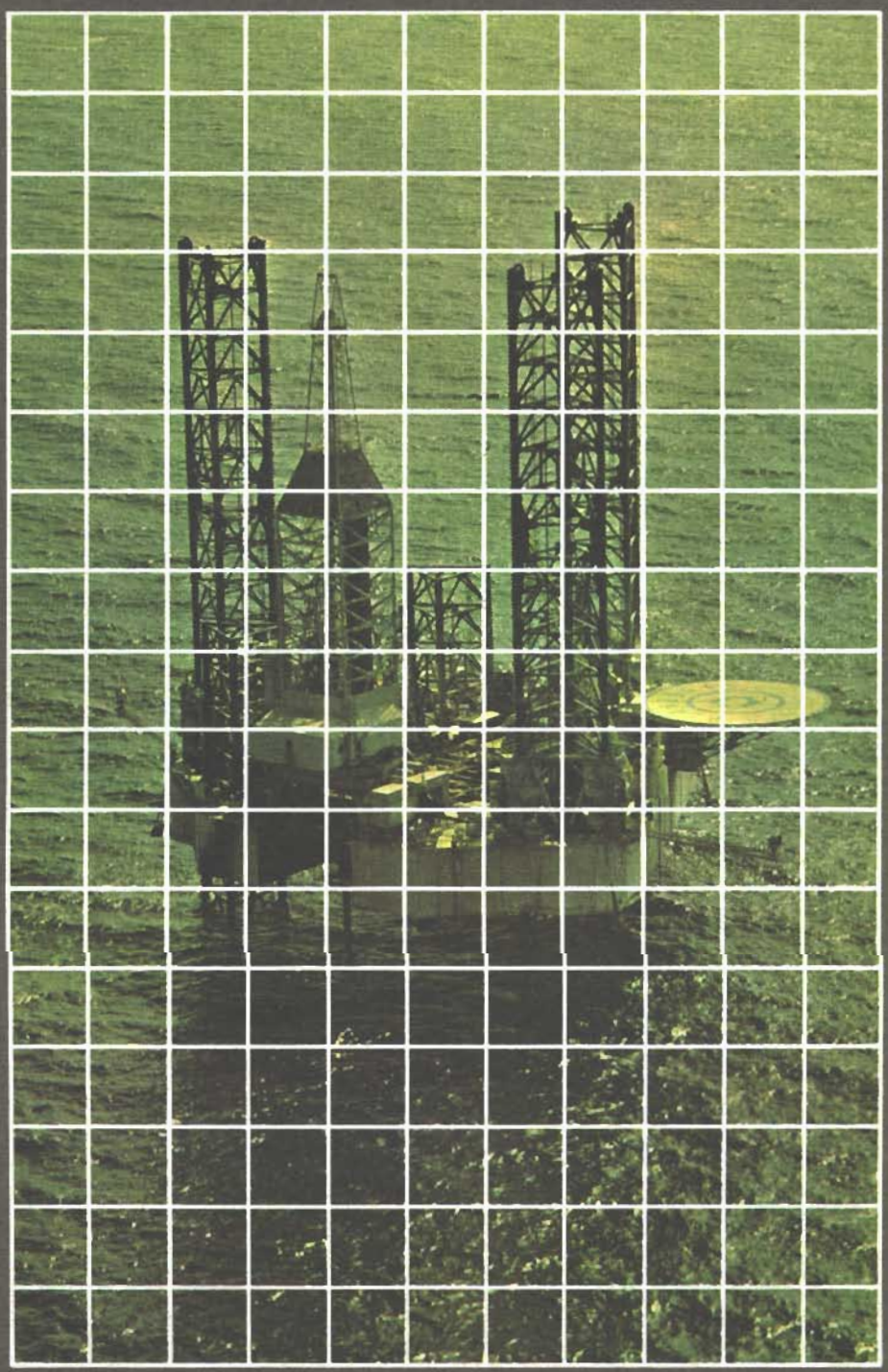
PETROBRÁS

PETROLEO BRASILEIRO S.A.

Consolidated Annual Report 78



Relatório
Petrobras Ing.
1978

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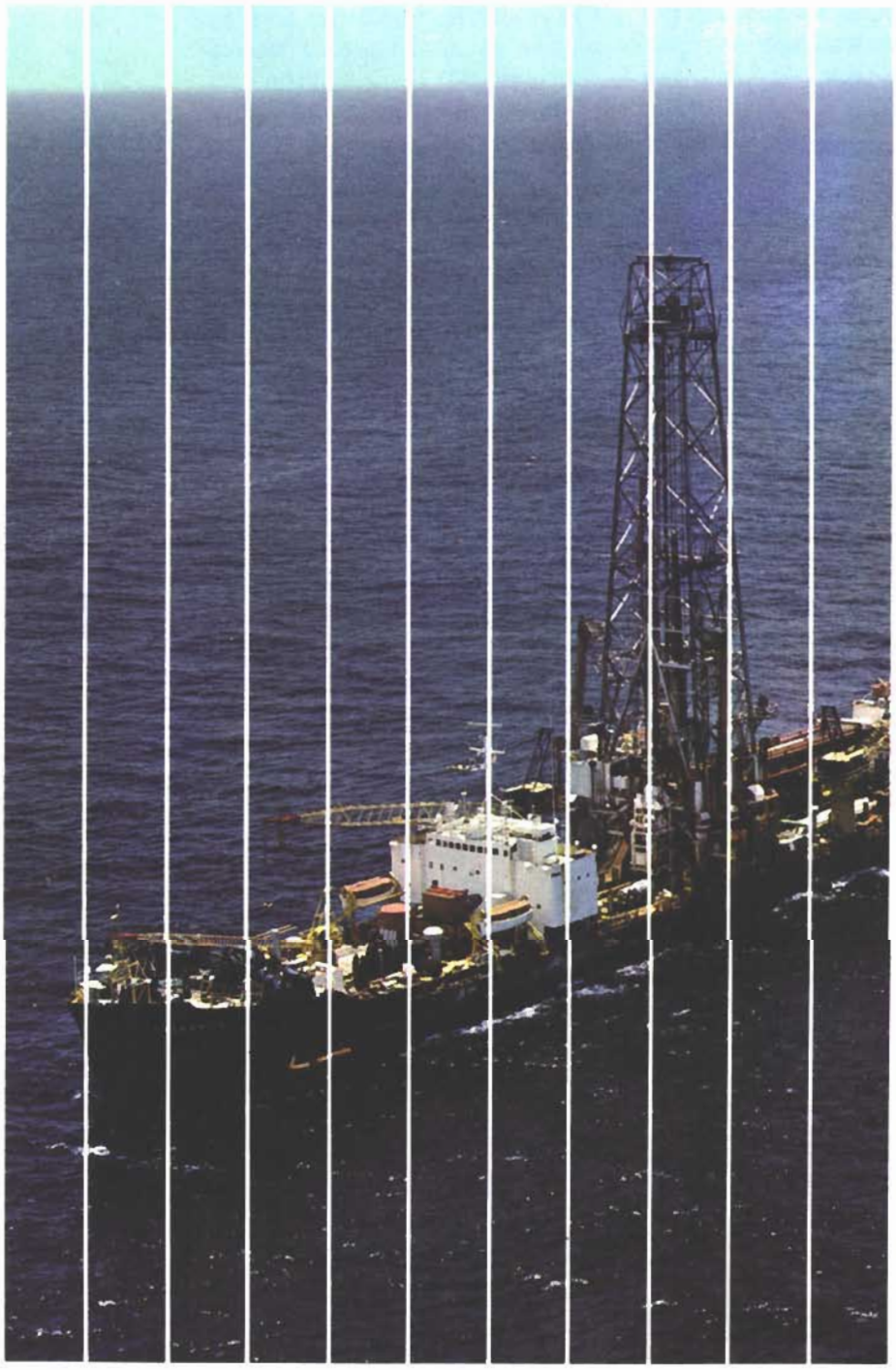
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PETROBRÁS

PETRÓLEO BRASILEIRO S.A.

Consolidated Annual Report '78



To the Shareholders



PETROBRÁS' Board of Directors, represented by its President, has the honour to submit to the Regular General Meeting of Shareholders the Summary of Activities and Financial Statements of the Company, where a synthesis is made of the main aspects of corporate operations in the fiscal year of 1978.

Throughout this period PETROBRÁS maintained the same basic objectives that inspired its creation: to meet domestic demand for refined petroleum products at the highest level of safety and at the lowest possible cost, as well as to increase domestic production of crude oil through the discovery of new fields and the acceleration of existing production programs.

The Company's proposed objectives were successfully achieved: domestic supply of oil and refined products was ensured, while the monopoly granted by the Union was exercised as the instrument of action devised to ensure the essential means to achieve those objectives.

An extensive exploration program was carried out, especially on the continental shelf, in view of good results already obtained in this area. At the same time, the development of newly discovered oil fields has been stepped up, so that they may come on stream as soon as the complex production and high technology systems allow.

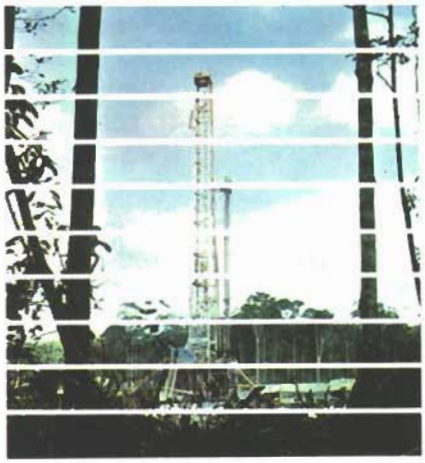
Through its Subsidiaries, PETROBRÁS also contributed to the development of the national economy, especially by conducting programs for production of basic inputs and the evaluation of mineral resources of Brazil.

An event of the highest importance in the petrochemical sector has been the inauguration of the Raw Materials Center of COPENE-Petroquímica do Nordeste S.A., a controlled company of Petrobrás Química S.A. – PETROQUISA, in Camaçari, Bahia.

Another important achievement was the work developed by Petrobrás Internacional S.A. – BRASPETRO to find new sources of oil abroad. This work revealed the existence of large oil reserves in the Majnoon and Nahr Umr fields, in Iraq.

The support of several Government Agencies, especially the Ministry of Mines and Energy and The National Petroleum Council, contributed largely to the good results achieved. The diligence and devotion of employees, Directors and Councillors of companies in the PETROBRÁS System were also indispensable factors for these good results.

Araken de Oliveira
President



The Petroleum Economy

International and Domestic Outlook

The economic activities of OECD countries (Organization for Economic Cooperation and Development) were in 1978 rather at the same level as in the previous year, with a small reduction in the rate of inflation. The unemployment index was virtually unchanged, while the deficit in foreign trade has been practically eliminated.

The maintenance in developed countries of an economic growth rate lower than in the period 1965/1974, and the slow expansion of international trade, which is an unfavourable factor for developing nations, were undoubtedly mostly the result of policies that sought the control of inflation rather than the expansion of their economies.

The modest growth rates in their economies, together with the maintenance of oil prices by OPEC, determined a significant reduction in the deficit of current accounts of OECD member countries, while in non-oil producing developing nations this deficit increased remarkably.

The decline in the value of the dollar continued to be discussed among oil exporting countries on the convenience of changing the basic currency used in oil trade. This measure has not been adopted due to the lack of interest of Saudi Arabia and Kuwait, given their large investments in U.S. currency.

At its Conference in Abu Dhabi, on December 16-17, OPEC decided to raise crude oil prices by instalments. The hike should be 5% on 1st January; 3.309% on 1st April; 2.294% on 1st July and 2.691% on 1st October. Thus, in 1979 the average price for the market crude — Arabian Light should be 10% higher than the average price for 1978.

Estimated world petroleum production was 9.5 million m^3 per day (60 million barrels per day), only 1% above production levels registered in 1977. The increased share of new producing areas such as the North Sea, Alaska and Mexico, added to petroleum stocks in industrialized countries caused a 4.0% decrease in OPEC production from 4.8 milliom m^3 per day (30.6 million barrels per day) in 1977, to 4.7 million m^3 per day in 1978 (29.5 million barrels per day).

In 1978 Brazil sustained the same rate of economic development registered in the previous year, with an approximate growth of 6% in the Gross National Product, in spite of the imbalance in foreign trade and the aggravation of the inflationary process.

The expansion in the industrial sector, occurring largely in the second semester, was 8.6% (4.2% in 1977). This was the main factor responsible for the growth observed in the GNP. Other remarkable performances were those of the transport industries, as well as chemical, pharmaceutical, electrical material and communications, metallurgical and mechanical industries.

Preliminary estimates show a decrease in agricultural production, severely damaged as it was by droughts and frosts, drastically reducing corn, soya beans and rice crops.



As a consequence of these adverse factors, together with the low international prices in 1978, the primary product export revenue fell sharply and practically offset the significant increase in exports of manufactured goods, which attained levels expressively higher than expected. Although overall exports were slightly higher than in the previous year, the trade balance registered a deficit of US$ 990 million due to an increase of 11% in imports.

With the purpose of restraining domestic price growth rates, the Government adopted, by the end of the year, hard anti-inflationary measures such as the retention and gradual release of cruzeiros corresponding to foreign currency loans, and the extension from 5 to 8 years of the minimum period for repayment of new external loans. The measures were intended to restrain the monetary expansion so as to avoid an "overheating" of the economy at the beginning of 1979, undesirable both from the standpoint of the anti-inflationary policy and the equilibrium in the balance of payments.

Government Regulations

As a result of the increase in crude oil prices as well as in domestic costs during the year the National Petroleum Council readjusted product prices. Average product price was 32% above 1977 levels while the general price index increased 40.8% in the same period.

By a Resolution of the Presidency of the Republic, dated August 16, 1978, 51% of the monetary resources resulting from the cost-differential between domestic and imported oil was allotted to the Fundo Nacional de Desenvolvimento (National Fund for Development), in the period July/December 1978, destined for priority allocation on the National Iron and Steel Program. Prior to the Resolution these resources were split in equal parts between PETROBRÁS and the National Petroleum Council.

In continuing to apply a policy aimed at reducing foreign exchange expenditures on imports of raw materials, the Government maintained several measures intended to improve the rationalization of refined products consumption such as closing service stations during certain periods, prohibiting all kinds of oil product credit sales or sales promotion, and limiting speed in highways and urban centers. The "Reimbursable Fee" charged on fuel oils has been revoked by Ruling CNP-15/78 of September 19, 1978.

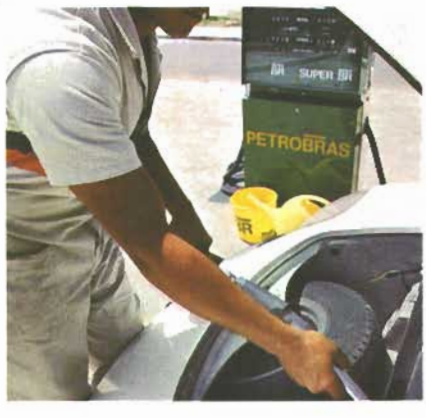
Some changes have been introduced on legislation concerning the Sole Tax on Lubricants and Fuels. Decree-Law n. 1,628 of June 15, 1978 reduced the period for collection of the Sole Tax by refineries from 70 to 50 days, and Decree-Law n. 1,631, of August 2, 1978 established the incidence of the Sole Tax on ethylic and methylic alcohols used as fuel, although exemption has been granted until December 31, 1979.

Domestic Market of Petroleum Products

In 1978, due to the good performance observed in the industrial sector and other segments of the Brazilian economy, demand for refined petroleum products, including anhydrous alcohol, was 9.7% higher than in 1977.

Even after deducting the fuel alcohol added to regular gasoline (1.4 million m^3 in 1978 against 639 thousand m^3 in 1977), consumption of petroleum products showed an 8.4% rise.

Considering energy products only, demand increased 8.5% (7% if fuel alcohol should be excluded). Energy products demand was as follows:





- motor gasoline demand increased 7.6%, partly due to the expansion of the vehicle fleet. Excluding fuel alcohol added to gasoline (1,430 thousand m^3) the related growth rate is 2.1%;
- diesel oil consumption rose by 8.1%. Such a high rate is explained by the large volume of public works and by the tendency to increase the use of diesel trucks;
- fuel oil demand increased 10.9%, reflecting the recovery of the industrial sector and the large consumption by Center-Southern thermoelectrical plants, so as to supplement the energy supply from hydroelectrical plants adversely affected by the drought;
- LPG consumption increased 7.9%, mainly due to expansion in the number of consumers.

As to non-energy products, demand in 1978 was 17.5% higher than in 1977. Among these products, asphalts showed the highest growth rate (33.2%) due to the expansion of the paved highway system in the period.

The 31.5% increase in naphtha consumption is explained by operations of the newly completed Petroquímica do Nordeste S.A. – COPENE and by a larger production of gas for consumers' lines.

– PETROBRÁS' contribution to the development of Brazil

In 1978 PETROBRÁS continued to work towards consolidation and expansion of results already obtained, in order to meet petroleum and refined product requirements at the lowest possible cost.

PETROBRÁS contribution towards national development can be evaluated through its share in the increase of the Gross National Product, investment programs implemented and foreign exchange savings obtained.

A total of Cr$ 58 billion was added to the national income by the Company, representing a real increase of 6% over the amount obtained in 1977, while the Gross National Product grew practically at the same rate.

PETROBRÁS investments in the oil industry reached Cr$ 32.8 billion (40.8% more than in the previous year). Exploration and production together absorbed 47% of the total amount invested, thus emphasizing the Company's policy of concentrating investments in this sector.

Contribution of PETROBRÁS' investments for the development of the domestic industry, including technology progress, can be best evaluated by the volume of purchases placed in the country. In 1978, PETROBRÁS spent Cr$ 11.1 billion on the domestic market, representing 78% of total purchases of the company.

Based on international prices, foreign exchange savings around US$ 2,050 million were obtained on the production of the domestic oil industry. PETROBRÁS' participation amounted to US$ 2,034 million, oil production contributing with US$ 876 million, refining with US$ 1,056 million and ocean transportation with US$ 102 million.

In order to reduce the country's dependence on foreign energy sources PETROBRÁS investment program concentrated also on research of alternative sources of energy. Research on the use of bituminous shale continues for the industrial plant to be installed in São Mateus do Sul, Paraná.

Actions were taken for the implementation of gasification plants in the south of Brazil and for the utilization of this gas as a substitute for petroleum or as raw material in the chemical industry.

The Alcohol Plant, in Curvelo (Minas Gerais), has been completed. With a production capacity of 60,000 liters per day and using manioc as raw material, the plant was built by PETROBRÁS in agreement with the Ministry of Industry and Commerce. The main purpose of the project is to test a process developed by the National Institute of Technology.

PETROBRÁS and the International Petroleum Economy

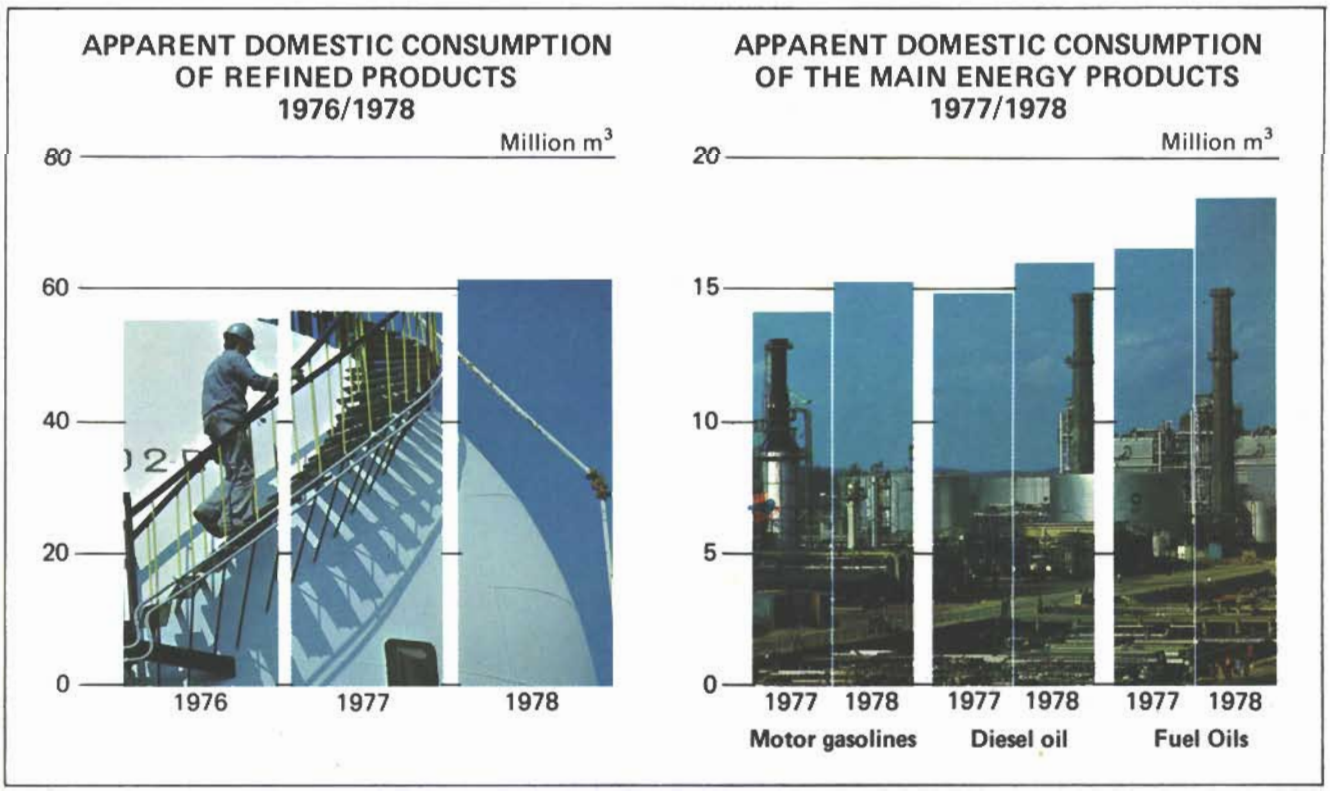
Being an important customer of OPEC state oil companies, especially those in the Middle East, PETROBRÁS was able to obtain better prices for crude oil imports and for exports of Brazilian primary and manufactured goods to those countries.

In addition to the expansion of BRASPETRO (Subsidiary) activities, mainly in Iraq and Algeria, mention should be made of the contract entered with the People's Republic of China for purchase of crude oil and sale of iron ore, negotiated by the Ministry of Mines and Energy.

APPARENT DOMESTIC CONSUMPTION OF REFINED PRODUCTS 1975 – 1978

1,000 m^3

Years	Energy Products							Non-Energy Products							
	Motor Gasoline	Diesel Oil	Fuel Oils	LGP	Kerosene	Aviation Fuels	Subtotal (1)	Lubricants	Solvents	Asphalts	Paraffins	Subtotal (2)	Naphthas (3)	Petrochemical Effluents (4)	Total (1+2+3–4)
1975	14,609	11,803	14,737	3,269	622	1,742	46,782	563	263	850	51	1,727	2,007	411	50,105
1976	14,646	13,821	16,311	3,620	695	1,825	50,918	603	269	893	76	1,841	2,216	432	54,543
%	0.3	17.1	10.7	10.7	11.7	4.8	8.8	7.1	2.3	5.1	49.0	6.6	10.4	5.1	8.9
1977	14,091	14,752	16,676	3,864	732	1,854	51,969	649	260	938	85	1 932	2,369	411	55,859
%	(3.8)	6.7	2.2	6.7	5.3	1.6	2.1	7.6	(3.3)	5.0	11.8	4.9	6.9	(4.9)	2.4
1978	15,168	15,944	18,498	4,171	748	1,849	56,378	680	258	1,249	84	2,271	3,116	495	61,270
%	7.6	8.1	10.9	7.9	2.2	(0.3)	8.5	4.8	(0.8)	33.2	(1.2)	17.5	31.5	20.4	9.7





Operating Activities

The efforts of the Company on delimitation and stepped up development works of oil fields already identified in the continental shelf may be evaluated by the increase observed in offshore oil production. Performance of the continental shelf fields practically offset the depletion of mature onshore producing fields. The fields of Ubarana, in Rio Grande do Norte, and Cação, in Espírito Santo, contributed most decisively.

Conventional secondary recovery programs were intensified in mature onshore fields and stimulation operations were started in some of the fields, using sophisticated techniques.

In order to meet the refined product domestic demand, refineries and asphalt plants processed 11.4% more oil than in the previous year. An important achievement worth mentioning is that the Landulpho Alves refinery began to supply raw materials to COPENE-Petroquímica do Nordeste S.A., the basic unit of the Camaçari Petrochemical Center. Another achievement was the operation of the Second Lubricants Group at the Duque de Caxias Refinery, Rio de Janeiro.

The National Tanker Fleet transport capacity was expanded with the operation of two new vessels, while terminals and pipelines were quite active during the year.

Oil production reached 9,305 thousand m^3, slightly below that of 1977 (9,330 thousand m^3), with especial emphasis on the performance of continental shelf fields.

Production of these fields was 12.9% higher than in the prior year, and practically offset the decline of mature onshore fields.

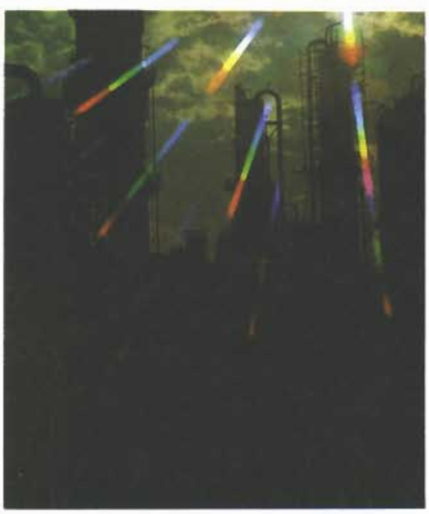
A decisive contribution to the results obtained was brought about by the operations of the fixed platform PUB-2 and by the PUB-3 new wells, doubling the volume of oil extracted from Ubarana field. Production began in three wells in the Cação field offshore Espírito Santo. Their proximity to the coast and shallow waters were an aid to their start-up less than a year after discovery.

Secondary recovery projects under way covered 19 fields which were submitted to injections of gas and/or water. Sixteen of these fields are in Bahia and three in Sergipe. Other special projects were implemented, such as the Carmópolis steam injection project, started in April, and the "in situ" combustion project, also in Carmópolis, to be effectively started in 1979.

The natural gas liquids production in the two plants at Catu and Candeias reached 332 thousand m^3 (1.8% higher than in 1977).

— Oil Production

The petroleum production activity includes the recovery of oil, natural gas liquids (NGL) and natural gas, secondary recovery operations and engineering studies of reserves.









Production of natural gas reached 1,933 million m^3, about 7% higher than in the previous year. The importance of production and adequate distribution of natural gas can be evaluated by the fact that several key industries are supplied with this product, such as the Northeast Petrochemical Center, in Camaçari —, by processing operations and related NGL output and by the utilization of gas in secondary recovery, which absorbed 300 million m^3 of gas in 1978.

The distribution of gas collected in different producing areas was made through a 765 km network of gas pipelines.

Oil reserves on December 31, 1978 were estimated at 181.8 million m^3 including 2.8 million m^3 of natural gas liquids, a 2.7% increase over reserves on December 31, 1977. Natural gas reserves were estimated at 44,389 million m^3, 12.5% above the figures for 1977.

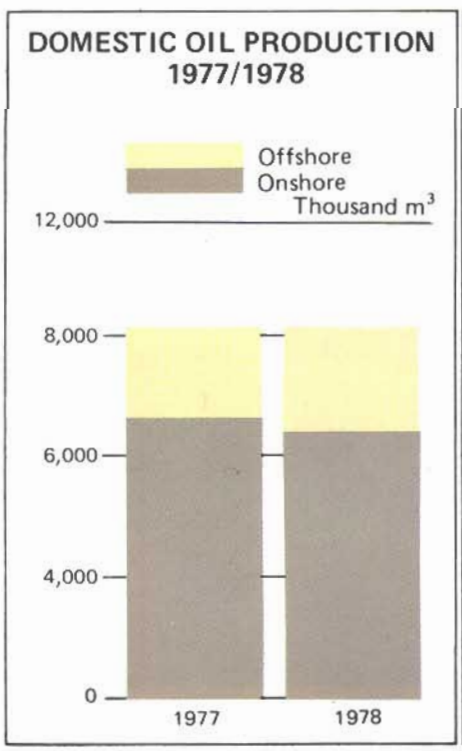
Refining

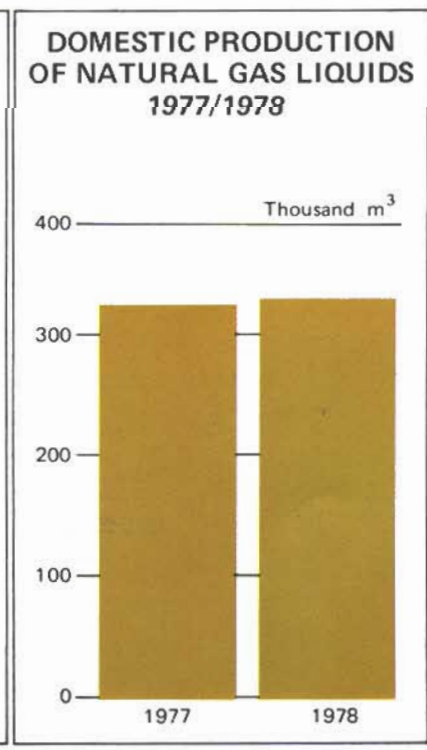
The Company refineries and asphalt plants processed oil from many origins, mainly the Middle East, amounting to 61.3 million m^3, an increase of 11.5% over 1977. Domestic oil represented 16% of the total. Refined products output totaled 63.6 million m^3, being 17.8 million m^3 of fuel oils, 17.0 million m^3 of diesel and 14.3 million m^3 of motor gasolines. Domestic market was adequately supplied and surpluses were exported.

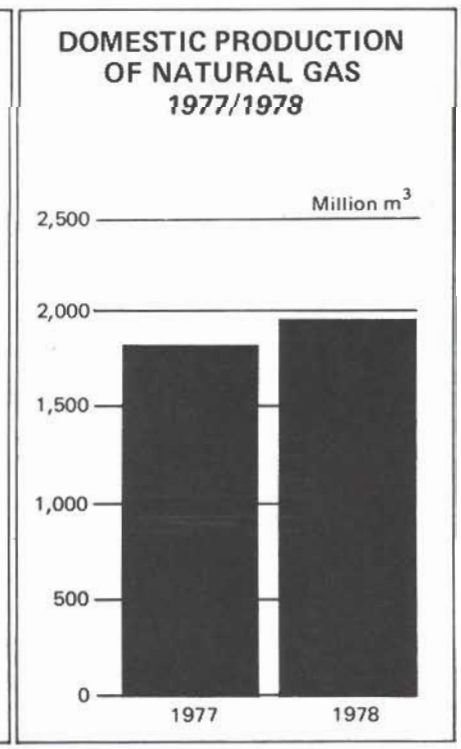
Refinery yields in 1978 showed the following breakdown:

	% Vol.
Light (LPG, gasolines and naphthas)	33.7
Medium (diesel and kerosene)	33.1
Heavy (fuel oils and asphalts)	29.9
Other (lubricants, solvents, paraffins, petroleum coke, etc.)	5.3
Total	100.0

As in the previous year, the share of medium products continued to grow, nearing light products percentage output. The energy conservation program obtained rather expressive results in the refining area through the







intensive use of purchased electrical energy, preferably of hydraulic origin, and through the strict control of fuel oil burning in heating furnaces and steam boilers. On replacement by purchased electrical energy, the modernization of the Capuava Refinery Electrical System played an important role with a considerable economy of diesel oil.

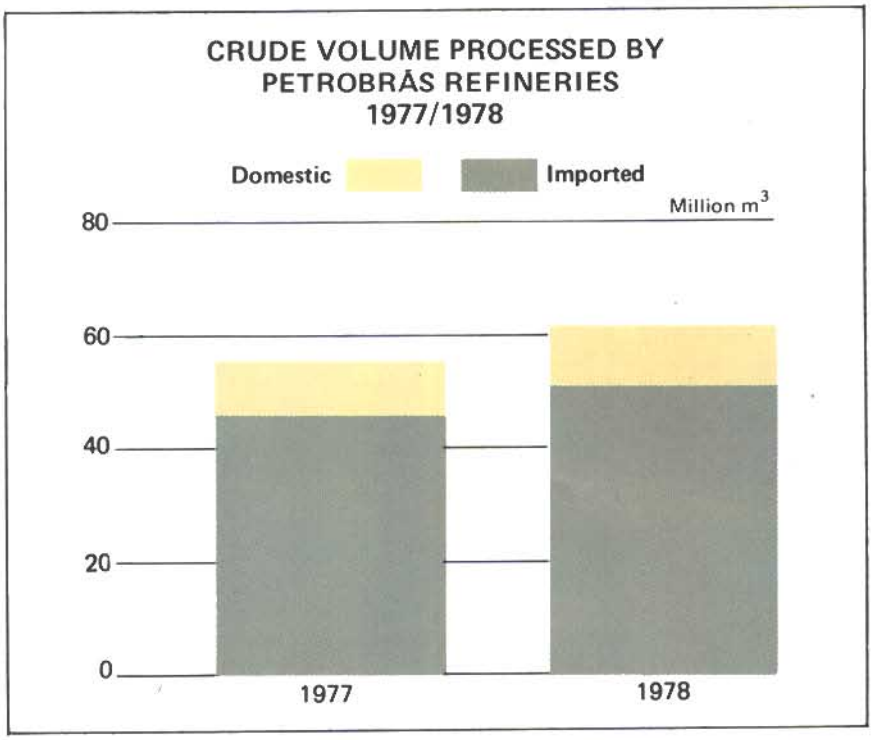
Among the important facts observed in refining the following are outstanding: the coming into operation, in May, of the New Atmospheric and Vacuum Distillation Unit at the Landulpho Alves Refinery, with a daily capacity of 8,000 m^3 (50,000 barrels per day) aimed at naphtha, gas oil and fuel oil supply to the Northeast Petrochemical Center (COPENE) located in Camaçari, Bahia; the beginning of operations of the 2nd Lubricants Group at Duque de Caxias Refinery, which includes Units of Atmospheric and Vacuum Distillation, Furfurole deodorizing, Paraffin Extraction with Methyl Ethyl Ketone (MEK), Hydrogen Generation and Hydrotreatment, with a production capacity of 240,000 m^3 per year of basic lubricant oils. With this new capacity the nation becomes self sufficient in relation to this product. By the end of the year, PETROBRÁS' refining capacity amounted to 1,300,000 barrels per day.

Transportation

By the end of 1978, the National Tanker Fleet (FRONAPE) owned and operated 48 vessels with an approximate deadweight capacity of 3.1 million metric tons.

The overall movement of petroleum refined products and other products loaded in Company owned and chartered vessels amounted to 70 million metric tons, 13.1 million of which in coasters and 56.9 in ocean-going vessels. This represented a 10% increase in relation to 1977, with an approximate total of 473 billion mile-tons (97.3% in ocean-going vessels).

The operations of the Ilha Grande Harbour Maritime Terminal, in Angra dos Reis (RJ), are among the most important developed by the Company. It was inaugurated in September 1977 and it is the largest oil terminal in Latin America. It also operates as an oil storage area, supplying Duque de Caxias and Betim refineries. In 1978, its loading and unloading operations totaled 21 million m^3 of oil.



The Almirante Barroso Maritime Terminal, located in São Sebastião (SP), supplies crude oil to Cubatão, Capuava and Paulínia refineries through an extensive pipeline network. It also operates as an oil storage area. The volume loaded and unloaded in this terminal reached 28.9 million m^3 of oil.

Also located in the State of São Paulo, there is a terminal for receiving, storing and transferring refined products from the port of Santos and Cubatão, Paulínia and Capuava refineries to distributing companies and consumer concerns. In 1978, an inverse operation was started in the pipeline section connecting the Vale do Paraíba refinery, under construction, to Utinga supplying base, so as to supply São José dos Campos base with gasoline and alcohol.

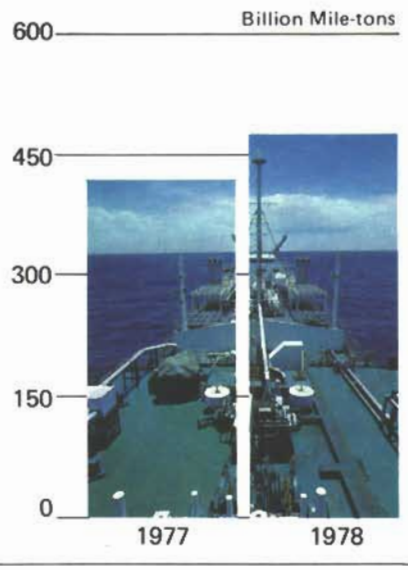
In the Santa Catarina and Paraná region two maritime terminals are now in operation: the first, in São Francisco do Sul (SC) connected to Araucária refinery, already received about 7.5 million m^3 of crude oil and the second, in Paranaguá for the outlet of surplus production from Araucária, already transferred 2.6 million m^3 of refined products.

In Rio de Janeiro, crude oil and refined products loading and unloading operations at the Ilha D'Água Maritime Terminal reached 6.6 million m^3.

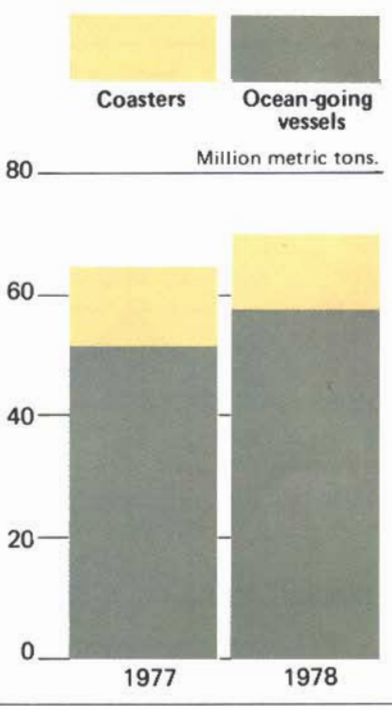
The Carmópolis Maritime Terminal, in Aracaju, transferred 2.7 million m^3 of crude oil, and the Almirante Alves Câmara Maritime Terminal, in Bahia, moved 6.5 million m^3 of refined products.

In Tramandaí, Rio Grande do Sul, the Almirante Soares Dutra Maritime Terminal, which supplies the Alberto Pasqualini Refinery, received 3.8 million m^3 of crude oil.

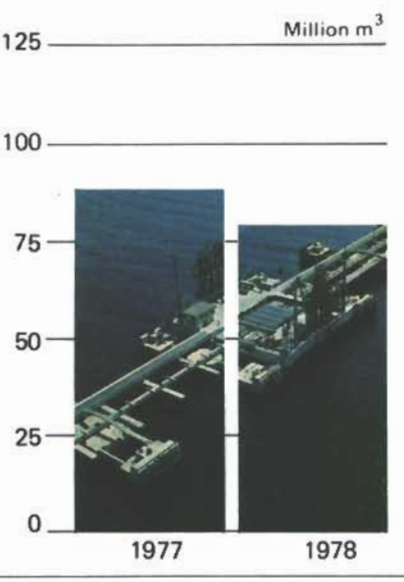
NATIONAL TANKER FLEET
MILE-TONS PRODUCED
1977/1978



NATIONAL TANKER FLEET
METRIC TONS TRANSPORTED
1977/1978



PRODUCTS OUTFLOW THROUGH
PETROBRÁS MARITIME TERMINALS
1977/1978



Marketing

According to regulations issued by the Government for the oil sector, crude oil acquisitions were carried out to conform with oil supply, the support to exports of Brazilian goods and the reduction of foreign exchange expenditures.

Imports of crude oil and naphtha totaled 52.3 thousand m^3 (about 328 million barrels) amounting to US$ 4,089 million FOB (US$ 3,663 million in 1977) at an average price of US$ 12.44 per barrel (US$ 12.30 in 1977). Reexporting of imported oil amounted to 281 thousand m^3, at the sum of US$ 23 million.

In order to supplement domestic supply, 1,127 thousand m^3 of several refined products were imported, amounting to US$ 126.7 million (FOB), with a large share of lubricant oils. On the other hand, sales of refined product surpluses abroad amounted to US$ 259 million, including bunkers supplied to foreign vessels in national ports. Thus, after deducting oil reexports and refined product exports, the net foreign exchange expenditure was US$ 3,933.7 million FOB, against US$ 3,527 million in 1977.

PETROBRÁS supplied refined products to the domestic market through a network of supply bases spread out through the national territory, and also through direct supply to consumers.

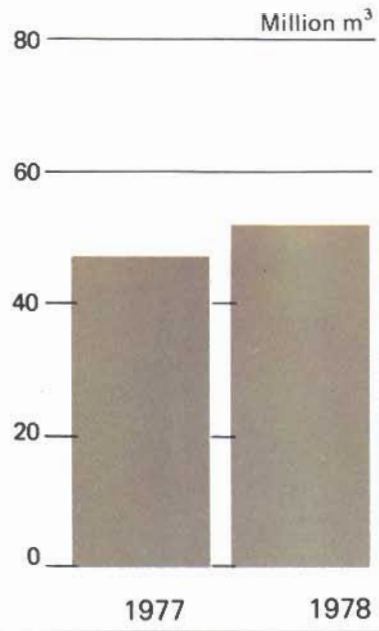
Fuels, lubricant oils and solvents deliveries totaled 50.7 million m^3 while petrochemical products, asphalts, mineral waxes and other products totaled 4.6 million tons, in the amount of Cr$ 184.7 billion.

The following table shows the average FOB price of crude oil and naphtha imports during 1978.

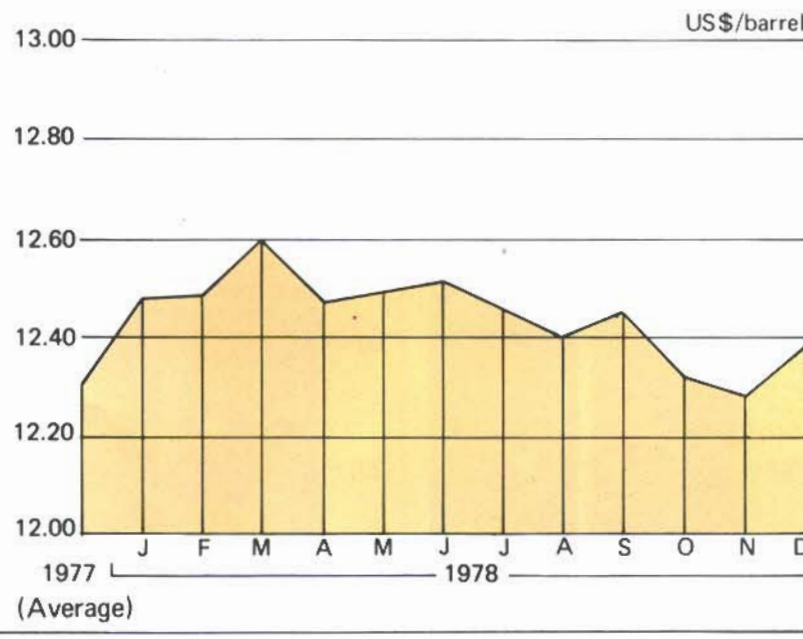
AVERAGE FOB PRICE OF CRUDE OIL AND NAPHTHA IMPORTS
– 1978 –

Month	Average FOB US$/barrel
January	12.48
February	12.49
March	12.60
April	12.48
May	12.51
June	12.53
July	12.47
August	12.40
September	12.45
October	12.32
November	12.28
December	12,38
Annual Average	12.44

OIL IMPORTS
1977/1978



CRUDE OIL AVERAGE IMPORT PRICE
1977/1978





Investments

The Company gave top priority to exploration of new oil fields and development of those already identified. A significant part of its investments was allocated to these programs. At the same time, indirect exploration works continued by means of service contracts with a risk clause. Nine contracts were signed with internationally known companies, thus attracting additional financial resources and high technological standards to oil exploration in the country.

Quite important to mention was the creation, on January 31, of the Executive Group for the Development of the Campos Basin (RJ).

PETROBRÁS continued to expand activities in exploration and development and, as in previous years, the results obtained were good. For instance, the REMAC Project (Brazilian Continental Shore Survey) was completed; several invention patents were registered and a steady work was carried out in respect to technology transfer, with the development of basic projects for the Alberto Pasqualini Refinery and the SALGEMA–Indústrias Químicas S.A. ethylene plant. Shale, coal and alcohol are being subject to special effort towards development of oil substitutes.

The following table details consolidated investments in fixed capital and capitalized costs of PETROBRÁS System in 1978.

CONSOLIDATED INVESTMENTS IN FIXED CAPITAL AND CAPITALIZED COSTS – 1978

SPECIFICATION	Cr$ million	(%)
Exploration and Production	16,434	37.9
Refining	5,888	13.6
Maritime Transportation	2,445	5.6
Terminals and Pipelines	4,723	10.9
Shale Industrialization	293	0.7
Petrochemicals	6,579	15.2
Fertilizers	3,959	9.1
Marketing	442	1.0
Affiliated Companies	632	1.5
Miscellaneous	1,952	4.5
TOTAL	43,347	100.0

– Exploration and Development

Exploration operations directly conducted by PETROBRÁS have concentrated on the onshore sedimentary deposits of Upper Amazonas, Parnaíba, Maranhão, Potiguar, Sergipe–Alagoas, Recôncavo, Southern Bahia, Espírito Santo, and on the continental shelf of Amapá, Pará, Maranhão, Ceará, Parnaíba–Pernambuco, Sergipe–Alagoas, Northern Bahia, Southern Bahia, Espírito Santo, Campos and Florianópolis–Pelotas.

Wildcats revealed the presence of hydrocarbons with commercial possibilities in the basins of Upper Amazonas, Alagoas, Sergipe and Espírito Santo, as well as on the continental shelf of Ceará and Rio de Janeiro. The most expressive results were the following:

In Upper Amazonas, about 700 km southwest of Manaus, the 1-JR-AM well proved to be gas producing with a 360 thousand m^3 daily output. This discovery is considered important since it is the first time a gas deposit is found with commercial possibilities in this basin.

Off Ceará, well 1–CES–19, located about 25 km southeast of the Xaréu field discovered in 1977, revealed the presence of oil with a 366 m^3 daily output. This well, the second with commercial possibilities discovered in the area, was named Curimã. Another well, numbered 4–CES–25, 2 km south of well 1–CES–19, produced oil with a 252 m^3 daily output in the tested interval, thus increasing oil possibilities in this area. Later on, with the purpose of delimitating the deposit, well 3–CES–28 was drilled, about 2.5 km southeast of 1–CES–19, producing oil in two intervals, and confirmed the extension of the new field in this direction.

On the Rio de Janeiro continental shelf, well 1–RJS–41, 2 km northwest of Enchova, produced 257 thousand m^3 daily of gas in the test phase. This discovery is particularly important due to its proximity to the Enchova field. Well 1–RJS–49, drilled about 4 km from the Pampo field, produced under test 433 m^3 daily of oil in one of the intervals (Lagoa Feia Formation) and 140 m^3 daily of oil in another interval (Macaé Formation). Its location, near the Pampo field and the oil production in Lagoa Feia Formation increased considerably oil possibilities in the área.

Another adjacent wildcat (4–RJS–55), 4 km southwest of Pampo, revealed the presence of oil, with daily outputs of 212 m^3 and 150 m^3 in the tested intervals. This is an important discovery, as the oil produced is from the Lagoa Feia Formation.

Also in the Campos Basin, well 1–RJS–50, 4 km west of Namorado, struck a column of oil with a daily output of 390 m^3 in the tested interval. The 3–RJS–80 extension well, under evaluation and with good results expected, extends this new discovery to the northwest. The 1–RJS–54 wildcat, 15 km southwest of Namorado turned out to be oil producing in the tested intervals.

Offshore Espírito Santo, the extension wells 3–ESS–27D and 3–ESS–29D, at 800 and 1,100 meters, respectively, southeast of Cação discoverer (1–ESS–26), proved to be oil producing in the tested intervals.

The oil exploration activity, including wildcats, extension wells and special support wells, perfomed the completion of 178 wells, of which 157 onshore and 21 offshore. In addition, 9 special wells were drilled onshore aimed at secondary oil recovery programs.

Drilling activity increased about 16% to 527 thousand meters in comparison with 1977. Of these, 279 thousand referred to development wells (+22.4%) and 248 to exploration wells (+9.5%). The number of wells completed totaled 311, 152 of which proved to be oil producing while 17 were gas producing.

Sixty-two rigs were used for drilling work, 29 of which in onshore operations. The offshore equipments comprised 12 jack-ups, 9 semi-submersible, 4 drilling ships, 1 tender ship, 2 modulated rigs and 5 conventional rigs operating from fixed platforms. The number of onshore rigs was increased with the purchase of 10 new units which shall come into operation in 1979. As to offshore equipments, 7 new units were incorporated of which 2 jack-ups and 3 semi-submersibles, with a drilling capacity between 6 and 9 thousand meters, and 2 drilling ships.

In order to concentrate efforts in the development of oil fields offshore Rio de Janeiro, the "Executive Group for Development of the Campos Basin" was created early in the year to conduct the Garoupa works (provisional and permanent) and those of Namorado I and II, Badejo, Enchova, Pampo and Bagre, including outlet systems.

Regarding the delays of the Garoupa system, from which a significant and immediate contribution is expected, it should be mentioned that, due to its pioneer characteristics, technical problems often occur to which conventional procedures bring no solution, and which sometimes involve the use of equipments not promptly available in the world market.

Service Contracts with a Risk Clause

During the year 9 additional contracts were signed, referring to blocks in the Amazon River mouth and in the Santos basin, as follows: one with HISPANICA DE PETRÓLEO S.A. (HISPANOIL), on February 3; four with COMPANHIA ESSO PROSPECÇÃO DO BRASIL, on February 28; one with a consortium formed by PECTEN BRASIL EXPLORATION COMPANY, SHELL EXPLORATION SERVICES (BRAZIL) B.V. and MARATHON PETROLEUM SANTOS LTD., on April 3; one with a consortium PECTEN BRAZIL PETROLEUM COMPANY and MARATHON PETROLEUM BRAZIL, also on April 3; one with a consortium formed by CITIES SERVICES BRAZIL PETROLEUM CORPORATION and UNION TEXAS BRAZIL INC., on May 18; and one with the consortium PECTEN BRAZIL EXPLORATION AND DEVELOPMENT COMPANY, CHEVRON PETROLEUM COMPANY OF BRAZIL and MARATHON PETROLEUM BRAZIL LTD., on May 24.

These contracts, added to the preceding ones, now total 17 involving 15 internationally renowned companies, and investment commitments above US$ 212 million for prospection purposes.

The third international auction began on October, 10. Thirty-two companies were pre-qualified. By the end of the year, 17 companies had paid the US$ 250 thousand fee. The period for submitting bids shall end in the first two weeks of April.

A considerable increase was observed in the operating activities of the contracted companies: seismic surveys carried out totaled 29,405 km of lines, and 8 wildcats were drilled which, with the four wells being drilled by the end of the year, increased to 45,514 meters the total drilled by these companies in 1978.

From the standpoint of discovery of new deposits, it is still early to reach any conclusion. As a general rule, discoveries only occur after several wells have been drilled, which, although dry or subcommercial, supply data of great importance to the knowledge of oil generation and accumulation mechanisms in a sedimentary basin. Under this aspect, the results obtained through these contracts may be considered quite positive.

Refining

In order to meet the domestic demand for refined products the following works are under way in our refining complex: Vale do Paraíba Refinery, in São José dos Campos, São Paulo, adding 30 thousand m^3 per day to the nation's present refining capacity; expansion of the Gabriel Passos Refinery, in Minas Gerais, and Alberto Pasqualini Refinery, in Rio Grande do Sul, to increase their refining capacity by 10 thousand m^3 per day and 15 thousand m^3 per day, respectively; N—Paraffins Unit at the Landulpho Alves Refinery, in Bahia, for production of 100 thousand tons per year of normal paraffin hydrocarbons as raw material for the production of biodegradable detergents; Solvents Production and Outlet System at the Paulínia Refinery, São Paulo, for production of hexane, rubber solvent and petrochemical feedstock naphtha.

In addition to the units already quoted under the title Operating Activities, the following projects have been completed: expansion of the utilities system at the Landulpho Alves Refinery to meet additional demand resulting from operations on the new Atmospheric and Vacuum Distillation Unit in this Refinery; expansion of the tanks complex at the Presidente Bernardes Refinery so as to allow a larger operating flexibility; completion of Paulínia Refinery Stage II, consisting of several adaptations resulting from the implementation of its second Distillation Unit, and modernization of the Capuava Refinery electrical system.

Other projects shall be continued with the objective to improve refinery operating performance, to reduce fuel self-consumption and to improve safety conditions.

Maritime Transportation

In the shipbuilding program, the following events were outstanding: the delivery of the ore/oil carrier "JARI" with a 131,000 d.w.t., the last of an order involving two tankers placed by DOCENAVE with Ishikawajima do Brasil Estaleiros S.A. and transferred to PETROBRÁS, and launching of the tankers "HENRIQUE DIAS" and "JOSÉ DO PATROCÍNIO" with 272,000 d.w.t. each, among the four ordered to that shipyard; final delivery of "HENRIQUE DIAS" shall occur early in 1979 while "JOSÉ DO PATROCÍNIO" shall be delivered during the second semester.

The building of the vessels "MURIAÉ", "MORRETES", "MARUIM" and "MAFRA" continued, while the building of "MARAU" and "MARACÁ" was started, in a total of 6 ore/oil carriers with 135,000 d.w.t. each, ordered to VEROLME Estaleiros Reunidos do Brasil S.A.. Due to delays on delivery, PETROBRÁS preferred to cancel the contracts for the first two tankers, and is now renegotiating the "MURIAÉ". The "BOCAINA" and the "BEBERIBE" with 116,500 d.w.t. each, whose construction had been completed in 1978, were not accepted by PETROBRÁS due to technical and contractual problems. At present, the Company and VEROLME are renegotiating the contract.

In January a contract was entered with ISHIBRÁS for the building of 8 tankers with 17,900 d.w.t. each, for the transport of clean products along the coast. Building of two of these vessels began in November.

Construction of support vessels has been largely stimulated in the country. The tugs "SAGITARIUS" and "SCORPIUM" were delivered, while the "TAURUS", last of a series of four, is still in the shipyard. These four tugs were ordered to MACLAREN Estaleiros e Serviços Marítimos S.A., for operation in the Ilha Grande Harbour Maritime Terminal, in Angra dos Reis (RJ). The ocean tugs "OURO FINO" and "OURO PRETO", built by Mitsui Engineering & Shipbuilding Ltd., were received as well as 3 servicing barges built by ISHIBRÁS and one launching and servicing barge built by Mitsui. Ten supply-boats ordered to Estanave and 3 ordered to MacLaren for towing, supplying and anchor handling in the continental shelf services remain in the shipyards.

Terminals and Pipelines

Regarding the Maritime Terminals and Pipeline Systems, the following are outstanding, in view of their importance: expansion of the Rio-Belo Horizonte Oil Pipeline, increasing the nominal capacity of oil transporting to Gabriel Passos Refinery to 36,500 m^3/d.o.; the construction of São Sebastião-Vale do Paraíba-Utinga oil pipeline to supply the Vale do Paraíba and Paulínia (stage III) refineries; the construction of a pipeline for the outlet of natural gas and oil production from the Campos Basin to Duque de Caxias, Rio de Janeiro; the installation of liquefied petroleum gas regulatory tankages in the Almirante Alves Câmara Maritime Terminal, in Bahia, and in the Rio de Janeiro and Minas Gerais Terminals; construction of pipelines interconnecting Landulpho Alves Refinery to COPENE – Petroquímica do Nordeste S.A.

Alternative Sources of Energy

In the Company investment programs, special attention was paid to the development of new sources of energy, of relevant interest to the nation since they represent a possibility to reduce our dependence on imported energy sources.

As to the industrialization of shale, operations of the Experimental Mine continued. The operation of the Irati Prototype Plant also continued. The Industrial Mine and Industrial Plant Projects shall be based upon data obtained in this first stage.

In the field of Geology, exploratory survey activities were developed in the Irati Formation, in Paraná, and in the Santana Formation and Crato region, both in Ceará. The pioneer survey took place in the area called Norte Velho do Paraná and its extension, all included in the Irati Formation, while the semi-development geological survey (first stage) and engineering (second stage) took place in the Rio Iguaçu/Rio Negro areas, and Papanduva/Três Barras, in Paraná and Santa Catarina, respectively.

In relation to the Medium Term Shale Industrialization Program, with the objective of completing in the first half of 1980 all the basic projects in the various areas that shall constitute the future Shale Industrial Plant in São Mateus do Sul, it should be mentioned the continuation of the Industrial Retort Detailed Project and the completion of the Basic Mining Project. Also, studies are going on for utilization in the retort of the shale powder produced by crushing.

The Koppers-Totzek process was chosen for a Coal Gasifying Center in Rio Grande do Sul. The installation of the gas producing center shall be made in modules, of which the first shall be constituted of two gasifiers and one ammonia plant with a 600 tons capacity per day. At the same time, the Companhia Siderúrgica de Santa Catarina is preparing a feasibility study for the production of sponge iron in that State, using gas produced from low quality coal.







Studies concerning the use of methylic and ethylic alcohol as an additive to gasoline continued. Tests on the behaviour and eventual consequences in motors and lubricant oils were programmed using three different fuels.

In the Curvelo Alcohol Plant, PETROBRÁS seeks to demonstrate the feasibility of equipments and processes to check the quality of manioc obtained in the region as well as the process operating feasibility, and to study the treatment of residuals. This Plant is also in charge of project modifications necessary to improve efficiency of the full use of by-products, while stimulating production of enzymes by third parties.

Technological Research

In accordance with government rulings set forth in the Third Overall Research Plan, scientific and technological research has been developed in the Centro de Pesquisas e Desenvolvimento Leopoldo A. Miguez de Mello – CENPES (Leopoldo Miguez de Mello Research and Development Center) in order to meet the ever increasing needs of the PETROBRÁS System Companies.

PETROBRÁS Exploration and Production Department is carrying out the project "Survey of Oil Seepages in the Continental Shelf Basins", in which CENPES participates actively. Intensive activities were also developed in the evaluation of PETROBRÁS and BRASPETRO exploration wells, and geochemical evaluation of specific sedimentary basins in Brasil.

In the area of exploration, inhibitors were prepared especially for high Brazilian paraffinic oils.

With reference to reservoir engineering, installations were completed in Buracica field for secondary recovery by means of in-situ combustion. Tests were carried out in Carmópolis and the project regarding this field was completed. On the other hand, oil recovery studies were intensified by means of carbon gas and solvent polymers injection. The French Institute of Petroleum assisted in the injection of tension-active agents.

In the oil processing sector, special research was conducted on the use of catalysts and the tests at the Manguinhos Refinery (RJ) proved the feasibility of a catalyst treatment developed by CENPES. Favourable results were also obtained with alumina, opening a possibility for local manufacturing of a catalyst for ethylene production by means of a process developed by PETROBRÁS.

Two projects were developed for the utilization of shale: one concerning direct gasification with processing tests and analyses of gases obtained, and the other concerning the study of treatment processes and utilization of gases from the PETROSIX process, used in the Irati shale retort treatment.

As part of the efforts towards utilization of domestic coal, PETROBRÁS started to work on gasification and programmed studies on combustion and gas liquefaction.

In the petrochemical area, a technology transfer program was carried out in processes of olefin centrals, according to a contract signed with TECHNIP/KTI, and another technology transfer program was started concerning urea synthesis processes.

Specific studies were developed on synthetic elastomer manufacturing, of great interest to PETROBRÁS System Companies. The process developed by CENPES for production of SAN resin (acrylonitrile and styrene resin) is under a Prototype Unit stage.

During the year the Motor Tests Laboratory was inaugurated, a project of fundamental interest to technology assimilation for fuels and lubricant oils elaboration.

In Chemistry, CENPES developed a chromatographic process for detecting gasoline adulteration. Upon request of the National Petroleum Council, CENPES designed and supervised the assembly of an experimental mobile laboratory.

Also important were studies on dregs rejection at the Curvelo Alcohol Plant (MG) and on alcohol contaminants, of utmost interest to the project of ethylene production from alcohol.

The year was quite a productive one for Basic Engineering with the execution of the Alberto Pasqualini Refinery expansion project, in Rio Grande do Sul, for raw material supplying to COPESUL, and the alcohol ethylene production unit with a 60,000 t/year capacity destined for SALGEMA.

Other Activities

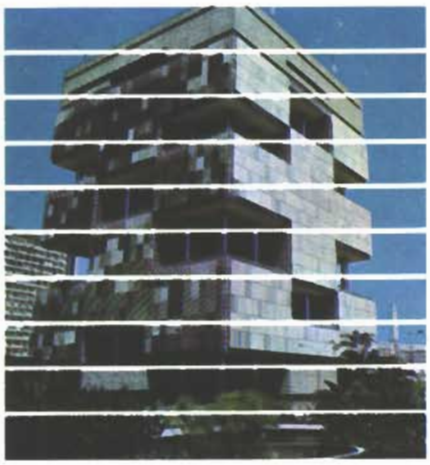
Reforesting activities were restricted, in 1978, to the expansion of reforesting of Company owned areas, particularly those acquired for oil prospection work, and on those areas adjacent to industrial plants incorporated to the Company.

By the end of the year, approximately 11 million trees were planted in 6,700 hectares of land. In addition to the contribution for the economy of the region and other advantages brought about by the productive occupation of the land it also contributes to environmental preservation.

On the latter, mention should be made of São Mateus do Sul, Paraná, where efforts are being made to identify species adaptable to the 70 km² of local soil to be altered as a result of shale open pit mining. Results already indicate that it shall be possible to cultivate in that area one native variety and two exotic ones. PETROBRÁS is, therefore, able to start soil recovering works as soon as the Shale Industrial Plant mine is opened.







Corporate Activities

Human Resources

Special care was given by the Company to the development of human resources. There was a 24% increase in the number of projects in this sector and a 17% rise in the number of participants involved, as compared with 1977.

By the end of the year, 1,076 projects had been completed in Brazil by PETROBRÁS, and 235 by Subsidiary Companies, all of them for the formation of technicians. These projects, involving 25,270 participants, were carried out directly by the Company or in agreement with the Federal Universities of Rio de Janeiro, Bahia and Rio Grande do Sul, Federal Technical Schools in Salvador and Rio de Janeiro as well as the Almirante Graça Aranha Training Center, of the Navy Ministry. Agreements were also signed with the Coordination of Engineering Post-Graduate Programs (COPPE) of the Federal University of Rio de Janeiro for the organization of joint courses of interest to PETROBRÁS, and with the State of Sergipe Secretary for Education and Culture, for technical cooperation in the application of supplementary education (General and Professionalizing Education) to PETROBRÁS System employees.

There were 34 training projects for personnel stationed abroad involving 59 employees. The projects covered priority activities in exploration, drilling, production, technological research, basic engineering and education.

Among the most important projects implemented was that of managerial development, extended to several new Company departments, involving more than 500 managers. It should also be registered the implementation of the Cycle of High Studies and Lectures for the PETROBRÁS System Companies Top Management, with the participation of the Director of the Industrial Studies Center of Geneve.

During the year several welfare programs were in operation for Company employees and their dependants. Thus, approximately 173,000 persons in several places where PETROBRÁS operates had the benefit of medical, hospital, odontological assistance and other services organized by the Company on a free or directed choice basis.

The use of resources from the education-wage made possible the organization of more intensive educational programs with reimbursement of expenses made by employees with their own education and that of their dependants, and the grant of over 38,000 scholarships. Also, a school was built in Angra dos Reis (RJ) capable of receiving 1,100 students for the elementary, and secondary courses. This school is already integrated in the official educational network of the State of Rio de Janeiro.

Communitarian projects of relevant social interest were implemented, such as a technical cooperation and financial agreement signed by PETROBRÁS, the Government of the State of Paraná and the University of this State, for setting up a plan to provide the city of São Mateus do Sul with proper conditions to face growth problems that shall arise with the future implementation of the Shale Industrial Plant.



It should also be mentioned the action taken by the Company in the field of occupational health. Particularly outstanding were the sanitary, medical and labour medicine preventive measures adopted with the objective of protecting employees' health in communities where the Company operates.

It should also be mentioned the activities of the Safety and Environmental Engineering Division (DESEMA), created in 1977 and implemented during the year. In 1978 permanent contacts were maintained with government agencies in this area. There was an exchange of experiences in the field of pollution control, and characteristics of effluents to be applied to projects concerning industrial treatment units were examined, including coal, shale and alcohol. An intensive analysis activity was developed by DESEMA in the Company Departments, with the objective of stimulating them to adopt modern standards in the field of Industrial Safety and Pollution Control.

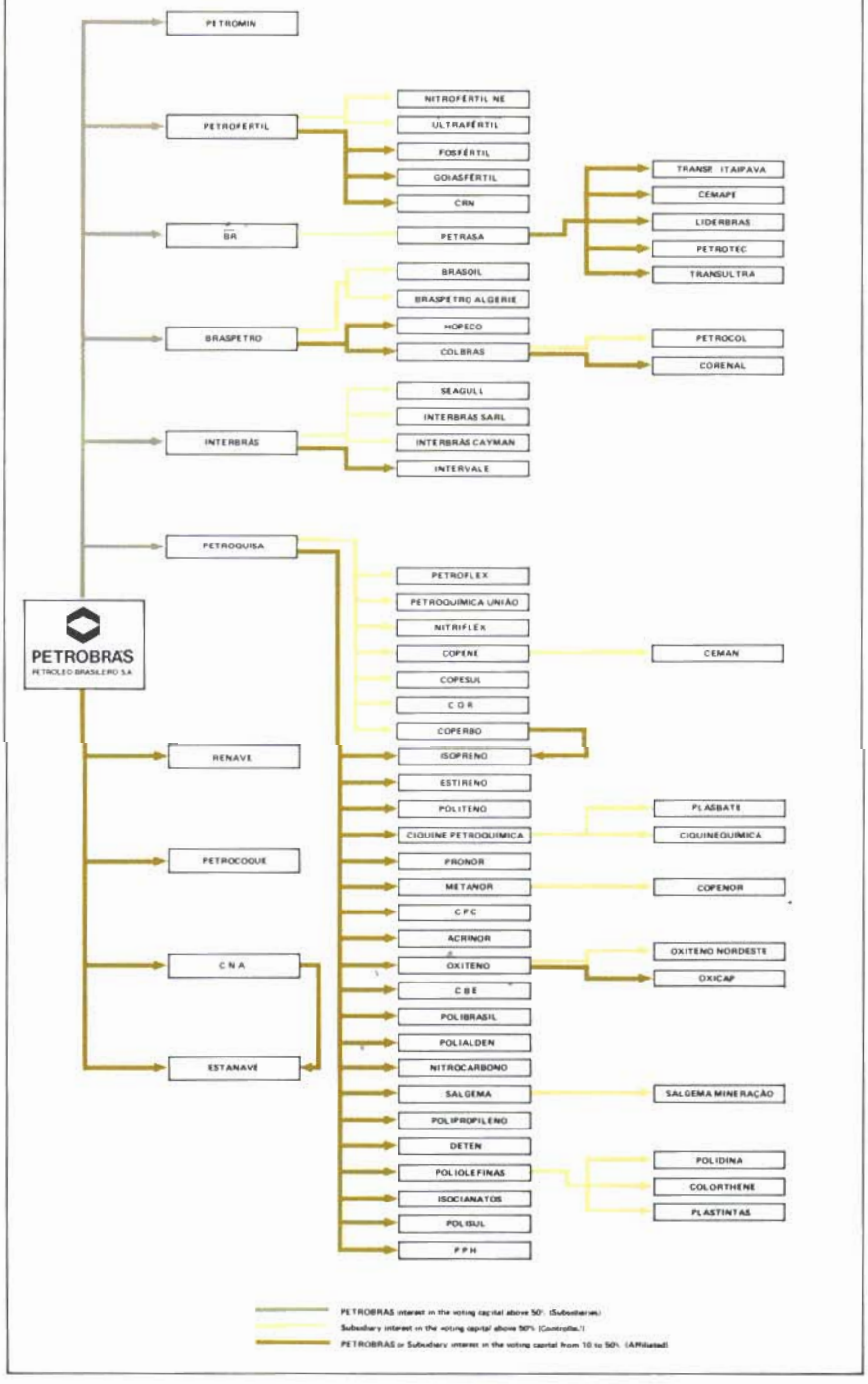
Directives to be followed in case of accidents that might occur during offshore operations were also established.

Organization

In 1978 PETROBRÁS made significant efforts towards diagnosing organizational structure problems resulting from the growth observed in the multiple activities of the Company and its subsidiaries. In order to improve the management performance the Company prepared 89 organization projects.

Planning in the informatic area continued to be improved and a study on information systems was completed. Ten new projects of mechanized systems were implemented and various projects of systems of the "data base" type were developed.

PETROBRÁS, SUBSIDIARIES AND AFFILIATED COMPANIES



Purchases

The most significant aspect of this activity has been the encouragement given to the industrial development of the country, through the large volume and diversification of purchases of capital goods, materials and services necessary for our projects.

In 1978, purchases of goods amounted to Cr$ 11.1 billion, 25% higher than the corresponding amount for 1977. Goods purchased by the Company in Brazil amounted to Cr$ 8.7 billion, or 78% of total purchases.

In order to stimulate domestic production of components for imported equipments, PETROBRÁS organized exhibitions called EXPOPEÇAS, in Rio de Janeiro and São Paulo, in which about 3,500 items were displayed. Approximately 2,000 managers came to these exhibitions.

Great importance is attributed to the Technical and Financial Cooperation Agreement, signed with Financiadora de Estudos e Projetos – FINEP – (Projects and Studies Financing Agency) to ensure financial support to pioneer machine and equipment manufacturing projects of interest to PETROBRÁS. At present 6 companies are qualifying for financing under this Agreement.

The Company's interest in encouraging domestic industries is shown by the close collaboration with other State Companies' Nuclei of Articulation with Industry (NAI). In 1978, orders placed by PETROBRÁS amounted to about Cr$ 515 million for pioneer manufacturing items in general, and equipments for hydrocarbon prospecting and mining in particular, as well as components for industrial enterprises about to be completed.

For discussion and study of questions related to manufacturing and purchase of capital goods in the domestic market, periodical joint meetings took place with Associação Brasileira das Indústrias de Base (ABDIB) (Brazilian Association of Basic Industries), Associação Brasileira da Indústria Elétrica e Eletrônica (ABINEE) (Brazilian Electrical and Electronic Industry Association) and Associação Brasileira de Indústria de Máquinas e Equipamentos (ABIMAQ) (Brazilian Machinery and Equipment Industry Association).

Other Corporate Activities

During 1978, the Regular General Meeting and two Special General Meetings of Shareholders were held.

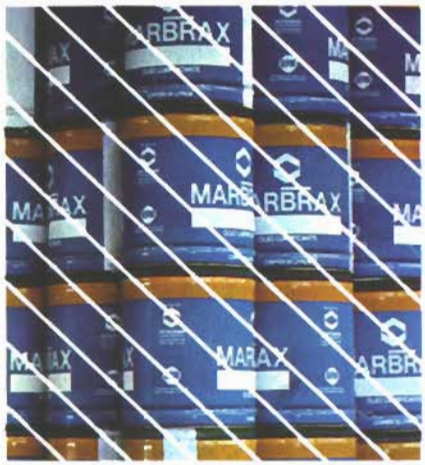
Shareholders Meeting held on March 23, approved the Management Report, the Balance Sheet, the Statement of Income, the Statement of Charges in Stockholders Equity and the Statement of Source and Application of Funds for the fiscal year of 1977. Also a new criterion was approved for the Executive Board of Directors' remuneration, based upon a decision of the Council for Economic Development-CDE. It has been also maintained the remuneration system for the Board of Directors, approved in the Regular General Meeting of Shareholders held in 1977.

During the Special General Meeting of Shareholders held on July 17, an increase of the Company's corporate capital, from Cr$ 25,158,929,936.00 to Cr$ 37,738,394,904.00 was approved. During the Special General Meeting of Shareholders held on August 18, PETROBRÁS was authorized to issue ten year bearer bonds through a group of banks led by Westdeutsche Girozentrale, in Germany, in the amount of up to DM 150 million.

Decrees issued on May 18 and October 30 by the President of the Republic reappointed José Marques Neto, Engineer, and Carlos Alberto Sholl Isnard, Economist, as PETROBRÁS' directors.

In accordance with statutory provision giving the Ministry of Mines and Energy jurisdiction over PETROBRÁS, when performing its activities the Company followed the policies and recommendations of that Ministry to achieve the objectives established by the Federal Government.

The good relationship existing between PETROBRÁS and the National Petroleum Council, a Government Agency in charge of general orientation and control, contributed largely to the positive results achieved.



Subsidiaries

Consolidated investments in subsidiaries totaled Cr$ 10,595 million, with special emphasis on the petrochemical sector, where PETROQUISA invested Cr$ 7,124 million. In 1978, this subsidiary, as well as Petrobrás Distribuidora S.A. — BR, developed their activities with self generated resources.

Through COPESUL, one of its controlled companies, PETROQUISA invested Cr$ 669 million in the implementation of the Third Petrochemical Complex, in Rio Grande do Sul. Petrobrás Fertilizantes S.A. — PETROFÉRTIL invested Cr$ 1,748 million in basic nutrient production programs.

Petrobrás Química S.A. — PETROQUISA

On March 25, PETROQUISA completed ten years of activity. By the end of the fiscal year, its authorized capital amounting to Cr$ 2,400 million was fully subscribed and paid-up.

The number of Company interests covers seven controlled companies, of which six are in operation, and twenty affiliated companies, of which fifteen are in activity, as shown in the following table:

Petroquisa — Controlled and Affiliated Companies — Authorized and Paid-up Capital
Petroquisa's Interest in the Voting Capital 1977-1978

Companies	Authorized Capital Cr$ million		Paid-up Capital Cr$ million	Petroquisa's interest in the Voting Capital (%)	
	1977	1978	1978	1977	1978
CONTROLLED COMPANIES					
— In operation					
PETROQUÍMICA UNIÃO	1,100	1,100	1,100	67.79	67.79
COPENE	1,900	2,916	2,893	54.09	53.42
COPERBO	240	240	240	77.57	77.57
PETROFLEX	900	1,047	796	100.00	100.00
NITRIFLEX	150	150	150	70.00	70.00
C.Q.R.	120	300	232	89.36	97.99
— In organization					
COPESUL	800	800	485	51.00	51.00
AFFILIATED COMPANIES					
— In operation					
CIQUINE	170	180	176	33.30	33.30
C.B.E.	90	159	159	23.04	23.04
E.D.N.	540	486	477	33.33	33.33
NITROFÉRTIL	1,200	1,850	1,157	20.67	18.74
ISOCIANATOS	650	780	605	43.00	49.21
METANOR	148	148	147	33.24	33.24
NITROCARBONO	780	900	772	26.50	26.50
OXITENO	200	500	245	20.88	20.88
POLIALDEN	524	640	472	33.33	33.33
POLIBRASIL	360	360	360	49.13	46.87
POLIOLEFINAS	200	600	324	28.07	28.07
POLIPROPILENO	280	557	366	30.00	31.94
POLITENO	480	648	518	30.00	30.00
PRONOR	375	585	389	33.33	33.33
SALGEMA	1,400	1,400	1,200	45.00	45.00
— In organization					
AGRINOR	462	462	248	40.97	45.54
C.P.C.	620	1,000	661	43.14	49.84
DETEN	225	225	44	42.50	42.50
P.P.H (1)	—	650	—	—	20.00
POLISUL (1)	—	800	—	—	20.00

(1) Companies still being formed

An outstanding event in 1978 was the beginning of commercial operations in COPENE—Petroquímica do Nordeste S.A. inaugurated on June 29, which allowed basic products to be supplied to several companies of the Camaçari Petrochemical Complex. Since operations began, overall production has reached 77 thousand tons, of which 34 thousand were ethylene. In Rio Grande do Sul, the implementation of the Third Petrochemical Complex continued according to schedule. COPESUL—Petroquímica do Sul, will play in this Complex a role similar to that of COPENE in Camaçari. International financing for the development of its programs in an overall amount of US$ 180,500,000 has been negotiated. During 1978 PETROQUISA acquired a minor interest in two new important projects: PPH — Companhia Industrial de Polipropileno and POLISUL — Petroquímica S. A.

In São Paulo the POLIBRASIL S.A. — Indústria e Comércio plant was inaugurated and started production of polypropylene. Until then, total demand of this product had been met by imports.

The operation of PETROQUISA controlled companies showed favourable results in terms of production and sales, as compared with the previous year.

Petroquímica União S. A. produced 351.6 thousand tons of ethylene, maintaining a production level above its nominal capacity.

Elastomers output of Companhia Pernambucana de Borracha Sintética—COPERBO, supplied with butadiene by COPENE as from September, increased 8% to 42.4 thousand tons in relation to 1977.

Production and sales of synthetic rubber—SBR of PETROFLEX, Indústria e Comércio S.A. reached 145.6 thousand tons. NITRIFLEX — Indústria e Comércio output reached 17.8 thousand tons, an increase of about 35% over the previous year.

Soda and chlorine output of Companhia Química do Recôncavo (CQR) dropped in relation to 1977. Operations of the plant located in Lobato were interrupted for its transfer to Camaçari.

PETROQUISA affiliated companies also showed good results:

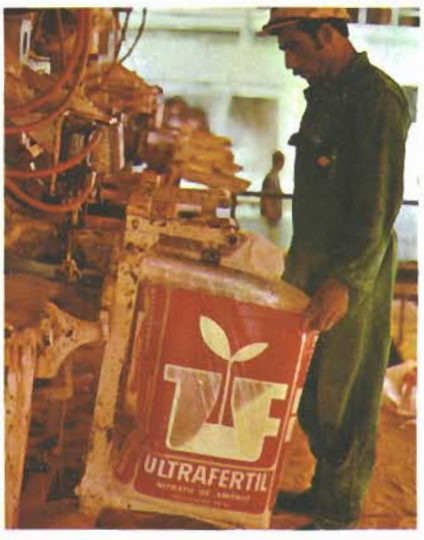
- CIQUINE — Companhia Petroquímica started production of isobutanol. Octanol output of 21.6 thousand tons surpassed the plant nominal capacity;
- Companhia Brasileira de Estireno (CBE) produced 73.7 thousand tons of styrene and 5.7 thousand tons of toluene, also well above project production capacity;
- a project of EDN — Estireno do Nordeste S.A. was completed for production of 45 thousand tons per year of polystyrene and 100 thousand tons of styrene monomer. In 1978, styrene output reached 29.6 thousand tons while polystyrene production was 300 tons;



- In Isocianatos do Brasil S.A., a project was completed for production of 23 thousand tons of toluene diisocyanate (TDI) per year, with 6.6 thousand tons sold still in pre-marketing stage;
- in METANOR S.A. – Metanol do Nordeste 42.6 thousand tons of methanol were produced. Sales were 28% higher than in 1977 as a result of the Company's share in the supply of methyl alcohol and ethylethanol alcohol fuel mixture;
- NITROCARBONO S.A. produced 20.9 thousand tons of caprolactam and, as a by-product, about 30 thousand tons of ammonium sulphate;
- the production of ethylene oxide at OXITENO S.A. – Indústria e Comércio was higher than the installed capacity, reaching 36.5 thousand tons. Its controlled company, Oxiteno do Nordeste S.A., completed stage I of the ethylene oxide and monoethyleneglycol production project;
- POLIALDEN–Petroquímica S.A. completed a project for production of 60 thousand tons per year of high density polyethylene, of which 3.7 thousand tons were produced;
- POLIBRASIL S.A. was inaugurated with a 50 thousand tons polypropylene production capacity per year; over 21 thousand tons of homopolymer polypropylene and 3.6 thousand tons of copolymer polypropylene have already been produced;
- POLIOLEFINAS S.A. – Indústria e Comércio produced 108.5 thousand tons of low density polyethylene;
- POLIPROPILENO S.A., completed a project to produce 48.4 thousand tons of polypropylene;
- a project was also completed at POLITENO – Indústria e Comércio S.A. for a 100 thousand tons of low density polyethylene annual production. Output in 1978 reached 11 thousand tons;
- PRONOR – Produtos Orgânicos S.A., produced in its second year of operation 35 thousand tons of dimethylterephthalate (DMT), four times the production for 1977;
- SALGEMA – Indústria Química S.A., also in its second year of operation increased caustic soda production by 179% in relation to 1977.

The following are outstanding events concerning projects developed by PETROQUISA controlled and affiliated companies:

- in COPESUL, the implementation of a Raw Materials Center and Utilities Center continued according to schedule. Basic engineering was completed and detail engineering is on advanced stage; equipment orders continued to be placed and civil works were started;



- in Petroquímica União S.A., a project was started to enable this company to increase its ethylene production capacity from 300 thousand tons a year to 360 thousand, by means of adaptations in the existing units;
- PETROFLEX – Indústria e Comércio S.A. continued to implement a SBR production unit in the Southern Petrochemical Complex, with a 80 thousand tons capacity per year;
- NITRIFLEX S.A. – Indústria e Comércio developed studies for the expansion of important producing units;
- POLIOLEFINAS S.A. – Indústria e Comércio continued the implementation of a 115/150 thousand tons a year of low density polyethylene producing unit at the Southern Petrochemical Complex;
- SALGEMA – Indústrias Químicas S.A., continued the implementation of a project for production of 200 thousand tons a year of dichloroethane. The Plant is scheduled to come on stream in 1979. Also, the implementation went on of an ethylene producing unit using ethylic alcohol. This unit is scheduled to come on stream by the end of 1980;
- ACRINOR–Acrilonitrila do Nordeste S.A. continued to implement a plant for production of 60 thousand tons a year of acrylonitrile, and 7.8 thousand tons a year of cyanhydric acid;

- CPC – Companhia Petroquímica de Camaçari continued implementation of an industrial complex for vinyl chloride (MVC) and vinyl polychloride (PVC) production;
- DETEN – Detergentes do Nordeste S.A. continued to implement a project for linear alkylbenzene (LAB) production;
- PETROQUISA decided to have a minor interest in the voting capital of PPH – Companhia Industrial de Polipropileno projects for polypropylene production, and in the POLISUL – Petroquímica S.A. concern for high density polypropylene production. This represents an important measure in support of the Southern Petrochemical Complex implementation.

Gross sales of PETROQUISA and its controlled companies amounted to Cr$ 13.9 billion approximately. The financial investment of PETROQUISA and its controlled and affiliated companies amounted to Cr$ 722.9 billion, a nominal reduction of about 20% in comparison with total investment for 1977.

Petrobrás Distribuidora S.A. – BR

The authorized capital of DISTRIBUIDORA remained at Cr$ 1,600 million, fully paid-up.

Sales of petroleum products increased 11%, to 18.1 million m³. Operations covered practically the whole national territory, including regions in Pará, still lacking adequate fuel storage facilities. The largest sales increase occurred in the Northeastern region (+30.3%); next in importance come the Northern (+11.4%), Center-West (+10.3%), Southern (+10.2%) and Southeastern (+7.5%) regions.

At year-end DISTRIBUIDORA had 3,873 service stations spread all over Brazil. Overall storage capacity increased from 864,000 m³ in 1977 to 906,200 m³ in 1978.

Gross sales during the fiscal year amounted to Cr$ 59 billion, about 45% above 1977 levels, while investments amounted to Cr$ 442 million.

DISTRIBUIDORA has at present one sole controlled company, PETRASA – Participação em Empreendimentos e Transportes S. A., with a subscribed and paid-up capital of Cr$ 36 million. Of the five PETRASA affiliated transport companies, three had their capital increased, but PETRASA's interest in their capital remained unchanged. In compliance with Government regulations concerning transport system integration and modernization, PETRASA fostered, through two of its affiliated companies, the organization in Brazil of the first highway/ocean transport system now operating normally in the São Paulo–Rio–Salvador route.



Petrobrás Internacional S.A. – BRASPETRO

BRASPETRO's authorized capital was maintained at Cr$ 200 million, Cr$ 85.3 million being subscribed and paid-up capital.

Operations abroad included work in various countries:

In Algeria a seismic detailing program was carried out covering 432 km of lines. Drilling works were continued and four wells were completed: wildcat and three extension wells in the Ras Toumb field. A fifth well, a wildcat, is about to be completed. This work led to production in two extension wells. Still on a temporary basis, production at the Ras Toumb field averaged 3,030 barrels per day.

In Colombia, two exploratory wells were drilled in the Upper Magdalena Basin, both dry. Daily production averaged 13,312 barrels and the total amount of oil recovered during the year (4.86 million barrels) was sold in the domestic market of this country.

In Iraq, new drillings in the Majnoon field confirmed the existence of large reserves. Development drilling work began. A wildcat drilled in the Nahr Umr field confirmed the discovery of important reserves, now under evaluation. Seismic works related to the Majnoon and Nahr Umr fields totaled 27.5 km of lines.

In Libya, the work has concentrated in the Murzuk Basin, including geological reinterpretation of the area, survey of 554 km of seismic lines, drilling of the first wildcat – which proved to be oil producing – and of another wildcat.

In Guatemala, BRASPETRO requested authorization from the Government to participate in oil exploration in association with two other companies. Surface and seismic geological surveys have already been started by BRASPETRO.

Exploratory works in Iran and Egypt have ceased.

Petrobrás Comércio Internacional S.A. – INTERBRÁS

INTERBRÁS, whose objective is to promote Brazilian exports, had a subscribed and paid-up capital of Cr$ 442 million at year-end, out of a Cr$ 600 million authorized capital.

Out of gross sales (Cr$ 9.3 billion) about Cr$ 3.7 billion were obtained through Interbrás Cayman Company, an Interbrás controlled Company.

In 1978, transactions totaled US$ 833.6 million. Exports amounted to US$ 631 million, 35% of which referring to primary goods and foodstuffs, particularly soyabeans and by-products, coffee and cocoa beans. Most important among exported manufactured goods are chemical and petrochemical products, tractors, home appliances, footwear, textiles and pig iron. A very important achievement was the export of services through contracts for building two hotels in Iraq, three residential centers in Algeria, and the Baghdad-Hsaibah railway in Iraq.

Import contracts amounting to US$ 147.2 million refer mainly to fertilizers, chemical products and beef.

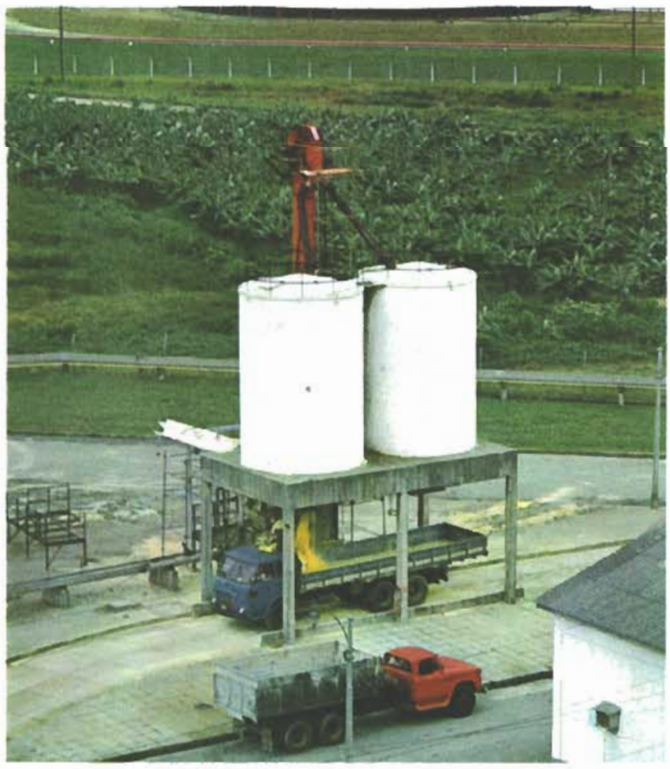
In 1979 the Company's policy shall, as before, aim to share new markets and diversification of products with the support of a strong organizational network covering offices in Brazil, representative offices and subsidiaries abroad, so as to reach an overall sales goal in excess of one billion dollars.

Petrobrás Fertilizantes S.A. – PETROFÉRTIL

PETROFÉRTIL authorized capital was increased from Cr$ 2,200 million to Cr$ 5,500 million of which, by the end of the fiscal year, Cr$ 4,750 million had been subscribed and Cr$ 4,311 million had been paid-up.

The objective of PETROFÉRTIL is the production and marketing of agricultural basic nutrients. In its third year of operation, the company is now in charge of implementing three nitrogen fertilizer plants. PETROFÉRTIL has three controlled companies: ULTRAFÉRTIL, NITROFÉRTIL, and Indústria Carboquímica Catarinense – ICC, and three affiliated Companies: GOIASFÉRTIL, FOSFÉRTIL, and Companhia Rio Grandense de Nitrogenados – CRN.

With the inauguration of the 2nd industrial unit of Fertilizantes Nitrogenados do Nordeste S.A.–NITROFÉRTIL, and with ULTRAFÉRTIL, two of PETROFÉRTIL's controlled companies are operating. Related sales in the fiscal year amounted to



Cr$ 4.9 billion. ULTRAFÉRTIL produced 126 thousand tons of ammonia, 227 thousand tons of ammonium nitrate, 115 thousand tons of calcium nitrate, 261 thousand tons of diammonium phosphate and 11 thousand tons of sulphur. NITROFÉRTIL produced 131 thousand tons of ammonia and 120 thousand tons of urea.

The following is a report on the construction of fertilizer plants:

- Araucária (PR): the engineering project is nearing completion; material and equipment purchases continue within schedule. Infrastructure and superstructure construction works continue on the Industrial Site, Administration, Laboratories and Support buildings. The assembly of raw material and ammonia tanks has been completed;
- Laranjeiras (SE): building of concrete works for the ammonia and urea units is under way, as well as a new railway side track. Basic engineering and detailing activities of the Industrial Units are also under way;
- Norte Fluminense (RJ): basic engineering and detailing activities were continued simultaneously with the Laranjeiras project, and a definition concerning the plant location is expected.

PETROFÉRTIL investments amounted to Cr$ 2.2 billion of which Cr$ 1.6 billion were invested in projects, Cr$ 0.5 billion in controlled companies and Cr$ 0.1 billion in affiliated companies.

Petrobrás Mineração S.A. – PETROMIN

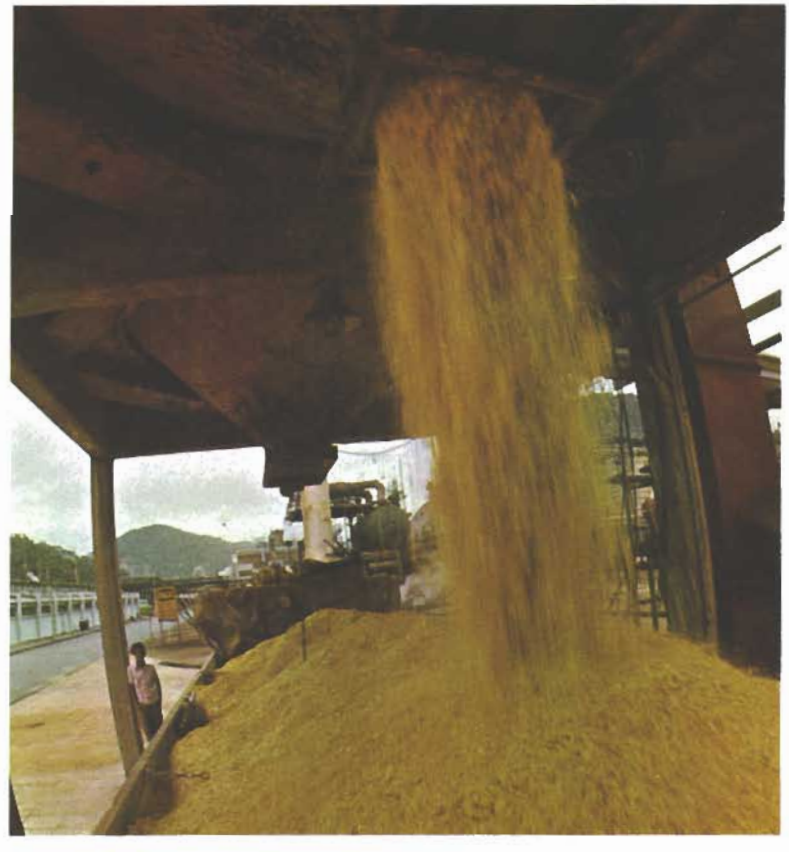
PETROMIN's objective is the prospection, industrialization and marketing of mineral resources as well as other activities. The company had the authorized capital increased to Cr$ 750 million, of which Cr$ 120 million are subscribed and paid-up.

Among its projects, priority is given to the utilization of Sergipe evaporites that, in a first stage, includes sylvinite mining and processing. For the first time, therefore, a potassium fertilizer will be produced in Brazil.

PETROMIN carried out an intensive geological survey program involving field works, rock mechanics studies and chemical analyses of evaporite samples.

These studies enabled PETROMIN to invite bids for construction of a shaft, next year.

PETROMIN proceeded studies on sedimentary basin mineral potential in Brazil. Elementary sulphur was discovered in the Castanhal area, Sergipe, as well as in other areas in this State and Espírito Santo.



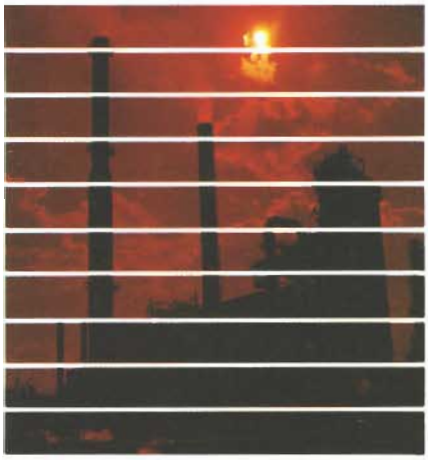


Petrobrás Affiliated Companies

Petrocoque S.A.—Indústria e Comércio, where PETROBRÁS holds 35% of the voting capital, produced 87 thousand tons of calcined coke. Sales amounted to Cr$ 401 million. During the year, shareholders approved a project for doubling the plant capacity. Operations resulting from this expansion are scheduled to begin in 1981.

PETROBRÁS has also three other affiliated companies: Companhia de Navegação da Amazônia—CNA, that transports oil products in the Amazonia Basin and in which PETROBRÁS has a 27.6% interest in the voting capital; Estaleiros Amazônia S.A.—ESTANAVE, that builds vessels of medium and low deadweight capacity, where PETROBRÁS has a 25.9% interest in the voting capital; and Empresa Brasileira de Reparos Navais-RENAVE, a naval repair center in Rio de Janeiro, where PETROBRÁS holds 16.3% of the voting capital.





Financial Analysis

FINANCIAL HIGHLIGHTS

	1978	1977 (Reclassified)
GROSS SALES, millions of cruzeiros	**240,199**	163,018
NET SALES, millions of cruzeiros	**164,999**	114,564
NET INCOME TO NET SALES, percent	**13.30**	13.42
NET INCOME, millions of cruzeiros	**21,946**	15,380
SHAREHOLDERS EQUITY PER SHARE (Cr$)	**3.23**	3.13
RETURN ON EQUITY, percent	**18.00**	19.53
FIXED ASSETS INVESTMENTS, millions of cruzeiros	**43,347**	31,368
CURRENT RATIO	**1.26**	1.47

GROSS SALES – Gross sales made by the Petrobrás System Companies amounted, from January 1st to December 31, 1978, to Cr$ 240,199 million, that is, 47.4% more in relation to 1977. Deduction was made of Cr$ 75,200 million for Sole Tax and Other Charges. Net Sales amounted to Cr$ 164,999 million, or 44.0% more than in 1977.

In the following table gross sales are itemized according to areas of activity:

	1978		1977	
	Cr$ Million	%	Cr$ Million	%
PRODUCTION, TRANSPORT AND REFINING	**207,867**	86.5	137,252	84.2
PETROCHEMICALS	**13,826**	5.8	8,911	5.5
DISTRIBUTION	**58,959**	24.6	41,652	25.5
TRADING	**9,351**	3.9	7,463	4.6
FERTILIZERS	**4,935**	2.0	3,732	2.3
INTER-COMPANY SALES	**(54,739)**	(22.8)	(35,992)	(22.1)
	240,199	100.0	163,018	100.0

BUSINESS YEAR FINANCIAL RESULTS – The net profit of Petrobrás System Companies in the period 1/1 to 12/31/1978 amounted to Cr$ 21,946 million. The itemized result by area of activity was the following:

	1978		1977	
	Cr$ Million	%	Cr$ Million	%
PRODUCTION, TRANSPORT AND REFINING	**18,001**	82.0	13,095	85.1
PETROCHEMICALS	**2,498**	11.4	1,238	8.1
DISTRIBUTION	**1,184**	5.4	802	5.2
TRADING	**19**	0.1	40	0.3
FERTILIZERS	**244**	1.1	205	1.3
	21,946	100.0	15,380	100.0

The consolidated result by company is as follows:

	Cr$ million	Cr$ million
PETROBRÁS – Petróleo Brasileiro S.A.		21,094
Petrobrás Química S.A. – PETROQUISA – Consolidated		
Petrobrás Química S. A. – PETROQUISA	1,662	
Cia. Pernambucana de Borracha Sintética – COPERBO	79	
Nitriflex S. A. Ind. e Comércio	76	
COPENE – Petroquímica do Nordeste S. A.	714	
PETROFLEX – Indústria e Comércio S.A.	222	
Petroquímica União S.A.	1,118	
COPESUL – Cia. Petroquímica do Sul	1	
Cia. Química do Recôncavo	17	
Less: Internal Revenues	(1,391)	2,498
Petrobrás Distribuidora S.A. – Consolidated		
Petrobrás Distribuidora S.A.	1,184	
Participation in Empreendimentos e Transportes S.A. – PETRASA	(2)	
Plus: Internal Revenues	2	1,184
Petrobrás Internacional S.A. – BRASPETRO		20
Petrobrás Comércio Internacional S.A. – INTERBRÁS – Consolidated		
Interbrás Brasil	(216)	
Interbrás Cayman Company	164	
Seagull Trading Company	71	19
Petrobrás Fertilizantes S.A. – PETROFÉRTIL – Consolidated		
Petrobrás Fertilizantes S. A. – PETROFÉRTIL	146	
Fertilizantes Nitrogenados do Nordeste S.A. – NITROFÉRTIL – NE	363	
ULTRAFÉRTIL S.A. Ind. e Com. de Fertilizantes	87	
Less: Internal Revenues	(352)	244
		25,059
Less: Internal Revenues		(3,113)
Consolidated Total		21,946

PETRÓLEO BRASILEIRO S.A. – PETROBRÁS, SUBSIDIARIES AND CONTROLLED COMPANIES – FIXED ASSETS CONSOLIDATED INVESTMENTS AND CAPITALIZED COSTS

(In million cruzeiros)

SPECIFICATION	1978		1977		VARIATION	
	AMOUNT	%	AMOUNT	%	ABSOLUTE	%
EXPLORATION AND PRODUCTION	**16,434**	**37.9**	10,127	32.0	6,307	62.3
REFINING	**5,888**	**13.6**	5,190	16.4	698	13.4
MARITIME TRANSPORTATION	**2,445**	**5.6**	3,839	12.1	(1,394)	(36.3)
TERMINALS AND PIPELINES	**4,723**	**10.9**	2,348	7.4	2,375	101.1
SHALE INDUSTRIALIZATION	**293**	**0.7**	146	0.5	147	100.7
PETROCHEMICALS	**6,579**	**15.2**	4,392	13.9	2,187	49.8
FERTILIZERS	**3,959**	**9.1**	3,916	12.4	43	1.1
MARKETING	**442**	1.0	225	0.7	217	96.4
AFFILIATED COMPANIES	**632**	**1.5**	565	1.8	67	11.9
MISCELLANEOUS (3)	**1,952**	**4.5**	890	2.8	1,062	119.3
SUBTOTAL (1)	**43,347**	**100.0**	31,638	100.0	11,709	37.0
LESS:						
AMOUNT OF PROSPECTING, EXPLOITING AND PRE-OPERATION EXPENDITURES WRITTEN OFF DURING THE YEAR	**(5,335)**		(3,280)		(2,055)	62.7
RECLASSIFICATION OF LONG-TERM ASSETS	–		(119)		(119)	(100.0)
TOTAL (2)	**38,012**		28,239		9,773	34.6

(1) TOTAL INVESTMENT
(2) ACCORDING TO TABLE OF ORIGIN AND APPLICATION OF FUNDS
(3) FINANCIAL INVESTMENTS, OFFICES AND SERVICES

ORIGIN AND APPLICATION OF FUNDS

The funds generated by the companies of the PETROBRÁS System amounted to Cr$ 51,478 million, of which 55.8% from their own activities, 30.3% through local and foreign financing and 13.9% from other sources.

The consolidated table of Origin and Application of Funds shows in detail the source of the obtained funds, indicating that 73.8% of such funds were applied in investments, 6.1% in repayments of financing and 22.1%, in other uses. The excess of 2.0% represents a net decrease in the Working Capital.

INVESTMENTS

The Fixed Asset, Capitalized Costs and Expansion Projects investments amounted to Cr$ 47,347 million, representing an increase of 37% over the preceding year.

Prospecting and Production Development activities absorbed 37.9% of such investment, Refining 13.6%, Maritime Transportation, Terminal and Pipeline activities-16.5%, Petrochemical activities 15.2%, Fertilizers 9.1%, Marketing activities 1.0%, Affiliated Companies 1.5% and the 5.2% balance in other activities.

BALANCE SHEET STRUCTURE

As may be observed from the Consolidated Balance Sheet of December 31, 1978 the Total Assets in the PETROBRÁS System amount to Cr$ 234,872 million, with the following breakdown:

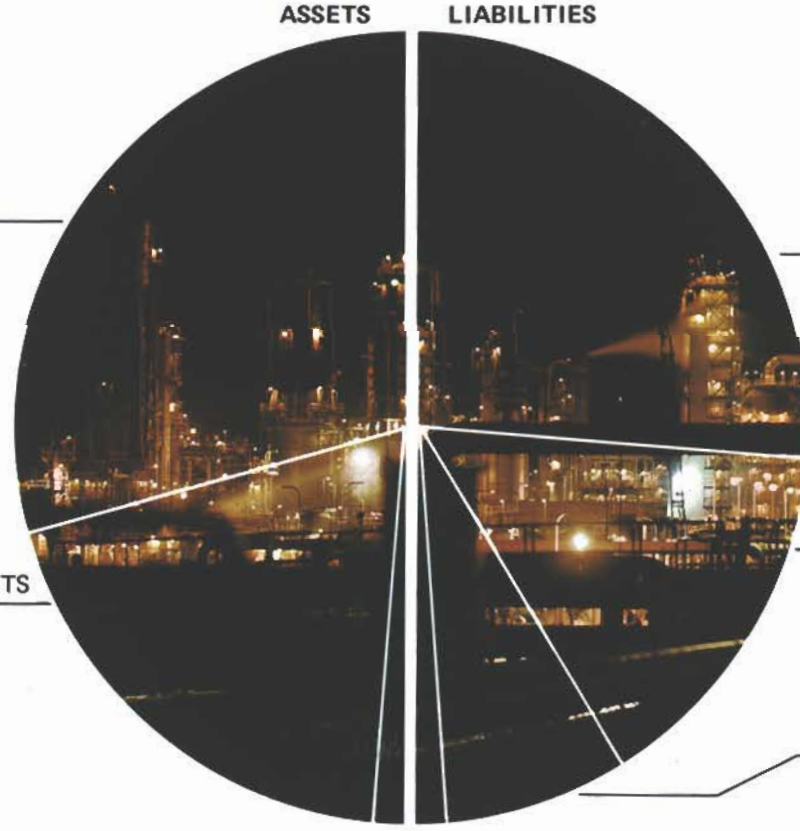
	Cr$ million	%
Current Assets	91,010	38.8
Long Term Assets	4,248	1.8
Fixed Assets (*)	139,614	59.4
	234,872	100.0

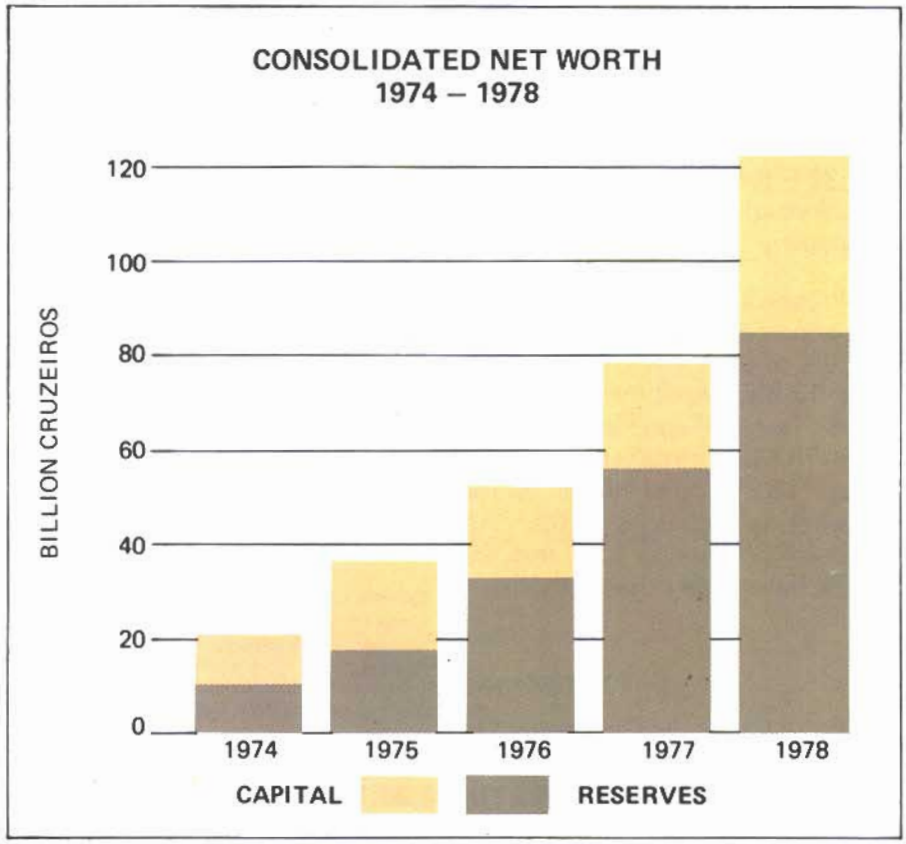
(*) Includes Investments.

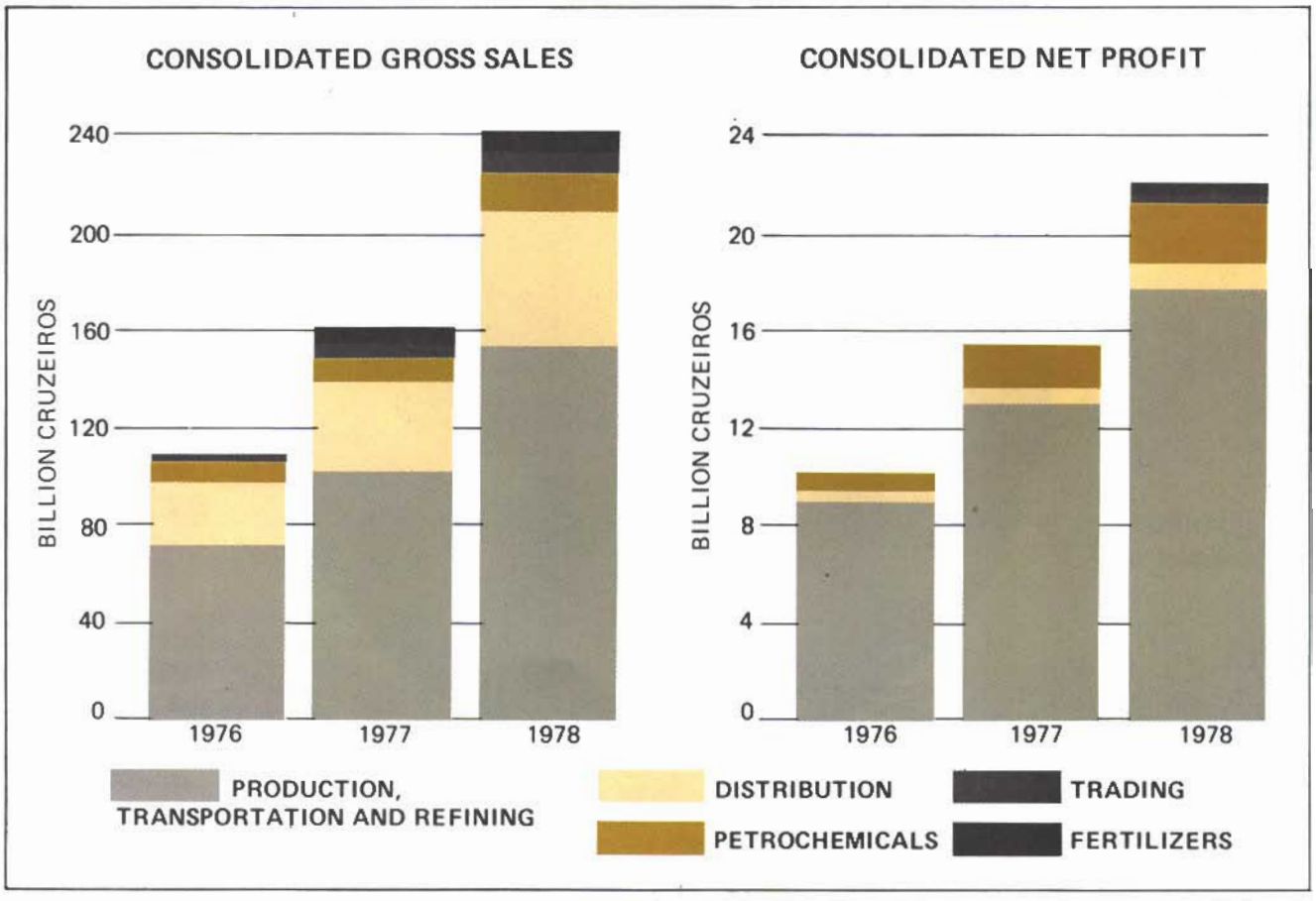
Liabilities are distributed as follows:

	Cr$ million	%
Current Liabilities	72,023	30.7
Long Term Liabilities	35,927	15.3
Minority Participation	5,019	2.1
Net Equity	121,903	51.9
	234,872	100.0

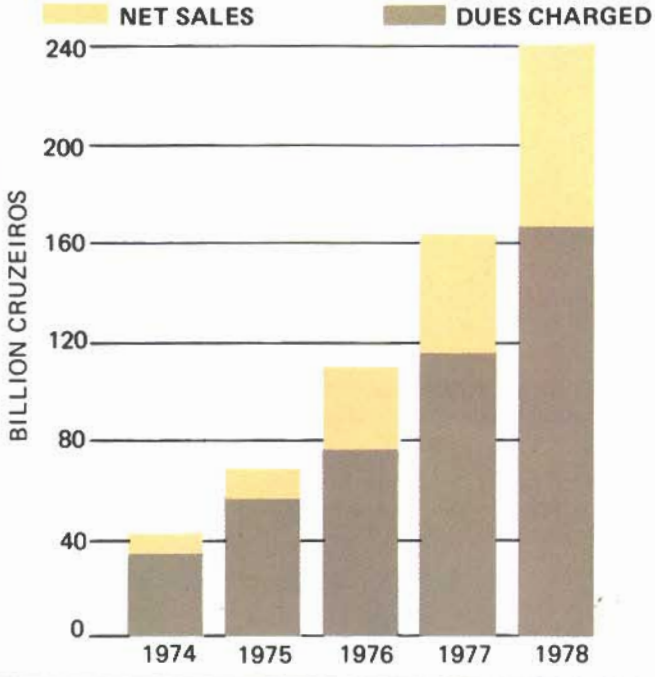
CONSOLIDATED EQUITY STRUCTURE ON 12.31.1978
(AMOUNTS IN MILLION CRUZEIROS)



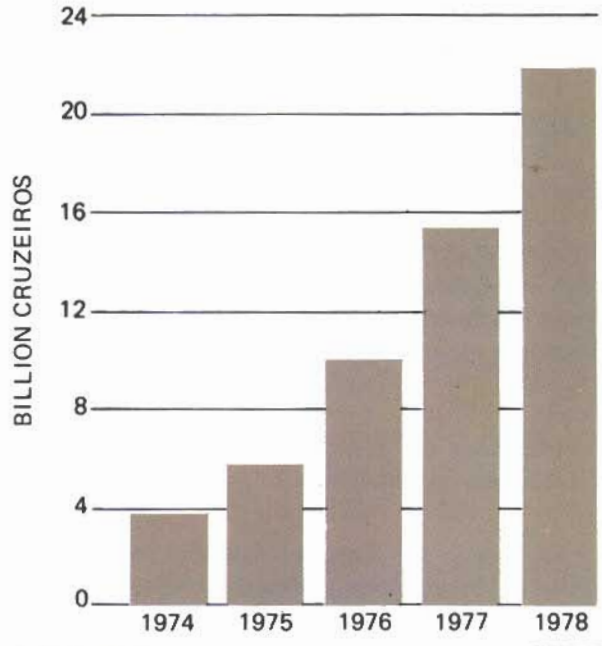

CONSOLIDATED NET WORTH
1974 – 1978
BILLION CRUZEIROS
120
100
80
60
40
20
0
1974
1975
1976
1977
1978
CAPITAL
RESERVES


CONSOLIDATED GROSS SALES
BILLION CRUZEIROS
240
200
160
120
80
40
0
1976
1977
1978
PRODUCTION, TRANSPORTATION AND REFINING
DISTRIBUTION
PETROCHEMICALS
TRADING
FERTILIZERS
CONSOLIDATED NET PROFIT
BILLION CRUZEIROS
24
20
16
12
8
4
0
1976
1977
1978

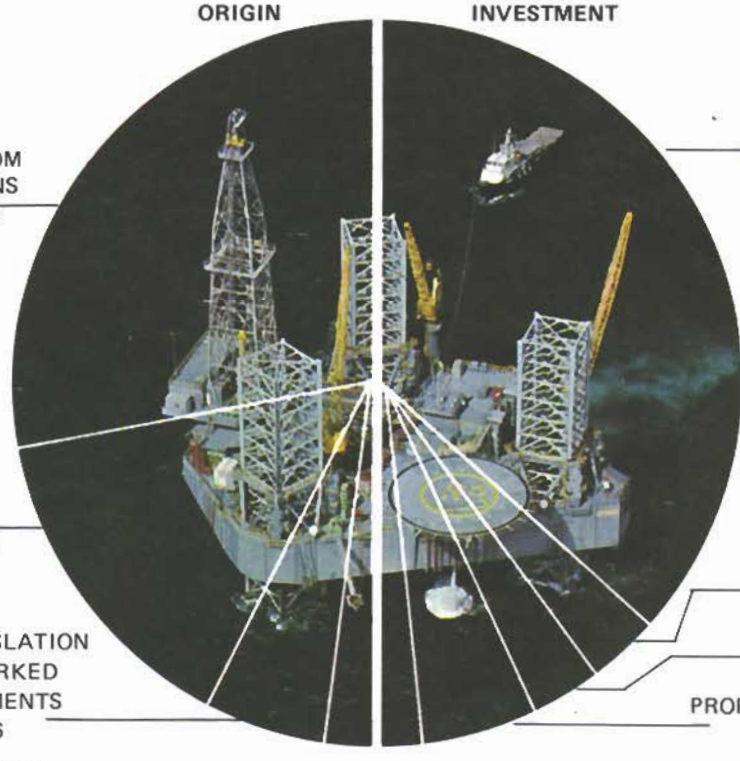
CONSOLIDATED GROSS SALES EVOLUTION 1974-1978



CONSOLIDATED NET PROFIT 1974-1978



CONSOLIDATED RESOURCES ORIGIN AND APPLICATION OF FUNDS
AMOUNTS IN MILLION CRUZEIROS



ORIGIN		INVESTMENT	
FUNDS FROM OPERATIONS	Cr$ 28,747	INVESTMENTS	Cr$ 38,012
LOANS	Cr$ 15,591	AMORTIZATION OF LOANS	Cr$ 3,158
SPECIFIC LEGISLATION AND EARMARKED FOR INVESTMENTS	Cr$ 5,596	DIVIDENDS PAID	Cr$ 3,381
		PROPOSED DIVIDENDS	Cr$ 5,347
OTHER SOURCES	Cr$ 1,544	OTHER INVESTMENTS	Cr$ 2,621
		WORKING CAPITAL NET REDUCTION	(1,041)
			Cr$ 1,580
	Cr$ 51,478		Cr$ 51,478

(A free translation from the original in Portuguese prepared in accordance with accounting principles generally accepted in Brazil) **EXHIBIT I**
(Notes 1, 2 and 3)
(Expressed in millions of cruzeiros)

ASSETS	December 31 1978	1977 (Reclassified)
CURRENT ASSETS		
Cash and treasury bonds	6,795	4,297
Other marketable securities	5,452	6,449
Accounts receivable		
Trade	30,821	19,933
Less		
Allowance for doubtful accounts	(790)	(301)
Bills discounted	(170)	(155)
	29,861	19,477
Advances to suppliers, contractors and others	3,422	1,432
Amounts recoverable from the National Petroleum Council (CNP)	1,273	2,091
Other	4,226	938
	38,782	23,938
Inventories (Note 4)	35,677	25,547
Compulsory deposits	3,190	1,184
Properties for sale and other current assets	425	327
Tax incentive investment deposits	351	272
Prepaid expenses	338	406
Total current assets	91,010	62,420
NON-CURRENT ASSETS		
Marketable securities	1,266	100
Customers' installments receivable	818	458
Foreign oil exploration costs	2,605	1,945
Less – Provision for foreign oil exploration costs	(2,605)	(1,945)
	–	–
Advances for future capital increase in affiliates	61	144
Compulsory loans to and price level adjustable securities issued by the federal power company	1,411	724
Other accounts receivable	692	311
	4,248	1,737
PROPERTY, PLANT AND EQUIPMENT (Note 5)	126,063	77,253
INVESTMENTS		
In affiliated companies	3,030	1,184
Other	1,085	465
DEFERRED CHARGES	9,436	1,863
	234,872	144,922

The accompanying notes form an integral part

ARAKEN DE OLIVEIRA
President
C.P.F. 009.086.147-72

CARLOS ALBERTO SHOLL ISNARD
Director
C.P.F. 005.468.107-30

JOSÉ MARQUES NETO
Director
C.P.F. 034.142.995-34

PAULO VIEIRA BELOTTI
Director
C.P.F. 001.388.357-72

ADEMAR DE QUEIROZ
Member of the Board
C.P.F. 019.978.587-20

IRNACK CARVALHO DO AMARAL
Member of the Board
C.P.F. 001.139.217-72

PETROBRÁS AND SUBSIDIARIES
BALANCE SHEET

LIABILITIES	December 31 1978	1977 (Reclassified)
CURRENT LIABILITIES		
Financing from banks and suppliers (Note 6)	9,898	4,012
Suppliers and contractors	29,648	19,497
Taxes payable on oil products and other taxes	8,704	7,592
Amounts payable to the National Petroleum Council (CNP)	8,713	5,199
Dividends payable – prior years	93	47
Proposed dividends		
PETROBRÁS stockholders	4,906	
Minority interests	252	
Proposed profit participation (less Cr$ 177 million paid on account)	677	527
Social security contributions	4,283	2,878
Other accounts payable and accrued expenses	4,849	2,640
Total current liabilities	72,023	42,392
NON-CURRENT LIABILITIES		
Financing from banks and suppliers (Note 6)	33,364	19,376
Federal Government credits for future capital increase	1,775	1,681
Other accounts payable and accrued expenses	788	507
	35,927	21,564
MINORITY STOCKHOLDERS' INTEREST IN SUBSIDIARIES		
In capital	2,878	1,689
In reserves and retained earnings	2,141	511
	5,019	2,200
STOCKHOLDERS' EQUITY (Exhibit III) (Note 7)		
Capital stock	37,738	25,159
Capital reserves	36,818	16,468
Revenue reserves	4,881	2,009
Retained earnings	44,607	35,641
	124,044	79,277
Less – Minority interest in reserves and retained earnings of subsidiaries	(2,141)	(511)
	121,903	78,766
	234,872	144,922

of these consolidated financial statements.

ORFILA LIMA DOS SANTOS
Director
C.P.F. 005.966.557-20

PAULO G. TEIXEIRA DE FREITAS
Director
C.P.F. 020.259.067-49

WALDEMAR LEVY CARDOSO
Member of the Board
C.P.F. 004.935.387-04

GILBERTO AMARO RODRIGUES
Accountant – CRC-RJ 8.126-9
C.P.F. 000.360.803-49

PETRÓLEO BRASILEIRO S.A. – PETROBRÁS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

EXHIBIT II

(A free translation from the original in Portuguese prepared in accordance with accounting principles generally accepted in Brazil)
(Notes 1, 2 and 3)
(Expressed in millions of cruzeiros)

	Year ended December 31	
	1978	1977 (Reclassified)
SALES		
Products	235,795	161,638
Services, mainly freight	4,404	1,380
	240,199	163,018
Less		
Taxes on oil products	(36,333)	(28,126)
Other charges	(38,867)	(20,328)
Net sales	164, 999	114,564
COST OF SALES	(122,035)	(82,815)
Gross profit	42,964	31,749
PARTICIPATION IN THE NET UNDERLYING ASSETS OF AFFILIATED COMPANIES	244	–
	43,208	31,749
OPERATING EXPENSES		
Sales	3,321	3,867
Financial expenses, net	3,534	(470)
Administrative and general		
Directors' and Administrative Council fees		
PETROBRÁS	10	7
Subsidiaries	49	29
Administrative	6,013	3,553
Taxes	1,169	931
Other	666	665
	14,762	8,582
Research, exploration, dry wells and other costs	11,050	6,620
Less – Credits for investments, research and technological development	(5,515)	(3,470)
	5,535	3,150
Provision for foreign oil exploration costs	1,064	851
Inventory adjustments, net	143	79
Less – deferral of certain expenses including some incurred abroad	(179)	(73)
	21,325	12,589
Operating income	21,883	19,160
NON-OPERATING INCOME		
Miscellaneous income	745	363
Net gain on disposal of property, plant and equipment	174	119
Income from investments in affiliated companies	–	74
	919	556
INCOME BEFORE PRICE-LEVEL RESTATEMENTS	22,802	19,716
PROVISION FOR EFFECTS OF INFLATION ON NET MONETARY ASSETS	–	(2,631)
INFLATION GAIN ON NEGATIVE WORKING CAPITAL	–	242
PRICE-LEVEL RESTATEMENT OF PROPERTY, PLANT AND EQUIPMENT, INVESTMENTS AND DEFERRED CHARGES, REDUCED BY Cr$ 29,012 MILLION OF PRICE-LEVEL RESTATEMENT OF STOCKHOLDERS' EQUITY	2,447	–
INCOME BEFORE EMPLOYEES' PROFIT PARTICIPATION	25,249	17,327
EMPLOYEES' PROFIT PARTICIPATION	(852)	(526)
INCOME BEFORE INCOME TAX	24,397	16,801
INCOME TAX	(2,451)	(1,421)
NET INCOME FOR THE YEAR (Cr$ 0.58 and Cr$ 0,61 per share based on fully paid capital at year end)	21,946	15,380

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

PETRÓLEO BRASILEIRO S.A. – PETROBRÁS AND SUBSIDIARIES

CONSOLI DATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1978 AND 1977

EXHIBIT III

(A free translation from the original in Portuguese prepared in accordance with accounting principles generally accepted in Brazil)
(Notes 1, 2 and 3)
(Expressed in millions of cruzeiros)

	CAPITAL RESERVES						REVENUE RESERVES								Total Stock-holders' equity	
	Capital	Price-level restatements		For renewal of tanker fleet	For the cost of research and exploration	Other	Legal	Contingencies	Unrealized earnings	Equity accounting	Research and technological development	Other	Retained earnings		1978	1977
		Capital	Property plant and equipment	Net monetary assets												
At the beginning of the year	25,159		11,699	2,989		368	1,412	960	774	2		126	147	35,641		79,277	42,559
Compulsory price-level restatement of property, plant and equipment																	9,265
Stock dividends																	80
Stock dividends paid to the minority stockholders of subsidiary companies						(730)									(730)	(270)	
Special price-level restatement of property, plant and equipment																	13,976
Absorption of price-level restatements of loans for the purchase of property, plant and equipment																	(1,727)
Partial reversal of price-level restatement of property, plant and equipment used in 1977 to absorb exchange differences and price-level restatements of loans for the purchase of property, plant and equipment.			1,233												1,233		
Effects of inflation on net monetary assets																	2,631
Effects of inflation on net monetary liabilities of subsidiary companies																	(242)
Adjustment arising from accounting for investments in affiliated companies by the equity method (Note 3 b)										528					528		
Distribution in 1977, from 1976 net income														(3,381)	(3,381)		
Dividends																(1,903)	
Profit participation																(335)	
Distribution in 1978, from 1977 net income														(10,581)	(12,579)	(7,188)	
Dividends															12,579	7,188	
Capitalization of reserves and retained earnings	12,579																
Reserves and retained earnings used to increase capital				(1,998)											5,446	3,444	
Funds received from the Federal Government						5,446											
Amortization of research and exploration costs						(5,389)					(126)				(5,515)	(3,470)	
Transfers			(1,124)	(13)			1,140		(3)								
Proceeds of freight surcharges used for the construction or the enlargement of the capacity of the company's ships					197										197		
Reversals and adjustments, etc.			362				768	1	(364)			(60)	671		1,378	(111)	
Price-level restatement of stockholders' equity (Note 3a)		14,893	4,408	353	41	142	621	348	147		191	27		7,841	29,012		
Net income for the year (Exhibit II)														21,946	21,946	15,380	
Appropriations and distributions from 1978 net income														(2,183)	(2,183)	(1,099)	
Reserves								1,329	74	587		189	4		2,183	1,099	
Proposed dividends (Note 7)														(4,906)	(4,906)		
PETROBRÁS stockholders														(441)	(441)		
Minority stockholders																	
		14,893	16,578	1,331	238	567	3,211	2,638	628	589	719	189	118				
At the end of the year	37,738				36,818					4,881				44,607	124,044	79,277	

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

PETRÓLEO BRASILEIRO S.A. – PETROBRÁS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

EXHIBIT IV

(A free translation from the original in Portuguese prepared in accordance with accounting principles generally accepted in Brazil)
(Notes 1, 2 and 3)
(Expressed in millions of cruzeiros)

	Year ended December 31	
	1978	1977 (Reclassified)
SOURCE OF FUNDS		
Resources provided by operations		
Net income for the year (Exhibit II)	21,946	15,380
Participation in the underlying net assets of affiliated companies	(244)	–
Dividends received from affiliated companies	135	–
	21,837	15,380
Depreciation and amortization	7,268	5,162
Effects of inflation on net monetary assets	–	2,631
Price-level restatements of property, plant and equipment, investments, deferred charges and stockholders' equity	(2,447)	–
Provision for foreign oil exploration costs	1,064	851
Other	1,025	(20)
	28,747	24,004
Resources from third parties		
Financing	15,591	13,468
Funds provided by special legislation	5,596	3,444
Funds for renewal of tanker fleet	197	293
Paid-in capital	570	551
Other (1977 – includes decrease in non-current assets)	777	96
	22,731	17,852
Total resources	51,478	41,856
APPLICATION OF FUNDS		
Property, plant and equipment	24,686	22,269
Investments	1,104	695
Deferred charges	12,222	5,275
Reduction of non-current liabilities	3,158	6,081
Dividends paid	3,381	2,090
Proposed dividends	5,347	–
Profit participations	–	335
Increase in non-current assets	2,394	677
Other	227	399
Total resources applied	52,519	37,821
NET INCREASE (DECREASE) IN WORKING CAPITAL	(1,041)	4,035
CHANGES IN WORKING CAPITAL ACCOUNTS		
Cash and treasury bonds	2,498	(428)
Other marketable securities	(997)	(4,992)
Accounts receivable	14,844	8,337
Inventories	10,130	6,191
Compulsory deposits	2,006	(1,010)
Properties for sale and other current assets	98	55
Tax incentive investment deposits	79	38
Prepaid expenses	(68)	(60)
Changes in current assets	28,590	8,131
Financing from banks and suppliers	5,886	(5,619)
Suppliers and contractors	10,151	4,641
Tax payable on oil products and other taxes	2,517	2,736
Amounts payable to the National Petroleum Council (CNP)	3,514	1,271
Dividends payable – prior years	46	33
Proposed dividends	5,158	–
Proposed profit participation	150	527
Other accounts payable and accrued expenses	2,209	507
Changes in current liabilities	29,631	4,096
NET INCREASE (DECREASE) IN WORKING CAPITAL	(1,041)	4,035

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

PETRÓLEO BRASILEIRO S. A. – PETROBRÁS AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1978 AND 1977

(A free translation from the original in Portuguese)

NOTE 1 – PRINCIPLES OF CONSOLIDATION

The consolidated financial statements at December 31, 1978 and 1977 include those of Petróleo Brasileiro S. A. – PETROBRÁS and of the following subsidiaries which PETROBRÁS controls either, directly or indirectly.

	Interest in capital			
	Subscribed and fully paid		Voting	
	1978 %	1977 %	1978 %	1977 %
Petrobrás Química S. A. – PETROQUISA and its subsidiaries	**99.99**	99.99	**99.99**	99.99
Companhia Pernambucana de Borracha Sintética – COPERBO	**61.82**	61.82	**77.57**	77.57
Petroquímica União S. A.	**67.79**	67.79	**67.79**	67.79
Nitriflex S. A. – Indústria e Comércio	**70.00**	70.00	**70.00**	70.00
COPENE – Petroquímica do Nordeste S. A.	**49.48**	39.03	**33.77**	54.09
CEMAN – Centrais de Manutenção de Camaçari S. A.	**99.99**	76.19	**99.99**	99.99
Companhia Química do Recôncavo	**65.80**	61.77	**97.99**	89.36
COPESUL – Companhia Petroquímica do Sul	**51.00**	51.00	**51.00**	51.00
Petroflex Indústria e Comércio S. A.	**100.00**	100.00	**100.00**	100.00
Petrobrás Distribuidora S. A. – (BR) and its subsidiary	**99.25**	99.25	**99.71**	99.25
Participação em Empreendimentos e Transportes S.A. – PETRASA	**99.99**	99.99	**99.99**	99.99
Petrobrás Internacional S. A. – BRASPETRO	**99.99**	99.99	**99.99**	99.99
Petrobrás Comércio Internacional S. A. – INTERBRÁS and its subsidiaries	**99.99**	99.99	**99.99**	99.99
Interbrás Cayman Co.	**99.99**	99.99	**99.99**	99.99
Interbrás Seagull Trading Co.	**99.99**		**99.99**	
Petrobrás Fertilizantes S. A. – PETROFÉRTIL and its subsidiaries	**99.98**	99.97	**99.98**	99.97
Fertilizantes Nitrogenados do Nordeste S. A. – Nitrofértil NE	**69.78**	74.30	**67.74**	79.32
Ultrafértil S. A. – Indústria e Comércio de Fertilizantes	**93.49**	92.36	**93.48**	92.36
Indústria Carboquímica Catarinense S. A. – ICC	**99.91**		**99.91**	
Petrobrás Mineração S. A. – PETROMIN	**99.99**	99.99	**99.99**	99.99

Note 2 – Accounting Policies

The more significant accounting policies applied by PETROBRÁS in the preparation of the accompanying consolidated financial statements may be summarized as follows:

a) Current assets and liabilities

Assets and liabilities expected to be realized or settled in less than one year are shown as current.

b) Brazilian treasury bonds and other marketable securities

These are stated at cost plus price-level restatements and accrued interest through the year end.

c) Allowance for doubtful accounts

This is based on an estimate, on a case by case basis, of the losses which might be incurred on the collection of trade accounts receivable.

d) Inventories

Are stated at average cost of purchase or production, which does not exceed replacement cost or realizable value. Importations in transit are stated at identified cost.

Crude oil produced is recorded at cost of production when entering storage tanks.

e) Compulsory loans to and price-level adjustable securities issued by the federal power company

Are stated at cost plus accrued price-level restatements. PETROBRÁS and its subsidiaries adopt the practice of holding these securities until maturity which can either be the prefixed due date or an earlier redemption date determined by random selection.

f) Property, plant and equipment

Is stated at cost of acquisition or construction plus price-level restatements (see Note 3a). Depreciation of the restated cost is calculated on a straight-line basis and is charged to cost of production of oil and products, to cost of research and exploration or directly to income, as applicable. Depreciation rates are based on the estimated useful economic lives of the assets.

The cost of research and exploration of national oil reserves and the cost of well drilling are charged to income as incurred. The amounts received in compensation for investments made in research and exploration are used to absorb part of the cost of such activities incurred during the year (see 1 below).

The cost of research and exploration carried out abroad, which may eventually be reimbursed by the owners or concessionaires of exploration areas if commercially exploitable reserves of oil are discovered, is shown as a non-current asset, but is absorbed against the results of operations by creating a provision of a corresponding amount. The cost of research carried out in areas considered to be either non-productive or non-commercial is charged against the related provision.

g) Investments

Are stated at cost plus price-level restatements; those in affiliated companies are also adjusted using the equity method. Up to December 31, 1977, investments were stated at cost plus the nominal value of stock dividends received (see Note 3b).

h) Financing and transactions in foreign currencies

Foreign currency loans, reduced by the amount of related foreign currency deposits, are shown at the exchange rates in force on the last working day of the year; local currency loans include price-level restatements computed up to the same date in conformity with official indexes, where applicable.

Transactions in foreign currencies are recorded in cruzeiros at the rates of exchange prevailing at the time they take place. Assets and liabilities in foreign currencies, both current and non-current, are translated at the rates in force on the last working day of the year.

i) Provision for income tax

Is charged to income in the year the corresponding income is earned.

j) Federal Government credits for future capital increase

These credits represent, in the main, the remaining balance of dividends declared by PETROBRÁS up to 1975, which will be used by the Federal Government for future capital increases in accordance with current legislation.

l) Reserve for the cost of research and exploration

Based on current legislation, this reserve is created by i) resources made available by the Federal Government for investment in research and exploration and ii) credits resulting from a charge to income equal to the amount of exemptions received from the payment of several federal taxes. The reserve is to be used for investments in research and exploration or to be applied in connection with the formation and increase in capital of subsidiary companies.

m) Reserve for contingencies

This reserve is maintained to provide for law suits raised against PETROBRÁS and its subsidiaries.

n) Reserve for research and technological development

This statutory reserve is created by an appropriation from net income for the year of an amount equal to at least 0.5% of the paid-up capital at the end of the year. The reserve is used to cover costs incurred with research and technological development.

o) Profit participation

The employees' annual statutory profit participation, subject to approval by the stockholders of each company included in the consolidation, has been charged to income for the year; Cr$ 177 million of this profit participation was paid on account during 1978.

p) Proposed dividends

The amount of dividends to be distributed from 1978 income, proposed by the management of PETROBRÁS and its subsidiaries, is subject to approval by the stockholders of each company. The 1977 dividends were only recorded after approval by the stockholders.

Note 3 – Changes in Accounting Principles

As from January 1, 1978, the preparation, presentation and content of the consolidated financial statements of PETROBRÁS and its subsidiaries has followed the provisions of the new Corporation Law and related tax legislation. As regards the form of presentation, the consolidated financial statements for 1977 had already been presented on the basis of the new law. The principal changes in accounting principles in 1978 may be summarized as follows:

a) Effects of inflation

Stockholders' equity, property plant and equipment, investments and deferred charges have been restated based on the monthly increases in the value of Federal Treasury Bonds from December 31, 1977; the resulting net restatement of Cr$ 2,447 million, was credited to income.

This new method of price-level restatement, as well as restating investments, has also changed the methods previously used for:

- the price-level restatement of property, plant and equipment the net increments from which were credited to a capital reserve account;
- the calculation of the effect of inflation on working capital which was previously determined by applying official indexes to the amount of the difference between stockholders' equity and property, plant and equipment and investment accounts at the beginning of the year;
- the calculation of the inflation gain on negative working capital which was previously determined by applying official indexes to the diference between stockholders' equity and property, plant and equipment

and investment accounts at the beginning of the year and which was limited to the sum of exchange losses and price-level restatements charged to income in respect to loans raised to acquire property, plant and equipment. In 1977, the effects of inflation on negative working capital were recorded by charging capital reserves and crediting income with an amount of Cr$ 242 million.

b) Accounting for investments in affiliated companies

Investments in affiliated companies, after price-level restatement, have been accounted for using the equity method. An adjustment was made on December 31, 1978 crediting income for the year with an amount of Cr$ 244 million representing the company's share in the equity and results of operations of its affiliated companies on an accrual basis. Up to 1977, these results were recorded only to the extent that cash or stock dividends had been received. Stock dividends received arising from the price-level restatement of fixed assets or from other price-level restatements of stockholders' equity were credited to a capital reserve; those arising from earnings were credited to income.

To adapt the previous system to the new, as required by the law, the carrying value of investments in affiliated companies was increased on January 1, 1978 to reflect their net worth as at December 31, 1977, and an amount of Cr$ 528 million was credited to a revenue reserve.

c) Resources arising from the surcharges on freight levied for the renewal of the Brazilian merchant fleet

During 1978, resources of Cr$ 197 million from surcharges on freight levied for the renewal of the Brazilian merchant fleet, which were used for the construction, repair or enlargement of the capacity of the fleet, were credited to capital reserve to comply with current legislation; in prior years such resources were credited to the accumulated depreciation accounts of the ships concerned.

Also as a result of changes in legislation, during 1978 price-level restatements of Cr$ 1,652 million on loans received from the National Merchant Marine Superintendency for the construction and/or enlargement of ships, to be repaid with the proceeds of the aforementioned freight surcharges, were provided by direct charge to income. In prior years such restatements were only recorded at the time of payment when they were added to the cost of the related ships.

NOTE 4 – INVENTORIES

	1978	1977
	(Millions of cruzeiros)	
Products		
Oil products	7,925	3,778
Connected with trading activities	765	1,553
Fertilizers	1,044	325
Raw materials, mainly crude oil (including imports in transit)	17,389	14,458
	27,123	20,114
Materials and supplies		
In stock	7,300	4,471
In transit	1,254	804
Other		158
	35,677	25,547

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

	1978	1977
	(Millions of cruzeiros)	
Buildings and improvements	11,305	7,438
Equipment		
Exploration and production	9,680	6,652
Refining	34,647	22,743
Distribution of oil products	1,407	941
Transportation	30,295	20,515
Petrochemical production	19,790	6,187
Fertilizer production	4,819	1,888
Other	2,768	934
Rights and concessions	317	215
	115,028	67,513
Acumulated depreciation and amortization	50,132	30,456
	64,896	37,057
Land	2,936	1,987
Expansion projects – construction work in progress		
Exploration and production	9,586	3,885
Refining	27,859	15,599
Transportation	11,097	4,473
Petrochemical production	2,498	7,652
Fertilizer production	4,490	2,259
Other	2,701	4,341
	58,231	38,209
	126,063	77,253

Depreciation and amortization for the year amounted to Cr$ 7,017 million (1977 – Cr$4,816 million), and was charged to cost of production, to cost of research and exploration (Cr$ 6,333 million; 1977 – Cr$ 4,435 million) and directly to income (Cr$ 684 million; 1977–Cr$ 381 million).

In accordance with current legislation, part of the surcharge on freight levied for the renovation of the Brazilian merchant fleet is deposited in the name of PETROBRÁS for use in the acquisiton, enlargement or repair of its fleet of ships. The amount used during the year was Cr$197 million (1977–Cr$ 194 million) and the deposits available at December 31, 1978 for future use amounted to Cr$ 358 million (1977 – Cr$ 225 million).

Continuing its programs to increase national oil production, PETROBRÁS has signed service contracts with risk clauses with qualified companies. The contracts with risk clauses provide, in general terms, that the contracted companies will bear all of the costs incurred with exploration projects in areas where production is not considered to be commercially viable. However, if production is judged to be commercially viable, the costs incurred will be reimbursed by PETROBRÁS in the following manner: i) costs incurred during the exploration phase will be reimbursed without any additions and ii) costs incurred during the development phase will be reimbursed together with contractual interest. Further, the contracted companies will have a contractually pre-determined financial interest in the oil produced.

NOTE 6 – FINANCING FROM BANKS AND SUPPLIERS

	Current		Non-current	
	1978	1977	**1978**	1977
	(Millions of cruzeiros)			
Foreign financial institutions				
Financing subject to interest from 1% to 14% and subject to adjustments resulting from fluctuations in the Eurodollar market rates; repayable by 1992	**7,282**	2,331	**10,963**	8,312
Bearer bonds issued on the German market-interest at 7% redeemable in 1988			**2,873**	1,142
Foreign suppliers	**224**	152	**781**	460
Interest varying from 1% to 9.5% repayable by 1986				
National Economic Development Bank				
Interest varying from 1% to 7.5% together with price-level restatements capitalized periodically; repayable by 1992	**737**	303	**8,993**	5,092
National Merchant Marine Superintendency – SUNAMAM				
Interest from 6% to 8.5%; subject to adjustments resulting from currency fluctuations; repayable by 1989	**39**	38	**7,817**	3,505
Other	**1,616**	1,188	**1,937**	865
	9,898	4,012	**33,364**	19,376

The loans relate mainly to the purchase of raw materials and to the construction and enlargement of new industrial units and ships.

NOTE 7 – STOCKHOLDERS' EQUITY

a) Capital

The company's subscribed and fully-paid capital at December 31, 1978 is represented by 21,898,883,560 ordinary and 15,839,511,344 preference shares with a nominal value of Cr$ 1 each (1977 – 14,599,225,707 ordinary and 10,559,674,229 preference shares).

The preference shares do not carry any voting rights and are not convertible into ordinary shares. Ordinary shares, similarly, may not be converted into preference shares. Preference stockholders have priority in the event of a repayment of capital and in the receipt of a minimum dividend of 5%, calculated on the nominal value of their shares. The PETROBRÁS statutes (Article 7, paragraphs 3 and 4) also provide for the preference shares' participation in the annual price-level restatement of capital, in compliance with Law No. 6,404 (Articles 296 and 297) of December 15, 1976.

Stockholders are entitled to a statutory compulsory dividend of at least 25% of net income for the year, calculated in accordance with Brazilian Corporation Law (Law No. 6,404). The statutory dividend for 1978, amounted to Cr$ 4,906 million, is reflected in the consolidated financial statements and is greater than the minimum dividend provided by the statutes.

b) Reserve for the cost of research and exploration

During 1978, PETROBRÁS used Cr$ 5,389 million (1977 – Cr$ 3,380 million) of this reserve as allowed by Law to cover the cost of the investment in research and exploration.

Price Waterhouse
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(A free translation from the original opinion expressed in Portuguese on the consolidated financial statements prepared in accordance with accounting principles generally accepted in Brazil)

January 26, 1979

To the Board of Directors,
Administrative Council and Stockholders
Petróleo Brasileiro S. A. - PETROBRÁS

We have examined the consolidated balance sheets of Petróleo Brasileiro S. A. - PETROBRÁS and subsidiaries at December 31, 1978 and 1977 and the related consolidated statements of income, changes in stockholders' equity and source and application of funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Petróleo Brasileiro S. A. - PETROBRÁS and subsidiaries at December 31, 1978 and 1977 and the results of operations and source and application of funds for the years then ended in conformity with generally accepted accounting principles. These accounting principles have been applied on a consistent basis except for the changes required by modifications in the law as described in Note 3 to the consolidated financial statements.

Price Waterhouse
PRICE WATERHOUSE
Auditores Independentes
CRC-RJ-4

Arnaldo de Carvalho Leite Filho
Accountant
CRC-PA-2.045-S-RJ

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