BRAZILIAN PETROLEUM CORP
Form 6-K
May 27, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of May, 2008

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65
20031-912 - Rio de Janeiro, RJ
Federative Republic of Brazil
(Address of principal executive office)

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

Form 20-F ___X___ Form 40-F _______

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

Yes _______ No___X____

PETROBRAS ANNOUNCES RESULTS FOR THE FIRST QUARTER OF 2008

(Rio de Janeiro May 12, 2008) PETRÓLEO BRASILEIRO S.A. Petrobras announces today its consolidated results expressed in millions of Brazilian Reais, in accordance with generally accepted accounting practices in Brazil (BR GAAP).

Consolidated net income in the 1Q-2008 moved up 68% year-on-year, thanks to the decline in operating expenses and the positive first-quarter impact of the reduced appreciation of the Real on the financial result. The increase in oil and gas production and the upturn in oil and oil product prices also contributed to the improved performance.

In comparison with the 4Q-2007, consolidated net income moved up by 37%, for the same reasons mentioned above, with a greater weight towards the reduction in operating expenses and a lesser emphasis on the price aspect.

The Company s market capitalization increased by 69% year-on-year, mostly due to the oil and gas discoveries in the pre-salt layer, the new exploratory frontier, and potential production growth.

EBITDA climbed 26% year-on-year, largely due to reduced expenses, especially those related to taxes and the pension plan. In comparison with the 4Q-2007, EBITDA moved up 15%, largely thanks to lower exploration costs (dry wells), reduced general and administrative expenses and the non-occurrence of tax losses and losses from the recovery of assets.

The strong operating result and high cash flow in the 1Q-2008 allowed for substantial period investments as well as the payment of R$ 4.07 billion in interest on equity.

Average oil and gas production edged up 2% year-on-year due to the start-up of the FPSO-Cidade do Rio de Janeiro (Espadarte), Piranema (Piranema), Cidade de Vitória (Golfinho), P-52 (Roncador) and P-54 (Roncador) platforms. It is especially worth highlighting domestic natural gas output, which increased by 11% year-on-year and 10% quarter-over-quarter.

Due to delays associated with the availability of offshore support vessels in the 1Q-2008, oil production was not as high as originally expected and output from the P-52 and P-54 platforms will only reach maximum level in the second half of the year. In addition, difficulties related to maintaining pressure in the Golfinho reservoir hampered production from this field.

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SISTEMA PETROBRAS

The Petrobras System s investments in the 1Q-2008 moved up 23% year-on-year but fell 31% over the previous quarter.

The Petrobras System s added value was 15% higher than in the 1Q-2007 and 10% more than in the 4Q-2007.

Statement by the CEO, José Sergio Gabrielli de Azevedo.

It gives us enormous satisfaction to be presenting the Company s outstanding results for the first quarter of 2008, when we recorded a net income of R$ 6,925 million, 68% up year-on-year and one of the best first-quarter results in our history.

In the opening months of 2008, we gathered and published new data on the discoveries in the pre-salt layer of the Santos Basin. In January, we announced the confirmation of a major natural gas and condensate deposit in the Júpiter area of the BM-S-24 block. The well is 37 km east of Tupi and the reservoir is at a depth of around 5,100 meters.

Short-term swings in oil prices have a direct impact on the price of oil products, primarily by hitting the cost of refining inputs, although their pass-through to oil products depends on the specific conditions of each market and the behavior of the exchange rate. Last quarter, we were faced with a combination of an accelerated upturn in the price of crude oil, relatively stable national production and only a slight appreciation of the Real against the dollar, all of which squeezed refining margins.

In order to ensure the profitability of our Supply business, we have to make massive investments in conversion capacity, given that the vast majority of our domestic oil output consists of heavy crude. Huge investments in the E&P segment are equally necessary, as we try to take the maximum possible advantage of the favorable oil price scenario, monetizing current reserves and future discoveries. Both investments (E&P and Supply) jeopardize short-term cash flow, while their returns, given the lengthy maturation period of oil industry projects, will only become apparent in the future, therefore generating a temporary cash-flow mismatch. Thus the Company s pricing policy, which seeks alignment in the medium to long term, has two main objectives: protecting the market from excessive short-term volatility and at the same time ensuring sufficient financing capacity for the investments needed to develop its business.

In May, in line with our policy of aligning prices with the international market in the medium to long-term, we adjusted our Brazilian refinery-gate gasoline and diesel prices. The process was handled with the utmost transparency and considered not only the commercial and economic aspects, but also the relative weight of our activities in Brazil s economy and the impact the adjustments could have.

In the coming months, Petrobras will continue to focus on this promising region, assessing the potential of the existing pre-salt reserves. With this in mind, the Board of Directors created an exclusive department, directly subordinate to the E&P division executive, to take charge of all matters related to the pre-salt discoveries. Its main responsibility will be to coordinate the ongoing evaluation plans as well as to implant the long duration test (LDT) and initiate pilot production in Tupi, initially scheduled for 2009 and 2010 respectively.

We also expanded our international operations. In Peru, in association with other oil companies, we discovered a gas reservoir in Block 57, in Cuzco province. In the American section of the Mexican Gulf, we picked up 22 deep-water and ultra-deep-water blocks at the auction organized by the Minerals Management Service, the US offshore mineral resources regulator. As a result of these new concessions, there are now 221 exploratory blocks in the region, 157 of which operated by Petrobras.

We also signed an agreement with PDVSA, the Venezuelan state-owned oil company, establishing the groundwork for a joint venture in the Abreu e Lima Refinery, in Pernambuco, whose investments are estimated at US$ 4.05 billion. The refinery will be capable of processing 200,000 barrels of heavy crude per day. Petrobras will own 60% of the undertaking and PDVSA 40%. The refinery will play a key role in expanding our domestic production of diesel, the country s most widely-consumed oil product. Start-up is scheduled for the second half of 2010.

In the petrochemical area, we continued to consolidate our holdings in Brazil. In February, Ultrapar transferred the Ipiranga companies petrochemical assets to Petrobras. In the following month, the AGM approved the incorporation of UPB Participações S.A., a wholly-owned Petrobras subsidiary.

The same meeting also approved a 1:2 split of the Company s shares and ADRs. Following the split, each ADR was still equivalent to two shares.

Fully committed to expanding its share of biofuels, Petrobras announced the creation of a wholly-owned subsidiary to concentrate all activities related to the subject, which are currently dispersed through several Company areas and subsidiaries. The new firm will handle ethanol production, the acquisition of inputs and the processing of biodiesel, as well as administering future investments.

I cannot end without mentioning Brazil s upgrading to investment grade status by the ratings agency Standard & Poor s. This promotion means that international investors will be regarding the country in a considerably more favorable light, thanks to the lower risk associated with prospects of greater stability and predictability and Brazilian companies should benefit from new stock and bond acquisitions by foreign investors. In the case of Petrobras itself, the new climate will almost certainly make it easier to finance our operations.

Finally, I would like to reiterate our determination and technical capacity to overcome any challenges that may present themselves, maintaining our focus on profitability and social and environmental responsibility.

PETROBRAS SYSTEM Financial Performance

Net Income and Consolidated Economic Indicators

Petrobras posted a consolidated net income of R$ 6,925 million in 2007, 68% higher than in the 1Q-2007.

R$ million				
		First Quarter		
4Q - 2007		**2008**	**2007**	**Δ %**
57,922	**Gross Operating Revenues**	**59,158**	**50,127**	18
45,417	**Net Operating Revenues**	**46,892**	**38,894**	21
9,199	**Operating Profit** [(1)]	**11,344**	**8,567**	32
(859)	**Financial Result**	**(400)**	**(935)**	(57)
5,053	**Net Income**	**6,925**	**4,131**	68
1.15	**Net Income per Share**	**1.58**	**0.94**	68
429,923	**Market Value (Parent Company)**	**364,372**	**215,666**	69
36	**Gross Margin (%)**	**37**	**39**	(2)
18	**Operating Margin (%)**	**23**	**19**	4
11	**Net Margin (%)**	**15**	**11**	4
12,041	**EBITDA R$ million** [(2)]	**13,876**	**10,978**	26
	Financial and Economic Indicators			
88.69	**Brent (US$/bbl)**	**96.90**	**57.75**	68
1.7830	**US Dollar Average Price - Sale (R$)**	**1.7388**	**2.1082**	(18)
1.7713	**US Dollar Last Price - Sale (R$)**	**1.7491**	**2.0504**	(15)

(1) Operating income before financial result, equity balance and taxes.
(2) Operating income before financial result, equity balance and depreciation/amortization.

		First Quarter		
4Q-2007		**2008**	**2007**	**Δ %**
8,049	Operating Income as per Brazilian Corporate Law	**10,956**	**7,548**	45
859	(-) Financial Result	400	935	(57)
291	(-) Equity Income Result	(12)	84	(114)
9,199	**Operating Profit**	**11,344**	**8,567**	32
2,842	Depreciation / Amortization	2,532	2,411	5
12,041	**EBITDA**	**13,876**	**10,978**	26

27	**EBITDA Margin (%)**	**30**	**28**	7
				5

The behavior of the main components of consolidated net income, in relation to the 1Q-2007, was as follows:

- **A R$ 2,051 million increase in gross profit:**

Main Items		R$ million Changes 1Q-2008 X 1Q-2007		
		Net Revenues	Cost of Goods Sold	Gross Profit
. Domestic Market:	- Effect of Volumes Sold	1,822	(1,249)	573
	- Effect of Prices	2,967	-	2,967
. Intl. Market:	- Effect of Export Volumes	(532)	242	(290)
	- Effect of Export Price	2,142	-	2,142
. Increase in expenses: (*)		-	(4,246)	(4,246)
. Increase in Profitability of Distribution Segment		(1)	128	127
. Increase in operations of commercialization abroad		2,093	(1,673)	420
. Increase in international sales		486	(310)	176
. FX effect on controlled companies abroad		(761)	648	(113)
. Other		(218)	513	295
		7,998	(5,947)	2,051

(*) Expenses Composition:	Value
- import of gas, crude oil and oil products and gas [1]	(2,415)
- domestic government take	(837)
- non-oil products, including alcohol, biodiesel and other	(117)
- materials, services and depreciation	(702)
- transportation: maritime and pipelines[2]	(125)
- salaries, perquisites and benefits	(42)
- third-party services	(8)
	(4,246)

(1) CIF Values.
(2) Expenditures on cabotage, terminals and pipelines.

A R$ 726 million reduction in operating expenses, notably:

- Tax expenses (R$ 150 million), due to the elimination of the CPMF financial transaction tax as of January/08.

- Other operating expenses (R$ 741 million), especially from the amendments to the Petros Plan in the 1Q-2007 (R$ 1,040 million), partially offset by higher expenses with contractual fines related to natural gas and electricity supply (R$ 253 million);

These effects were offset by the increase in selling expenses (R$ 177 million), due to higher freight expenses caused by the upturn in sales volume and the increase in average distribution and offshore freight costs (R$ 40 million and R$ 39 million, respectively) plus the increase in provisions for doubtful debts.

- **A positive impact of R$ 535 million on the net financial result, due to the impact of the lower appreciation of the Real in 2008 on subsidiaries investments abroad and, in the International segment, on the purchase of E&P equipment for use in Brazil, and commercial activities.**

Net income in the 1Q-2008 totaled R$ 6,925 million, 37% up on the R$ 5,053 million posted in the 4Q-2007 due to the factors listed below:

- **R$ 790 million growth in gross profit:**

Main Items		R$ million Change 1Q-2008 x 4Q-2007 Net Revenues	Cost of Goods Sold	Gross Profit
. Domestic Market:	- Effect of Volumes Sold	(1,168)	862	(306)
	- Effect of Prices	1,345	-	1,345
. Intl. Market:	- Effect of Export Volumes	(1,177)	1,021	(156)
	- Effect of Export Price	172	-	172
. Increase in expenses: (*)		-	(789)	(789)
. Increase in Profitability of Distribution Segment		(78)	(175)	(253)
. Increase in operations of commercialization abroad		1,021	-	149
. Increase in international sales		(1,216)	1,213	(3)
. FX effect on controlled companies abroad		1,103	(1,014)	89
. Other		1,473	(931)	542
		1,475	(685)	790

(*) Expenses Composition:	Value
- domestic government take	(109)
- import of gas, crude oil and oil products [1]	(74)
- non-oil products, including alcohol, biodiesel and other	12
- materials, services and depreciation	(597)
- transportation: maritime and pipelines[2]	(146)
- third-party services	21
- salaries, perquisites and benefits	104
	(789)

(1) CIF values.
(2) Expenditures on cabotage, terminals and pipelines.

- **A reduction in the following operating expenses:**

- General and administrative expenses (R$ 265 million), due to reduced expenses from technical services and higher personnel expenses in the 4Q-2007 as a result of payments related to retroactive promotions as part of the 2007/08 collective bargaining agreement;

- Exploration costs (R$ 385 million), due to lower exploration expenses, both in Brazil (R$ 129 million) and abroad (R$ 461 million), offset by the December/07 recalculation of provisions for well abandonment (R$ 292 million);

- Losses from the recovery of assets (R$ 446 million), due to the provisions constituted abroad in the 4Q- 2007;

- Tax expenses (R$ 156 million), due to the elimination of the CPMF as of January/08 (R$ 179 million), partially offset by expenses from the IOF financial operation tax due to the increase in the rate in the same month (R$ 34 million).

- **A positive impact of R$ 459 million on the net financial result due to monetary and exchange gains (R$ 454 million) caused by the lower appreciation of the Real in the 1Q-2008, coupled with a reduction in net financial and commercial hedge losses (R$ 287 million) and higher gains from financial investments (R$ 28 million);**

- **Interests in relevant investments (R$ 303 million), due to the constitution of provisions for losses from investments in Venezuela in the 4Q-2007 (R$ 119 million) and exchange gains from the conversion of foreign subsidiaries shareholders equity (R$ 128 million).**

- **Increase in income tax and social contributions (R$ 1.613 million), due to the tax benefits of interest on equity in the 4Q-2007 (R$ 671 million).**

PETROBRAS SYSTEM Operating Performance

Physical Indicators (*)

4Q-2007		First Quarter 2008	First Quarter 2007	Δ %
	Exploration & Production - Thousand bpd/day			
	Domestic Production			
1,782	Oil and LNG	1,816	1,800	1
277	Natural Gas [1]	304	274	11
2,059	**Total**	**2,120**	**2,074**	2
	Consolidated - International Production			
111	Oil and LNG	108	111	(3)
101	Natural Gas [1]	103	103	-
212	**Total**	**211**	**214**	(1)
14	**Non Consolidated - Internacional Production** [2]	**14**	**17**	(18)
226	**Total International Production**	**225**	**231**	(3)
2,285	**Total production**	**2,345**	**2,305**	2

(1)Does not include liquified gas and includes re-injected gas
(2)Non consolidated companies in Venezuela.

4Q-2007		First Quarter 2008	First Quarter 2007	Δ %
	Refining, Transport and Supply - Thousand bpd			
400	**Crude oil imports**	351	340	3
136	**Oil products imports**	228	97	135
536	**Import of crude oil and oil products**	579	437	32
322	**Crude oil exports**	314	377	(17)
253	**Oil products exports**	258	247	5
575	**Export of crude oil and oil products** [3]	572	624	(8)
39	**Net exports (imports) crude oil and oil products**	**(7)**	**187**	**(104)**
199	**Import of gas and others**	194	146	33
[3] 2	**Other exports**	2[3]	1	100
2,033	**Output of oil products**	**1,892**	**2,041**	(7)
1,795	**Brazil**	1,776	1,781	-
238	**International**	116	260	(55)
2,167	**Primary Processed Installed Capacity**	**2,167**	**2,227**	(3)

1,986	**Brazil**[4]	1,986	1,986	-
181	**International**	181	241	(25)
	Use of Installed Capacity (%)			
90	**Brazil**	89	90	1
93	**International**	60	85	(25)
78	**Domestic crude as % of total feedstock processed**	79	77	2

(3) Volumes of oil and oil products exports include ongoing exports
(4) As per ownership recognized by the ANP

Sales Volume - Thousand bpd

1,776	**Total Oil Products**	**1,703**	**1,646**	3
81	Alcohol, Nitrogens, Biodiesel and others	76	53	43
272	Natural Gas	302	226	34
2,129	**Total domestic market**	**2,081**	**1,925**	8
577	**Exports**	**574**	**625**	(8)
480	**International Sales**	**557**	**655**	(15)
1,057	**Total international market**	**1,131**	**1,280**	(12)
3,186	**Total**	**3,212**	**3,205**	-

(*) Não revisado.

Prices and Costs Indicators (*)

4Q-2007		First Quarter 2008	2007	Δ %
Average Oil Products Realization Prices				
158.98	**Domestic Market (R$/bbl)**	163.07	150.97	8
Average sales price - US$ per bbl				
	Brazil			
76.75	**Crude Oil (US$/bbl)**(5)	86.13	47.79	80
34.67	**Natural Gas (US$/bbl)** (6)	37.16	32.71	14
	International			
59.42	**Crude Oil (US$/bbl)**	62.23	42.41	47
17.45	**Natural Gas (US$/bbl)**	16.98	14.48	17

(5) Average of the exports and the internal transfer prices from E&P to Supply.
(6) Internal transfer prices from E&P to Gas & Energy.

4Q-2007		First Quarter 2008	2007	Δ %
Costs - US$/barrel				
	Lifting cost:			
	Brazil			
8.60	**without government participation**	8.66	7.20	20
23.16	**with government participation**	24.82	16.24	53
4.41	**International**	4.32	3.89	11
	Refining cost			
3.60	**Brazil**	3.61	2.54	42
3.04	**International**	6.16	2.42	155
794	**Corporate Overhead (US$ million) Holding Company** (7)	648	531	22
Costs - R$/barrel				
	Lifting cost			
	Brazil			
15.22	**without government participation**	15.16	15.20	-
40.98	**with government participation**	43.20	34.12	27
	Refining cost			
6.36	**Brazil**	6.30	5.36	18

(7) The company, in order to achieve higher indicators aderence to it managerial and operational models, revised the definitions of these indicators, recalculating previous period, as already informed at the 12.31.2007 Report.

(*) Não revisado.

Exploration and Production - thousand barrels/day

The operational start-up of the FPSO-Cidade do Rio de Janeiro (Espadarte), Piranema (Piranema), Cidade de Vitória (Golfinho), P-52 and P-54 (Roncador) platforms offset the natural decline in production.

Output moved up over the 4Q-2007, due to the startup of FPSO Cidade de Vitória (Golfinho), P-52 and P-54 (both in Roncador), more than offsetting the natural slide in output.

Consolidated oil production fell year-on-year due to the natural decline in the mature fields in Argentina. Gas output remained virtually flat over the 1Q-2007.

The consolidated reduction in oil production over the previous quarter was also due to the natural decline in the mature fields in Argentina. Consolidated gas production moved up 2%, given the oil workers strike that reduced output from the Santa Cruz I e II wells in Argentina in the 4Q-2007.

Refining, Transportation and Supply   thousand barrels/day

Domestic processed crude volume dipped by 0.3% over the 1Q-2007 due to the March /08 programmed maintenance stoppage of Replan s U-200A, one of Petrobras biggest atmospheric distillation units. Its last scheduled maintenance shut-down was in 2003.

Domestic processed crude edged down by 1% over the 4Q-2007, also due to the programmed maintenance stoppage of Replan s distillation unit in March/08.

Processed crude in the overseas refineries fell 36% year-on-year in the 1Q-2008 due to the sale of the Bolivian refineries in June/07 and the stoppages in the Argentinean and US refineries in the 1Q-2008.

In relation to the previous quarter, total processed throughput in the overseas refineries dropped by 26%, due to the 1Q-2008 scheduled stoppages in the USA and Argentina.

Costs

Lifting Cost (US$/barrel)

Excluding the impact of the appreciation of the Real, the annual unit lifting cost in Brazil climbed by 8% year-on-year, due to the wage increase, the expansion of the workforce and the higher initial unit cost of the new production systems, which will gradually come down as production moves up.

Also excluding the impact of the appreciation of the Real, the unit lifting cost inched down by 1% over the 4Q-2007 due to the wage hike in the latter quarter, partially offset by higher expenditure in the 1Q-2008 on corrective and preventive maintenance and the programmed stoppages of the P-20 and PPM-1 platforms.

The year-on-year upturn in the first-quarter lifting cost was due to higher extraction costs, the impact of the increase in international oil prices on government participations, and the operational start-up of the P-34, FPSO-Cidade do Rio de Janeiro, FPSO-Cidade de Vitória, P-52 and P-54 platforms.

The increase over the 4Q-2007 was due to the upturn in the average Brazilian oil price used to calculate the government participations, based on the international price.

The year-on-year increase in the international lifting cost was caused by the higher price of outsourced services and materials in Argentina.

In comparison with the 4Q-2007, the unit lifting cost recorded a decline due to the reduction in expenses from outsourced services in Argentina caused by the lower number of well repairs in the first quarter.

Refining Costs (US$/barrel)

Excluding the impact of the appreciation of the Real, the domestic unit refining cost moved up 21% year-on-year due to increased operating expenses, reflecting the wage increase, the expansion of the workforce, the electricity tariff hike and the heightened complexity of the refineries as they adapt to environmental and market demands for higher quality products.

Also excluding the impact of the appreciation of the Real, the domestic unit refining cost fell 2% over the 4Q-2007 due to reduced expenses from outsourced maintenance services.

The average international unit refining cost moved up due to higher costs in the USA caused by the programmed stoppage in the Pasadena refinery, associated with the first-quarter slide in processed crude.

The average international unit refining cost recorded an upturn over the 4Q-2007 due to scheduled stoppages in the USA and Argentina and the lower volume of processed crude in the first quarter.

Corporate Overhead Parent Company (US$ million)

The 22% year-on-year increase in corporate overhead was due to the increasing complexity of the Company s operations. If we exclude the impact of the 18% appreciation of the Real, overhead moved up 4% due to higher expenses from data processing services, specialized technical and administrative-support services, advertising and unsubsidized sponsorships.

The 18% reduction over the 4Q-2007 was chiefly due to the actuarial review of the retirement plan and the healthcare provisions in January/08, and the higher concentration of expenses related to sports and arts sponsorships in the 4Q-2007, including those associated with the Rouanet Law and donations to the FIA (Children and Teenagers Fund).

Sales Volume thousand barrels/day

Domestic sales volume moved up 8.10% over the 1Q-2007, led by diesel, aviation fuel and natural gas. The diesel increase was due to the improved performance of the economy and the increased use of emergency diesel-driven thermal plants, while aviation fuel sales were pushed by the expansion of tourism, leveraged by economic growth and the appreciation of the Real against the dollar. Gas sales increased by 33.62% due to higher industrial consumption as gas replaced fuel oil.

International volume fell 14.96% year-on-year due to lower trading company sales in the USA, the sale of the Bolivian refineries, and the reduction in oil and gas sales volume in Bolivia and to third parties in Argentina, caused by the natural decline in output from the mature fields, and in Ecuador, due to the lack of production and sales in March/08.

Export volume fell due to the shrinkage of the US market triggered by the economic crisis.

Domestic sales volume recorded a 2.25% slide over the 4Q-2007 due to the seasonal slowdown in diesel consumption, given the more intense agricultural activity in the final quarter of the year.

Result by Business Area R$ million [1] [3]

		First Quarter		
4Q-2007		**2008**	**2007**	**Δ %**
8,072	**EXPLORATION & PRODUCTION**	**9,430**	**5,083**	86
301	**SUPPLY**	**(566)**	**2,126**	(127)
(486)	**GAS AND ENERGY**	**(396)**	**(316)**	25
105	**DISTRIBUTION**	**313**	**189**	66
(940)	**INTERNATIONAL [2]**	**50**	**(261)**	(119)
(1,363)	**CORPORATE**	**(1,443)**	**(2,580)**	(44)
(636)	**ELIMINATIONS AND ADJUSTMENTS**	**(463)**	**(110)**	321
5,053	**CONSOLIDATED NET INCOME**	**6,925**	**4,131**	68

[1] Comments on the results by business area begin on page 18 and their respective financial statements on page 28.

[2] In the international business segment, given that all operations are executed abroad, comparisons between the periods are influenced by foreign exchange variations in dollars or in the currency of those countries in which the companies in question are headquartered. As a result, there may be substantial variations in Reais, primarily arising from and reflecting changes in the exchange rate.

[3] Expenses from the creation of new jobs by Petrobras are now allocated in accordance with each employee s area of activity and are no longer allocated in their entirety to corporate administrative expenses. In order to facilitate comparisons between the periods, we have adapted the previous financial statements to the new criteria.

RESULTS BY BUSINESS AREA

Petrobras is a company that operates in an integrated manner, with the greater part of oil and gas production in the Exploration and Production area being sold or transferred to other Company areas.

The main criteria used to report results per business area are as follows:

a) Net operating revenues: revenues from sales to external clients, plus intra-Company sales and transfers, using internal transfer prices established between the various areas as a benchmark, with assessment methodologies based on market parameters;

b) Operating income: net operating revenues, plus the cost of goods and services sold, which are reported per business area considering the internal transfer price and other operating costs for each area, plus the operating expenses effectively incurred by each area;

c) The entire financial result is allocated to the corporate group;

d) Assets: refers to the assets as identified by each area. Equity accounts of a financial nature are allocated to the corporate group.

Annual net income from Exploration and Production increased by 86% over the 1Q-2008 due to the increase in average domestic oil prices and the 1% upturn in daily oil and NGL production

Part of these effects were offset by higher expenses from government participations and the write-off of economically unviable wells.

The spread between the average domestic oil sale/transfer price and the average Brent price widened from US$ 9.96/bbl in the 1Q-2007 to US$ 10.77/bbl in the 1Q-2008

In comparison with the 4Q-2007, net income moved up 17% due to higher average domestic oil prices and the 2% increase in daily oil and NGL production, partially offset by higher prospecting expenses.

The spread between the average domestic oil sale/transfer price and the average Brent price fell from US$ 11.94/bbl in the 4Q-2007 to US$ 10.77/bbl in the 1Q-2008.

The reduction in the Supply result in the 1Q-2008 was due to the higher oil sale/transfer costs and the increase in oil product import costs, reflecting the behavior of international prices.

These effects were partially offset by the upturn in oil product prices in Brazil and abroad and the higher ratio of Brazilian crude in total processed crude.

The reduction over the 4Q-2007 was chiefly due to the increase in international oil prices and the seasonal reduction in sales volume.

These effects were partially offset by higher average oil product sale prices, and the sale, in the 1Q-2008, of inventories acquired at a lower cost in the previous quarter.

The first-quarter Gas and Energy result was reduced by R$ 253 million in contractual charges related to natural gas supply and tighter margins in the electricity business.

These effects were partially offset by the upturn in electricity and gas sales volume and higher average gas prices.

The 1Q-2008 result benefited from higher gas and electricity sales margins and the reduction in SG&A expenses.

These effects were partially offset by the increase in fines and contractual charges related to gas supply.

Net income from Distribution jumped by 66% year-on-year in the 1Q-2008, primarily due to the reduction in tax expenses due to the elimination of the tax CPMF and the ongoing efforts to reduce SG&A expenses, which only moved up by 6%, versus the 15% increase in sales volume.

The segment recorded a 35.9% share of the national fuel distribution market, versus 33.6% in the 1Q-2007.

Net income jumped by 198% over the previous quarter due to the recognition, in the 4Q-2007, of higher operating expenses, chiefly due to a review of the amounts involved in judicial proceedings, and the impact of the new jobs and salaries plan following the collective bargaining agreement.

These effects were partially offset by the seasonal reduction in sales volume.

The segment recorded a 35.9% share of the national fuel distribution market, versus 34.6% in the 4Q-2007.

The improvement in the International result in the 1Q-2008 was due to a R$ 67 million increase in gross profit, due to higher prices and the R$ 292 million reduction in prospection and drilling costs in Turkey, Angola, USA, Libya and Venezuela.

The quarter-over-quarter improvement was chiefly due to the R$ 538 million reduction in prospection and drilling costs, in turn mainly the result of lower write-offs of dry wells in the USA and Colombia, and R$ 401 million in impairment costs in Ecuador, USA and Angola in the 4Q-2007

The higher Corporate result in comparison with the 1Q-2007 was due to:

The R$ 535 million reduction in net financial expenses, as detailed on page 7;

The R$ 632 million reduction in expenses from the amendments to the Petros Plan regulations;

The R$ 74 million reduction in tax expenses due to the extinction of the tax CPMF:

The quarter-over-quarter variation was due to the reduction in income tax and social contribution expenses, thanks to the provisioning of interest on equity in the 4Q-2007, which generated a fiscal benefit of R$ 671 million.

This was partially offset by the R$ 459 million reduction in net financial expenses, as detailed on page 9.

Consolidated Debt

	R$ million		
	03.31.2008	**12.31.2007**	**Δ %**
Short-term Debt (1)	7,639	8,960	(15)
Long-term Debt (1)	35,674	30,781	16
Total	43,313	39,741	9
Cash / Cash Equivalents	11,560	13,071	(12)
Net Debt (2)	31,753	26,670	19
Net Debt/(Net Debt + Shareholder's Equity) (1)	21%	19%	2
Total Net Liabilities (1) (3)	229,746	219,590	5
Capital Structure			
(Third Parties Net / Total Liabilities Net)	47%	48%	(1)

(1) Includes debt from leasing contracts (R$ 1,429 million on March 31, 2008 and R$ 1,433 million on December 31, 2007).
(2) Total debt less cash and cash equivalents.
(3) Total liabilities net of cash/financial investments.

The net debt of the Petrobras System on March 31, 2008, was 19% higher than the amount recorded on December 31, 2007, due to the increase in financings, particularly from credit lines taken out to boost ethanol exports, and the raising of PifCo funds through sa Globall Note issue, as well as a reduction in cash and cash equivalents due to the payment of interest on equity.

The level of indebtedness, measured by the net debt/EBITDA ratio, increased from 0.53, on December 31, 2007, to 0.57 on March 31, 2008. The portion of the capital structure represented by third parties was 47%, 1 percentage point up on December 31, 2007.

Consolidated Investments

In compliance with the goals outlined in its strategic plan, Petrobras continues to prioritize investments in the expansion of its oil and natural gas production capacity by investing its own funds and by structuring ventures with strategic partners. On March 31, 2008, total investments amounted to R$ 10,197 million, 23% up on the total on March 31, 2007.

R$ million					
	First Quarter				
	2008	%	2007	%	Δ %
Own Investments	**8,430**	**83**	**7,385**	**88**	**14**
Exploration & Production	4,692	46	3,986	48	18
Supply	1,790	18	1,040	12	72
Gas and Energy	359	3	197	2	82
International	1,335	13	1,922	23	(31)
Distribution	95	1	107	1	(11)
Corporate	159	2	133	2	20
Special Purpose Companies (SPCs)	**1,448**	**14**	**861**	**11**	**68**
Ventures under Negotiation	**319**	**3**	**54**	**1**	**491**
Structured Projects	**-**	**-**	**-**	**-**	**-**
Total Investments	**10,197**	**100**	**8,300**	**100**	**23**

R$ million					
	First Quarter				
	2008	%	2007	%	Δ %
International					
Exploration & Production	1,138	85	1,737	90	(34)
Supply	100	7	88	5	14
Gas and Energy	42	3	49	2	(14)
Distribution	3	-	15	1	(80)
Other	52	5	33	2	58
Total Investments	**1,335**	**100**	**1,922**	**100**	**(31)**

R$ million					
	First Quarter				
	2008	%	2007	%	Δ %
Projects Developed by SPCs					
Gasene	614	42	69	8	790
CDMPI	226	16	37	4	511
PDET Off Shore	155	11	77	9	101
Codajás	142	10	-	-	-
Mexilhão	121	8	90	11	34
Marlim Leste	98	7	285	33	(66)

Malhas	92	6	199	23	(54)
Amazônia	-	-	104	12	(100)
Total Investments	**1,448**	**100**	**861**	**100**	**68**

In line with its strategic objectives, Petrobras acts in consortiums with other companies as a concessionaire of oil and natural gas exploration, development and production rights. Currently the Company is a member of 93 consortiums. These ventures will require total investments of around US$ 10,459 million by the end of the current year.

PETROBRAS SYSTEM Financial Statements

Income Statement Consolidated

R$ million			
		First Quarter	
4Q-2007		**2008**	**2007**
57,922	**Gross Operating Revenues**	59,158	50,127
(12,505)	Sales Deductions	(12,266)	(11,233)
45,417	**Net Operating Revenues**	46,892	38,894
(28,954)		(29,639)	(23,692)
16,463	**Gross profit**	17,253	15,202
	Operating Expenses		
(1,567)	Sales	(1,592)	(1,415)
(1,830)	General and Administratives	(1,565)	(1,545)
(1,070)	Cost of Prospecting, Drilling & Lifting	(685)	(655)
(446)	Losses on recovery of assets	-	-
(492)	Research & Development	(417)	(382)
(305)	Taxes	(149)	(299)
(442)	Pension and Health Plan	(356)	(453)
(1,112)	Other	(1,145)	(1,886)
7,264		(5,909)	(6,635)
	Net Financial Expenses		
806	Income	705	684
(920)	Expenses	(814)	(883)
(1,603)	Monetary & FX Correction - Assets	(211)	(1,870)
858	Monetary & FX Correction - Liabilities	(80)	1,134
(859)		(400)	(935)
(8,123)		(6,309)	(7,570)
(291)	Gains from Investments in Subsidiaries	12	(84)
8,049	**Operating Profit**	10,956	7,548
(350)	Non-operating Income (Expenses)	(12)	27
(2,358)	Income Tax & Social Contribution	(3,971)	(2,968)
(288)	Minority Interest	(48)	(476)
5,053	**Net Income**	**6,925**	**4,131**

Certain figures relating to previous periods have been reclassified to bring them into line with the current financial statements, thereby facilitating comparisons.

Balance Sheet Consolidated

Assets	R$ million	
	03.31.2008	**12.31.2007**
Assets	**55,298**	**53,374**
Cash and Cash Equivalents	11,560	13,071
Accounts Receivable	12,946	11,329
Inventories	19,395	17,599
Marketable Securities	268	590
Taxes Recoverable	8,169	7,782
Other	2,960	3,003
Non Current Assets	**184,578**	**177,854**
Long-term Assets	**21,260**	**22,023**
Petroleum & Alcohol Account	799	798
Advances to Suppliers	421	397
Marketable Securities	3,730	3,922
Deferred Taxes and Social Contribution	8,180	8,333
Advance for Pension Plan Migration	1,336	1,297
Prepaid Expenses	1,480	1,514
Accounts Receivable	2,529	2,902
Deposits - Legal Matters	1,728	1,693
Other	1,057	1,167
Investments	**7,841**	**7,822**
Fixed Assets	**146,983**	**139,941**
Intangible	**5,737**	**5,532**
Deferred	**2,757**	**2,536**
Total Assets	**239,876**	**231,228**

Liabilities	R$ million	
	03.31.2008	**12.31.2007**
Current Liabilities	**42,338**	**47,555**
Short-term Debt	7,199	8,501
Suppliers	14,609	13,791
Taxes and Social Contribution Payable	10,207	10,006
Project Finance and Joint Ventures	147	41
Pension Fund Obligations	880	880
Dividends	2,091	6,581
Salaries, Benefits and Charges	1,669	1,689
Other	5,536	6,066
Non Current Liabilities	**68,729**	**62,121**
Long-term Debt	34,685	29,807

Pension and Health Plan Obligations	4,565	4,520
Health Care Benefits	9,558	9,272
Deferred Taxes and Social Contribution	11,573	10,353
Other	8,348	8,169
Deferred Income	**1,734**	**1,392**
Minority interest	**6,240**	**6,306**
Shareholders Equity	**120,835**	**113,854**
Capital Stock	52,644	52,644
Reserves	61,266	61,210
Net Income	6,925	-
Total Liabilities	**239,876**	**231,228**

Certain figures relating to previous periods have been reclassified to bring them into line with the current financial statements, thereby facilitating comparisons.

Statement of Cash Flow - Consolidated

R$ million			
		First Quarter	
4Q-2007		2008	2007
5,053	**Net Income**	**6,925**	**4,131**
6,303	(+) Adjustments	2,846	3,562
2,842	Depreciation & Amortization	2,532	2,411
(211)	Charges on Financing and Connected Companies	714	(676)
288	Minority interest	48	476
291	Result of Participation in Material Investments	(12)	84
1,326	Foreign Exchange on Fixed Assets	485	1,749
(25)	Deferred Income Tax and Social Contribution	737	106
(88)	Inventory Variation	(1,796)	876
1,741	Supplier Variation	822	(1,895)
552	Pension and Health Plan Variation	330	548
(413)	Other	(1,014)	(117)
11,356	**(=) Net Cash Generated by Operating Activities**	**9,771**	**7,693**
(13,916)	**(-) Cash used for Cap.Expend.**	**(10,070)**	**(8,151)**
(5,348)	Investment in E&P	(5,341)	(4,364)
(4,411)	Investment in Refining & Transport	(2,380)	(1,102)
(2,014)	Investment in Gas and Energy	(1,436)	(704)
(559)	Investment in Distribution	(82)	(104)
(1,327)	Investment in International Segment	(1,197)	(1,526)
(139)	Marketable Securities	514	(200)
(12)	Dividends	37	86
(106)	Other investments	(185)	(237)
(2,560)	**(=) Free cash flow**	**(299)**	**(458)**
1,415	**(-) Cash used in Financing Activities**	**(1,212)**	**(6,908)**
1,417	Financing	2,862	(1,035)
(2)	Dividends	(4,074)	(5,873)
(1,145)	**(=) Net cash generated in the period**	**(1,511)**	**(7,366)**
14,216	Cash at the Beginning of Period	13,071	27,829
13,071	Cash at the End of Period	11,560	20,463

Certain figures relating to previous periods have been reclassified to bring them into line with the current financial statements, thereby facilitating comparisons.

Statement of Value Added Consolidated

	R$ million	
	First Quarter	
	2008	2007
Description		
Sales of Products and Services and Non-Operating Revenues*	59,610	50,687
Raw Materials Used	(6,966)	(5,576)
Products for Resale	(13,453)	(7,949)
Materials, Energy, Services & Other	(4,891)	(7,124)
Added Value Generated	**34,300**	**30,038**
Depreciation & Amortization	(2,532)	(2,411)
Participation in Equity Income, Goodwill & Negative Goodwill	12	(84)
Financial Result	705	669
Rent and Royalties	149	126
Total Distributable Added Value	**32,634**	**28,338**
Distribution of Added Value		
Personnel		
Salaries, Benefits and Charges	2,656	3,569
	2,656	**3,569**
Government Entities		
Taxes, Fees and Contributions	14,857	13,170
Government Take	5,003	3,468
	19,860	**16,638**
Financial Institutions and Suppliers		
Interest, FX Rate and Monetary Changes	1,105	1,620
Rent and Freight Expenses	2,040	1,904
	3,145	**3,524**
Shareholders		
Minority Interest	48	476
Retained Earnings	6,925	4,131
	6,973	**4,607**
Distributed Added Value	**32,634**	**28,338**

* Net of Provisions for Doubtful Debts.

Consolidated Result by Business Area - 1Q/2008

	R$ MILLION							
INCOME STATEMENTS	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	INTERN.	CORPOR.	ELIMIN.	TOTAL
Net Operating Revenues	**25,010**	**37,526**	**3,365**	**12,487**	**4,471**	**-**	**(35,967)**	**46,892**
Intersegments	24,692	10,199	424	200	452	-	(35,967)	-
Third Parties	318	27,327	2,941	12,287	4,019	-	-	46,892
Cost of Goods Sold	(9,505)	(37,133)	(3,161)	(11,389)	(3,659)	-	35,208	(29,639)
Gross Profit	**15,505**	**393**	**204**	**1,098**	**812**	**-**	**(759)**	**17,253**
Operating Expenses	**(1,009)**	**(1,296)**	**(706)**	**(628)**	**(646)**	**(1,683)**	**59**	**(5,909)**
Sales, General & Administrative	(129)	(1,100)	(249)	(626)	(347)	(764)	58	(3,157)
Taxes	(15)	(32)	(9)	(1)	(24)	(68)	-	(149)
Exploratory Costs	(538)	-	-	-	(147)	-	-	(685)
Research & Development	(213)	(82)	(31)	(3)	(1)	(87)	-	(417)
Health and Pension Plans	-	-	-	-	-	(356)	-	(356)
Other	(114)	(82)	(417)	2	(127)	(408)	1	(1,145)
Operating Profit (Loss)	**14,496**	**(903)**	**(502)**	**470**	**166**	**(1,683)**	**(700)**	**11,344**
Interest Income (Expenses)	-	-	-	-	-	(400)	-	(400)
Participation in Equity Income	-	1	(26)	3	47	(13)	-	12
Non-operating Income (Expenses)	(7)	(4)	(1)	-	(3)	3	-	(12)
Income (Loss) Before Taxes and Minority Interests	**14,489**	**(906)**	**(529)**	**473**	**210**	**(2,093)**	**(700)**	**10,944**
Income Tax & Social Contribution	(4,926)	309	171	(160)	(102)	500	237	(3,971)
Minority Interests	(133)	31	(38)	-	(58)	150	-	(48)
Net Income (Loss)	**9,430**	**(566)**	**(396)**	**313**	**50**	**(1,443)**	**(463)**	**6,925**

Consolidated Result by Business Area - 1Q/2007

	R$ MILLION							
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	INTERN.	CORPOR.	ELIMIN.	TOTAL
INCOME STATEMENTS								
Net Operating Revenues	**16,966**	**29,690**	**2,146**	**10,223**	**4,671**	**-**	**(24,802)**	**38,894**
Intersegments	15,376	8,023	553	182	668	-	(24,802)	-
Third Parties	1,590	21,667	1,593	10,041	4,003	-	-	38,894
Cost of Goods Sold	(7,938)	(25,248)	(1,925)	(9,252)	(3,926)	-	24,597	(23,692)
Gross Profit	**9,028**	**4,442**	**221**	**971**	**745**	**-**	**(205)**	**15,202**
Operating Expenses	**(972)**	**(1,260)**	**(526)**	**(678)**	**(901)**	**(2,336)**	**38**	**(6,635)**
Sales, General & Administrative	(173)	(898)	(261)	(593)	(386)	(688)	39	(2,960)
Taxes	(12)	(42)	(26)	(49)	(28)	(142)	-	(299)
Exploratory Costs	(216)	-	-	-	(439)	-	-	(655)
Research & Development	(187)	(71)	(40)	(3)	(1)	(80)	-	(382)
Health and Pension Plan	-	-	-	-	-	(453)	-	(453)
Other	(384)	(249)	(199)	(33)	(47)	(973)	(1)	(1,886)
Operating Profit (Loss)	**8,056**	**3,182**	**(305)**	**293**	**(156)**	**(2,336)**	**(167)**	**8,567**
Interest Income (Expenses)	-	-	-	-	-	(935)	-	(935)
Equity Income	-	42	6	(4)	9	(137)	-	(84)
Non-operating Income (Expense)	(3)	7	3	-	23	(3)	-	27
Income (Loss) Before Taxes and Minority Interests	**8,053**	**3,231**	**(296)**	**289**	**(124)**	**(3,411)**	**(167)**	**7,575**
Income Tax & Social Contribution	(2,738)	(1,084)	102	(100)	(66)	861	57	(2,968)
Minority Interests	(232)	(21)	(122)	-	(71)	(30)	-	(476)
Net Income (Loss)	**5,083**	**2,126**	**(316)**	**189**	**(261)**	**(2,580)**	**(110)**	**4,131**

Part of the expenses associated with idle thermoelectric plants were allocated to COGS, given that such expenses are linked to energy sales which are in turn tied to the capacity available for sale, independently of the volume effectively generated.

In order to unify the criterion for the allocation of safety, health and environmental expenses, we opted to allocate these expenses in their entirety to other operating income (expenses).

Expenditure related to the training of new Petrobras employees is now allocated in line with the area of each employee and is no longer wholly allocated to corporate administrative expenses.

In order to maintain comparability between the periods, we are presenting the previous statements in accordance with the new criteria above.

EBITDA[1] Consolidated Statement by Business Area - 1Q/2008

	R$ MILLION							
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	INTERN.	CORPOR.	ELIMIN.	TOTAL
Operating Profit (Loss) [2]	**14,496**	**(903)**	**(502)**	**470**	**166**	**(1,683)**	**(700)**	**11,344**
Depreciation & Amortization	**1,387**	**530**	**207**	**90**	**278**	**40**	**-**	**2,532**
EBITDA [1]	**15,883**	**(373)**	**(295)**	**560**	**444**	**(1,643)**	**(700)**	**13,876**

(1) Operating income before the financial results and equity income + depreciation /amortization.
(2) Adjusted for Profit Sharing Program.

Statement of Other Operating Revenues (Expenses) - 1Q/2008

	R$ MILLION							
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	INTERN.	CORPOR.	ELIMIN.	TOTAL
Institutional relations and cultural projects	(21)	(16)	-	(9)	-	(233)	-	**(279)**
Fines and Contractual Charges	-	-	(253)	-	-	-	-	**(253)**
Operating expenses with thermoelectric	-	-	(161)	-	-	-	-	**(161)**
Losses and Contingencies related to Legal Proceedings	(9)	(7)	-	(1)	(126)	(10)	-	**(153)**
HSE Expenses	(6)	(17)	(1)	-	-	(55)	-	**(79)**
Unscheduled stoppages at installations and production equipment	(22)	(31)	-	-	-	-	-	**(53)**
Contractual losses from ship-or-pay transport services	-	-	-	-	(21)	-	-	**(21)**
Other	(56)	(11)	(2)	12	20	(110)	1	**(146)**
	(114)	**(82)**	**(417)**	**2**	**(127)**	**(408)**	**1**	**(1,145)**

Statement of Other Operating Revenues (Expenses) - 1Q/2007

	R$ MILLION							
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	INTERN.	CORPOR.	ELIMIN.	TOTAL
Institutional relations and cultural projects	(21)	(15)	-	(7)	-	(247)	-	**(290)**
Operating expenses with thermoelectric	-	-	(165)	-	-	-	-	**(165)**
Losses and Contingencies related to Legal Proceedings	(6)	(12)	-	1	(2)	9	-	**(10)**
HSE Expenses	(7)	(22)	(1)	-	-	(65)	-	**(95)**
Unscheduled stoppages at installations and production equipment	(19)	(41)	-	-	-	-	-	**(60)**
Contractual losses from ship-or-pay transport services	-	-	-	-	(15)	-	-	**(15)**
Expenses with Renegotiation of Petros Fund Plan	(220)	(129)	(11)	(40)	(8)	(632)	-	**(1,040)**
Other	(111)	(30)	(22)	13	(22)	(38)	(1)	**(211)**
	(384)	**(249)**	**(199)**	**(33)**	**(47)**	**(973)**	**(1)**	**(1,886)**

Part of the expenses associated with idle thermoelectric plants were allocated to COGS, given that such expenses are linked to energy sales which are in turn tied to the capacity available for sale, independently of the volume effectively generated.

In order to unify the criterion for the allocation of safety, health and environmental expenses, we opted to allocate these expenses in their entirety to other operating income (expenses).

In order to maintain comparability between the periods, we are presenting the previous statements in accordance with the new criteria above.

Consolidated Assets by Business Area - 03.31.2008

	R$ MILLION							
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	INTERN.	CORPOR.	ELIMIN.	TOTAL
ASSETS	**94,007**	**58,813**	**30,388**	**9,970**	**23,010**	**34,202**	**(10,514)**	**239,876**
CURRENT ASSETS	**6,265**	**26,364**	**5,409**	**5,223**	**4,198**	**17,963**	**(10,124)**	**55,298**
CASH AND CASH EQUIVALENTS	-	-	-	-	-	11,560	-	11,560
OTHER	6,265	26,364	5,409	5,223	4,198	6,403	(10,124)	43,738
NON-CURRENT ASSETS	**87,742**	**32,449**	**24,979**	**4,747**	**18,812**	**16,239**	**(390)**	**184,578**
LONG-TERM ASSETS	3,606	1,138	2,154	506	1,027	13,197	(368)	**21,260**
PROPERTY, PLANTS AND EQUIPMENT	80,627	26,973	21,755	2,801	13,116	1,733	(22)	**146,983**
OTHER	3,509	4,338	1,070	1,440	4,669	1,309	-	**16,335**

Consolidated Assets by Business Area - 12.31.2007

	R$ MILLION						
	E&P	SUPPLY		GAS & ENERGY	DISTRIB.	INTERN.	
Supplemental schedule of noncash investing and financing activities:							
Preferred dividends declared, not paid	$ 55,113		$ 55,113				

See accompanying notes to condensed unaudited financial statements

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RETRACTABLE TECHNOLOGIES, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. BUSINESS OF THE COMPANY AND BASIS OF PRESENTATION

Business of the Company

Retractable Technologies, Inc. (the Company) was incorporated in Texas on May 9, 1994, and designs, develops, manufactures, and markets safety syringes and other safety medical products for the healthcare profession. The Company began to develop its manufacturing operations in 1995. The Company s manufacturing and administrative facilities are located in Little Elm, Texas. The Company s products are the VanishPoint® 0.5mL insulin syringe; 1mL tuberculin, insulin, and allergy antigen syringes; 0.5mL, 1mL, 2mL, 3mL, 5mL, and 10mL syringes; the blood collection tube holder; the small diameter tube adapter; the allergy tray; the IV safety catheter; the Patient Safe® syringes; the Patient Safe® Luer Cap; the VanishPoint® Blood Collection Set; and the EasyPoint® needle. The Company also sells VanishPoint® autodisable syringes in the international market in addition to the Company s other products.

Basis of presentation

The accompanying condensed financial statements are unaudited and, in the opinion of Management, reflect all adjustments that are necessary for a fair presentation of the financial position and results of operations for the periods presented. All such adjustments are of a normal and recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. The condensed financial statements should be read in conjunction with the financial statement disclosures contained in the Company s audited financial statements incorporated into its Form 10-K filed on March 31, 2017 for the year ended December 31, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, money market accounts, and investments with original maturities of three months or less.

Accounts receivable

The Company records trade receivables when revenue is recognized. No product has been consigned to customers. The Company s allowance for doubtful accounts is primarily determined by review of specific trade receivables. Those accounts that are doubtful of collection are included in the allowance. This provision is reviewed to determine the adequacy of the allowance for doubtful accounts. Trade receivables are charged off when there is certainty as to their being uncollectible. Trade receivables are considered delinquent when payment has not been made within contract terms.

The Company requires certain customers to make a prepayment prior to beginning production or shipment of their order. Customers may apply such prepayments to their outstanding invoices or pay the invoice and continue to carry forward the deposit for future orders. Such amounts are included in Other accrued liabilities on the Condensed Balance Sheets and are shown in Note 5, Other Accrued Liabilities. The Company records an allowance for estimated returns as a reduction to Accounts receivable and Gross sales. Historically, returns have been immaterial.

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Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined using actual average cost. The Company compares the average cost to the net realizable value and records the lower value. Management considers such factors as the amount of inventory on hand and in the distribution channel, estimated time to sell such inventory, the shelf life of inventory, and current market conditions when determining excess or obsolete inventories. A reserve is established for any excess or obsolete inventories or they may be written off.

Property, plant, and equipment

Property, plant, and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operations as incurred. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity and interest cost associated with significant capital additions. Gains or losses from property disposals are included in income.

The Company s property, plant, and equipment primarily consist of buildings, land, assembly equipment, molding machines, molds, office equipment, furniture, and fixtures. Depreciation and amortization are calculated using the straight-line method over the following useful lives:

Production equipment	3 to 13 years
Office furniture and equipment	3 to 10 years
Buildings	39 years
Building improvements	15 years

Long-lived assets

The Company assesses the recoverability of long-lived assets using an assessment of the estimated undiscounted future cash flows related to such assets. In the event that assets are found to be carried at amounts which are in excess of estimated gross future cash flows, the assets will be adjusted for impairment to a level commensurate with fair value determined using a discounted cash flow analysis of the underlying assets.

Financial instruments

The Company estimates the fair value of financial instruments through the use of public market prices, quotes from financial institutions, and other available information. Judgment is required in interpreting data to develop estimates of fair value and, accordingly, amounts are not necessarily indicative of the amounts that could be realized in a current market exchange. Short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and other liabilities, consist primarily of instruments without extended maturities, the fair value of which, based on Management s estimates, equals their recorded values. The fair value of long-term liabilities, based on Management s estimates, approximates their reported values.

Concentration risks

The Company s financial instruments exposed to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. Cash balances, some of which exceed federally insured limits, are maintained in financial institutions; however, Management believes the institutions are of high credit quality. The majority of accounts receivable are due from companies which are well-established entities. As a consequence, Management considers any exposure from concentrations of credit risks to be limited.

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The following table reflects our significant customers for the first three and six months of 2017 and 2016:

	Six Months ended June 30, 2017	Six Months ended June 30, 2016	Three Months ended June 30, 2017	Three Months ended June 30, 2016
Number of significant customers	1	2	2	1
Aggregate dollar amount of net sales to significant customers	$4.1 million	$6.1 million	$3.1 million	$2.8 million
Percentage of net sales to significant customers	28.0%	44.9%	40.2%	37.3%

The Company manufactures some of its products in Little Elm, Texas as well as utilizing manufacturers in China. The Company purchases most of its product components from single suppliers, including needle adhesives and packaging materials. There are multiple sources of these materials. The Company obtained roughly 89.1% and 78.2% of its VanishPoint® syringes in the first six months of 2017 and 2016, respectively, from its primary Chinese manufacturer. Purchases from this Chinese manufacturer aggregated 90.1% and 91.8% of VanishPoint® syringes in the three month periods ended June 30, 2017 and 2016, respectively. In the event that the Company becomes unable to purchase products from its Chinese manufacturers, the Company would need to find an alternate manufacturer for its blood collection set, IV catheter, Patient Safe® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes and would increase domestic production for the 1mL and 3mL syringes.

Revenue recognition

Revenue is recognized for sales when title and risk of ownership passes to the customer, generally upon shipment. Under certain contracts, revenue is recorded on the basis of sales price to distributors, less contractual pricing allowances. Contractual pricing allowances consist of: (i) rebates granted to distributors who provide tracking reports which show, among other things, the facility that purchased the products, and (ii) a provision for estimated contractual pricing allowances for products for which the Company has not received tracking reports. Rebates are recorded when issued and are applied against the customer s receivable balance. Distributors receive a rebate for the difference between the Wholesale Acquisition Cost and the appropriate contract price as reflected on a tracking report provided by the distributor to the Company. If product is sold by a distributor to an entity that has no contract, there is a standard rebate (lower than a contracted rebate) given to the distributor. One of the purposes of the rebate is to encourage distributors to submit tracking reports to the Company. The provision for contractual pricing allowances is reviewed at the end of each quarter and adjusted for changes in levels of products for which there is no tracking report. Additionally, if it becomes clear that tracking reports will not be provided by individual distributors, the provision is further adjusted. The estimated contractual allowance is included in Accounts payable in the Balance Sheets and deducted from revenues in the Statements of Operations. Accounts payable included estimated contractual allowances for $3,479,252 and $3,591,534 as of June 30, 2017 and December 31, 2016, respectively. The terms and conditions of contractual pricing allowances are governed by contracts between the Company and its distributors. Revenue for shipments directly to end-users is recognized when title and risk of ownership pass from the Company. Any product shipped or distributed for evaluation purposes is expensed.

The Company s domestic return policy is set forth in its standard Distribution Agreement. This policy provides that a customer may return incorrect shipments within 10 days following arrival at the distributor s facility. In all such cases, the distributor must obtain an authorization code from the Company and affix the code to the returned product. The Company will not accept returned goods without a returned goods authorization number. The Company may refund the customer s money or replace the product.

The Company s domestic return policy also generally provides that a customer may return product that is overstocked. Overstocking returns are limited to two times in each 12-month period up to 1% of distributor s total purchase of products for the prior 12-month period. All product overstocks and returns are subject to inspection and acceptance by the Company.

The Company s international distribution agreements generally do not provide for any returns.

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Litigation proceeds

Proceeds from litigation are recognized when realizable. Generally, realization is not reasonably assured and expected until proceeds are collected and the legal proceeding has concluded.

Income taxes

The Company evaluates tax positions taken or expected to be taken in a tax return for recognition in the financial statements based on whether it is more-likely-than-not that a tax position will be sustained based upon the technical merits of the position. Measurement of the tax position is based upon the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The Company provides for deferred income taxes through utilizing an asset and liability approach for financial accounting and reporting based on the tax effects of differences between the financial statement and tax bases of assets and liabilities, based on enacted rates expected to be in effect when such differences reverse in future periods. Deferred tax assets are periodically reviewed for realizability. The Company has established a valuation allowance for its net deferred tax asset as future taxable income cannot be reasonably assured. Penalties and interest related to income tax are classified as General and administrative expense and Interest expense, respectively, in the Condensed Statements of Operations. Such expenses are not material.

Loss per share

The Company computes basic loss per share by dividing net loss for the period (adjusted for any cumulative dividends for the period) by the weighted average number of common shares outstanding during the period. Diluted loss per share includes the determinants of basic loss per share and, in addition, reflects the dilutive effect, if any, of the common stock deliverable pursuant to stock options or common stock issuable upon the conversion of convertible preferred stock. The calculation of diluted loss per share excluded 147,775 and 678,349 shares of Common Stock underlying issued and outstanding stock options at June 30, 2017 and June 30, 2016, respectively, as their effect was antidilutive. The potential dilution, if any, is shown on the following schedule:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net loss	$ (1,349,346)	$ (656,694)	$ (2,539,291)	$ (1,595,785)
Preferred dividend requirements	(176,249)	(176,249)	(352,498)	(352,498)
Loss applicable to common shareholders	$ (1,525,595)	$ (832,943)	$ (2,891,789)	$ (1,948,283)
Average common shares outstanding	31,666,454	29,483,207	31,499,787	29,054,041
Average common and common equivalent shares outstanding - assuming dilution	31,666,454	29,483,207	31,499,787	29,054,041
Basic loss per share	$ (0.05)	$ (0.03)	$ (0.09)	$ (0.07)
Diluted loss per share	$ (0.05)	$ (0.03)	$ (0.09)	$ (0.07)

Shipping and handling costs

The Company classifies shipping and handling costs as part of Cost of sales in the Condensed Statements of Operations.

Research and development costs

Research and development costs are expensed as incurred.

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Share-based compensation

The Company s share-based payments are accounted for using the fair value method. The Company records share-based compensation expense on a straight-line basis over the requisite service period. The Company incurred the following share-based compensation costs:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cost of sales	$ 98,356	$	$ 196,117	$
Sales and marketing	51,993		104,677	
Research and development	16,407		32,715	
General and administrative	68,655		136,800	
	$ 235,411	$	$ 470,309	$

Insurance Proceeds

Receipts from insurance up to the amount of any loss recognized by the Company are considered recoveries. Any such recoveries are recorded when they are received. Insurance recoveries are not recognized as a component of earnings (loss) from operations until all repairs are made.

Recent pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, Inventory (Topic 330) Simplifying the Measurement of Inventory, which is part of the FASB s Simplification Initiative. Inventory, including inventory measured at average cost, would be valued at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for the Company s annual periods and interim periods within those annual periods beginning January 1, 2017. Amendments in this ASU should be applied prospectively with earlier application permitted at the beginning of an interim or annual reporting period. The adoption of this pronouncement had no impact on the Company s Balance Sheet, Results of Operations, or Cash Flows in the period of adoption.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash . These amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The updated guidance is effective for the Company s quarter ending March 31, 2018, with early adoption permitted. The Company is currently assessing the impact that adoption of this guidance will have on its financial statements and related disclosures.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments . Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. This ASU is effective for the Company s quarter ending March 31, 2020 with early application permitted for the Company s quarter ending March 31, 2019. The Company is currently assessing the impact that adoption of this guidance will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (topic 842). Under the new ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new guidance lessor accounting is largely unchanged. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and

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operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. This ASU is effective for the Company s quarter ending March 31, 2019, with early adoption permitted. The Company is currently evaluating the impact of this standard.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers , which provides guidance for revenue recognition. This ASU s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects consideration to which the company expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU No. 2014-09 allows for either full retrospective or modified retrospective adoption. In July 2015, the FASB voted to delay the effective date of this ASU by one year. The ASU will now be effective commencing with the Company s quarter ending March 31, 2018. Early adoption of this ASU is allowed no sooner than the original effective date. The Company is currently assessing the potential impact of this ASU on its financial statements.

3. INVENTORIES

Inventories consist of the following:

		June 30, 2017		December 31, 2016
Raw materials	$	1,489,305	$	1,303,278
Finished goods		7,155,617		6,309,469
		8,644,922		7,612,747
Inventory reserve		(595,523)		(595,523)
	$	8,049,399	$	7,017,224

4. INCOME TAXES

The Company s effective tax rate on the net loss before income taxes was 0.0% and (0.1) for the six months ended June 30, 2017 and June 30, 2016, respectively. For the three months ended June 30, 2017 and June 30, 2016, the Company s effective tax rate on the net loss before income taxes was 0.0% and (0.1)%, respectively.

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following:

	June 30, 2017	December 31, 2016
Prepayments from customers	$ 457,398	$ 692,922
Accrued property taxes	242,050	
Accrued professional fees	127,808	266,747
Other accrued expenses	66,139	59,614
	$ 893,395	$ 1,019,283

6. COMMITMENTS AND CONTINGENCIES

In May 2010, the Company and an officer s suit against Becton, Dickinson and Company (BD) in the U.S. District Court for the Eastern District of Texas, Marshall Division alleging violations of antitrust acts, false advertising, product disparagement, tortious interference, and unfair competition was reopened. The trial commenced on September 9, 2013, in the U.S. District Court for the Eastern District of Texas, Tyler Division, and the jury found that BD illegally engaged in anticompetitive conduct with the intent to acquire or maintain

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monopoly power in the safety syringe market and engaged in false advertising under the Lanham Act. The jury awarded the Company $113,508,014 in damages, which was trebled pursuant to statute. The Court granted injunctive relief to take effect January 15, 2015. In doing so, the Court found that BD s business practices limited innovation, including false advertisements that suppressed sales of the VanishPoint® syringes. The specific injunctive relief includes: (1) enjoining BD s use of World s Sharpest Needle or any similar assertion of superior sharpness; (2) requiring notification to all customers who purchased BD syringe products from July 2, 2004 to date that BD wrongfully claimed that its syringe needles were sharper and that its statement that it had data on file was false and misleading; (3) requiring notification to employees, customers, distributors, GPOs, and government agencies that the deadspace of the VanishPoint® has been within ISO standards since 2004 and that BD overstated the deadspace of the VanishPoint® to represent that it was higher than some of BD s syringes when it was actually less, and that BD s statement that it had data on file was false and misleading, and, in addition, posting this notice on its website for a period of three years; (4) enjoining BD from advertising that its syringe products save medication as compared to VanishPoint® products for a period of three years; (5) requiring notification to all employees, customers, distributors, GPOs, and government agencies that BD s website, cost calculator, printed materials, and oral representations alleging BD s syringes save medication as compared to the VanishPoint® were based on false and inaccurate measurement of the VanishPoint®, and, in addition, posting this notice on its website for a period of three years; and (6) requiring the implementation of a comprehensive training program for BD employees and distributors that specifically instructs them not to use old marketing materials and not to make false representations regarding VanishPoint® syringes. Final judgment was entered on January 15, 2015, awarding the Company $340,524,042 in damages and $11,722,823 in attorneys fees, as well as granting injunctive relief consistent with the orders as indicated above. The parties stipulated that the amount of litigation costs recoverable by the Company is $295,000. On January 14, 2015, the District Court stayed the portion of the injunctive relief that requires BD to notify end-user customers but also ordered BD to comply with internal correction activities as well as mandatory disclosures as set out above to its employees, customers, distributors and Group Purchasing Organizations. BD filed an appeal of that ruling with the 5th Circuit Court of Appeals and that appeal was denied on February 3, 2015. On February 12, 2015, BD filed a motion to amend the judgment directed most specifically to the issue of award of prejudgment interest. On April 23, 2015, the Court entered an Amended Final Judgment that removed prejudgment interest but kept all other monetary and injunctive relief the same as was granted in the original Final Judgment. BD filed its brief in the appeal on July 20, 2015. Oral argument occurred on Monday, February 29, 2016. On December 2, 2016, the 5th Circuit Court of Appeals overturned the antitrust damages. The finding of false advertising liability was affirmed and the case was remanded to the Eastern District of Texas for a redetermination as to the amount of damages to which the Company is entitled. The Company s petition for certiorari to the U.S. Supreme Court was denied on March 20, 2017. The Eastern District of Texas trial date was May 11, 2017. The Court announced that it will issue its decision within three months of May 11, 2017. No decision has been issued.

In September 2007, BD and MDC Investment Holdings, Inc. (MDC) sued the Company in the United States District Court for the Eastern District of Texas, Texarkana Division, initially alleging that the Company is infringing two U.S. patents of MDC (6,179,812 and 7,090,656) that are licensed to BD. BD and MDC seek injunctive relief and unspecified damages. The Company counterclaimed for declarations of non-infringement, invalidity, and unenforceability of the asserted patents. The plaintiffs subsequently dropped allegations with regard to patent no. 7,090,656 and the Company subsequently dropped its counterclaims for unenforceability of the asserted patents. On June 30, 2015, the Court ordered that further proceedings in this matter be stayed and that this case remain administratively closed until resolution of all appeals in the case detailed in the preceding paragraph. The case remains stayed as a result of the ongoing proceedings regarding the Lanham Act claims in the separate proceeding described above.

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7. BUSINESS SEGMENT

The Company does not operate in separate reportable segments. Shipments to international customers generally require a prepayment either by wire transfer or an irrevocable confirmed letter of credit. The Company does extend credit to international customers on some occasions depending upon certain criteria, including, but not limited to, the credit worthiness of the customer, the stability of the country, banking restrictions, and the size of the order. All transactions are in U.S. currency. Revenues by geography are as follows:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
U.S. sales	$ 6,055,144	$ 6,944,479	$ 12,003,000	$ 12,447,489
North and South America sales (excluding U.S.)	1,331,029	304,210	1,827,560	651,874
Other international sales	259,944	326,364	739,237	397,672
Total sales, net	$ 7,646,117	$ 7,575,053	$ 14,569,797	$ 13,497,035

Long-lived assets by geography are as follows:

	June 30, 2017	December 31, 2016
Long-lived assets		
U.S.	$ 11,669,906	$ 11,930,293
International	$ 149,682	$ 161,744

8. DIVIDENDS

The Company declared dividends in the first quarter of 2016 in the amounts of $12,313 and $42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on April 21, 2016. The Company declared dividends in the second quarter of 2016 in the amounts of $12,313 and $42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on July 28, 2016. The Company declared dividends in the first quarter of 2017 in the amounts of $12,313 and $42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on April 27, 2017. The Company declared dividends in the second quarter of 2017 in the amounts of $12,313 and $42,800 paid to Series I Class B and Series II Class B Preferred Stockholders, respectively, on July 20, 2017.

9. PRIVATE PURCHASE

The Company approved three of its executive officers to purchase shares directly from the Company. Thomas J. Shaw, CEO, exercised a portion of such right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of $1.78 million. Mr. Shaw has one million additional shares authorized for purchase at market price any time prior to September 9, 2018. Mr. Cowan, CFO, and Ms. Larios, Vice President and General Counsel, are authorized to purchase 500,000 shares each at market price any time prior to September 9, 2018. The approximate dollar value of these potential future purchases cannot be predicted.

10. BONUSES

In February of 2017, Mr. Cowan and Ms. Larios were each granted cash bonuses of $250,000. Ms. Larios received her bonus in the first quarter of 2017. Mr. Cowan will receive his bonus later this year. Bonuses payable are included in accrued compensation in the Condensed Balance Sheets.

11. STORM DAMAGE AND INSURANCE PROCEEDS

On March 26, 2017 a hail storm passed through Little Elm, TX, resulting in damage to the Company s two buildings. During April, the Company performed an inspection of its facilities and determined that possible roof damage had been sustained. In late April, the Company s insurance carrier inspected the two buildings and confirmed that damage occurred from the hail storm. This damage was principally to the roofs of the buildings but also many of the HVAC units and a wall alongside one of the buildings sustained damage.

The Company s insurance carrier has assessed the damages at approximately $1 million and the Company s deductible is less than $25,000. The Company has received these funds from its carrier. At this time, the Company does not expect the cost of repairs to the roofs, the wall, and to the HVAC units to exceed its coverage. The Company expects repairs to commence during the third quarter of 2017 and to be completed by the end of the year. The Company does not currently anticipate that these repairs will result any significant disruption to its operations or interruption to its production.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING STATEMENT WARNING

Certain statements included by reference in this filing containing the words could, may, believes, anticipates, intends, expects, and simila words constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Any forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, our ability to maintain liquidity, our maintenance of patent protection, the impact of current and future Court decisions regarding current litigation, our ability to maintain favorable third party manufacturing and supplier arrangements and relationships, foreign trade risk, our ability to quickly increase capacity in response to an increase in demand, our ability to access the market, our ability to maintain or lower production costs, our ability to continue to finance research and development as well as operations and expansion of production, the impact of larger market players, specifically Becton, Dickinson and Company (BD), in providing devices to the safety market, and other factors referenced in Item 1A. Risk Factors in Part II. Given these uncertainties, undue reliance should not be placed on forward-looking statements.

MATERIAL CHANGES IN FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We have been manufacturing and marketing our products since 1997. Safety syringes comprised 93.3% of our sales in the first six months of 2017. We also manufacture and market the blood collection tube holder, IV safety catheter, and VanishPoint® Blood Collection Set. We currently provide other safety medical products in addition to safety products utilizing retractable technology. One such product is the Patient Safe® syringe, which is uniquely designed to reduce the risk of bloodstream infections associated with catheter hub contamination.

In the second quarter of 2016, we began selling a new product, the EasyPoint® needle. No EasyPoint® needles were sold in the first quarter of 2017. EasyPoint® needle sales made up approximately 3% of our second quarter revenues. The EasyPoint® is a retractable needle that can be used with Luer lock syringes, Luer slip syringes, and prefilled syringes to give injections. The EasyPoint® needle can also be used to aspirate fluids and collect blood.

Historically, unit sales have increased in the latter part of the year due, in part, to the demand for syringes during the flu season.

Our products have been and continue to be distributed nationally and internationally through numerous distributors. Although we have made limited progress in some areas, such as the alternate care market, our volumes are not as high as they should be given the nature and quality of

our products and the federal and state legislation requiring the use of safe needle devices. The alternate care market is composed of facilities that provide long-term nursing and out-patient surgery, emergency care, physician services, health clinics, and retail pharmacies.

We continue to pursue various strategies to have better access to the hospital market, as well as other markets, including attempting to gain access to the market through our sales efforts, our innovative technology, introduction of new products, and, when necessary, litigation.

We have reported in the past that our progress is limited principally due to the practices engaged in by BD, the dominant maker and seller of disposable syringes. We initiated a lawsuit in 2007 against BD. As previously reported, on December 2, 2016, the Fifth Circuit Court of Appeals overturned a district court judgment that had previously awarded us $340 million in antitrust damages from BD, but affirmed a finding of false advertising liability against BD and remanded the case to the Eastern District of Texas for a redetermination as to the amount of damages to which we are entitled. The Eastern District of Texas trial date was on May 11, 2017. No judgment has been issued.

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We have taken steps to reduce our future litigation expenses and expect such expenses to continue to be significantly less in 2017. We have expanded our sales and marketing staff in an effort to gain market share. Our stock option expense for grants in 2016 will require future amortization of $206 thousand, of which approximately $190 thousand will be expensed in the third quarter of 2017.

The Consolidated Appropriations Act, 2016 (Pub. L. 114-113), signed into law on December 18, 2015, includes a two year moratorium on the 2.3% medical device excise tax imposed by Internal Revenue Code section 4191. Thus, the medical device excise tax was suspended beginning on January 1, 2016 and ending on December 31, 2017.

We reevaluated several compensation strategies in late 2016 and early 2017. We also approved three of our executive officers to purchase shares directly from the Company. Thomas J. Shaw exercised a portion of such right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of $1.78 million.

As discussed in Note 11 to the financial statements, we received $1,004,960 from our insurance carrier in the second quarter of 2017 and we expect to effect building repairs using these funds beginning in the third quarter.

Product purchases from our Chinese manufacturers have enabled us to increase manufacturing capacity with little capital outlay and have provided a competitive manufacturing cost. In the first six months of 2017, our primary Chinese manufacturer produced approximately 89.1% of our VanishPoint® syringes. In the event that we become unable to purchase products from our Chinese manufacturers, we would need to find an alternate manufacturer for the blood collection set, IV catheter, Patient Safe® syringe, 0.5mL insulin syringe, 0.5mL autodisable syringe, and 2mL, 5mL, and 10mL syringes and we would increase domestic production for the 1mL and 3mL syringes.

In 1995, we entered into a license agreement with Thomas J. Shaw for the exclusive right to manufacture, market, and distribute products utilizing automated retraction technology. This technology is the subject of various patents and patent applications owned by Mr. Shaw. The license agreement generally provides for quarterly payments of a 5% royalty fee on gross sales.

With increased volumes, our manufacturing unit costs have generally tended to decline. Factors that could affect our unit costs include increases in costs by third party manufacturers, changing production volumes, costs of petroleum products, and transportation costs. Increases in such costs may not be recoverable through price increases of our products.

The following discussion may contain trend information and other forward-looking statements that involve a number of risks and uncertainties. Our actual future results could differ materially from our historical results of operations and those discussed in any forward-looking statements. Dollar amounts have been rounded for ease of reading. All period references are to the periods ended June 30, 2017 or 2016.

RESULTS OF OPERATIONS

Comparison of Three Months Ended June 30, 2017 and June 30, 2016

Domestic sales accounted for 79.2% and 91.7% of the revenues for the three months ended June 30, 2017 and 2016, respectively. Domestic revenues decreased 12.8% principally due to decreases in sales of 1mL and 3mL syringes and the EasyPoint® needle. Domestic unit sales decreased 14.1%. Domestic unit sales were 69.8% of total unit sales for the three months ended June 30, 2017. International revenue and unit sales increased 152.3% and 225.5%, respectively, due to the timing of several large orders. Our international orders may be subject to significant fluctuation over time. Overall unit sales increased 10.5%.

Gross profit decreased 15.6% primarily due to lower domestic sales volumes.

The Cost of manufactured product increased by 12.5% principally due to larger volumes sold. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense decreased 6.9% due to lower gross sales.

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Operating expenses increased 9.0% or $290 thousand. The increase was due to stock option expense and increased staffing in sales and marketing. Our legal expenses declined.

Our operating loss was $1.3 million compared to an operating loss for the same period last year of $605 thousand due primarily to lower gross profit and higher operating expenses.

Our effective tax rate on the net loss before income taxes was 0.0% and (0.1)% for the three months ended June 30, 2017 and June 30, 2016, respectively.

Comparison of Six Months Ended June 30, 2017 and June 30, 2016

Domestic sales accounted for 82.4% and 92.2% of the revenues for the six months ended June 30, 2017 and 2016, respectively. Domestic revenues decreased 3.6% principally due to lower volume. Domestic unit sales decreased 5.4%. Domestic unit sales were 75.2% of total unit sales for the six months ended June 30, 2017. International revenue and unit sales increased 144.6% and 183.4%, respectively, due to the timing of several large orders. Our international orders may be subject to significant fluctuation over time. Overall unit sales increased 13.3%.

Gross profit decreased 5.7% primarily due to higher per unit cost of manufacture.

The Cost of manufactured product increased 17.5% due to larger volumes and higher manufacturing cost per unit. Profit margins can fluctuate depending upon, among other things, the cost of manufactured product and the capitalized cost of product recorded in inventory, as well as product sales mix. Royalty expense increased 3.0% due to higher gross sales.

Operating expenses increased 10.8% or $683 thousand. The increase was due to stock option expense and increased staffing in sales and marketing. We also awarded bonuses to two officers in the first quarter. Our legal expenses declined.

Our operating loss was $2.5 million compared to an operating loss for the same period last year of $1.5 million due primarily to higher operating expenses and lower gross profit.

Our effective tax rate on the net loss before income taxes was 0.0% and (0.1)% for the six months ended June 30, 2017 and June 30, 2016, respectively.

Discussion of Balance Sheet and Statement of Cash Flow Items

Cash comprises 39.4% of total assets. Working capital was $19.2 million at June 30, 2017, a decrease of $350 thousand from December 31, 2016.

Cash flow from operations was negative $2.0 million for the six months ended June 30, 2017 due primarily to our Net loss and increased inventory levels. The decrease in cash was mitigated by noncash expenses of share-based compensation and depreciation and amortization. We also received $1.0 million from our insurance carrier which will be used for repairing damage to our buildings from a hail storm, as discussed herein.

LIQUIDITY

At the present time, Management does not intend to publicly raise equity capital. Due to the funds received from prior litigation and direct purchases of our stock, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing, when available, as the primary ongoing sources of cash. Our ability to obtain additional funds through loans is uncertain. We cannot predict any recovery of damages in our litigation against BD at this time. The ultimate outcome of this suit could have a material effect on our financial condition.

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Historical Sources of Liquidity

We have historically funded operations primarily from the proceeds from revenues, private placements, litigation settlements, and loans.

Internal Sources of Liquidity

Margins and Market Access

To routinely achieve positive or break even quarters, we need increased access to hospital markets which has been difficult to obtain. We will continue to attempt to gain access to the market through our sales efforts, innovative technology, the introduction of new products, and, when necessary, litigation.

We continue to focus on methods of upgrading our manufacturing capability and efficiency in order to reduce costs.

Fluctuations in the cost and availability of raw materials and inventory and our ability to maintain favorable manufacturing arrangements and relationships could result in the need to manufacture all (as opposed to 17.4%) of our products in the U.S. This could temporarily increase unit costs as we ramp up domestic production.

The mix of domestic and international sales affects the average sales price of our products. Generally, the higher the ratio of domestic sales to international sales, the higher the average sales price will be. Some international sales of our products are shipped directly from China to the customer. The number of units produced by us versus manufactured in China can have a significant effect on the carrying costs of inventory as well as Cost of sales. We will continue to evaluate the appropriate mix of products manufactured domestically and those manufactured in China to achieve economic benefits as well as to maintain our domestic manufacturing capability.

Fluctuations in the cost of oil (since our products are petroleum based) and transportation and the volume of units purchased from our Chinese manufacturers may have an impact on the unit costs of our product. Increases in such costs may not be recoverable through price increases of our products. Reductions in oil prices may not quickly affect petroleum product prices.

Seasonality

Historically, unit sales have increased during the flu season.

Cash Requirements

Due to funds received from prior litigation, we have sufficient cash reserves and intend to rely on operations, cash reserves, and debt financing, when available, as the primary ongoing sources of cash. We have taken steps to decrease our legal costs and we continue to evaluate these costs. In the future, if we need to take cost cutting measures, we may reduce the number of units being produced, reduce the workforce, reduce the salaries of officers and other employees, and/or defer royalty payments. Some increases in compensation were made in 2016 and 2017.

External Sources of Liquidity

We have obtained several loans since our inception, which have, together with the proceeds from the sales of equities and litigation efforts, enabled us to pursue development and production of our products. Our ability to obtain additional funds through loans is uncertain. Due to the current market price of our Common Stock, it is unlikely we would choose to raise funds by the public sale of equity.

We have approved three of our executive officers to engage in private purchases of stock at market prices. Mr. Shaw exercised a portion of his purchase right on January 12, 2017, buying two million shares at market price for an aggregate purchase price of $1.78 million.

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As discussed in Note 11 to the financial statements, we received $1,004,960 from our insurance carrier in the second quarter of 2017 and we expect to effect building repairs using these funds beginning in the third quarter.

CAPITAL RESOURCES

There were no material commitments for capital expenditures in the second quarter of 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

No update.

Item 4. Controls and Procedures.

Pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, Management, with the participation of our President, Chairman, and Chief Executive Officer, Thomas J. Shaw (the CEO), and our Vice President and Chief Financial Officer, Douglas W. Cowan (the CFO), acting in their capacities as our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed by us in our periodic reports is: i) recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms; and ii) accumulated and communicated to our Management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based upon this evaluation, the CEO and CFO concluded that, as of June 30, 2017, our disclosure controls and procedures were effective.

We initially reported a material weakness in our Annual Report on Form 10-K for the year ended December 31, 2015, filed on March 30, 2016, in connection with the accounting for raw materials. We are addressing this weakness by running parallel accounting systems, including the Oracle Periodic Average Costing system, and we have enhanced our review procedures. This approach supports achieving reliable results. We intend to fully implement the Oracle Periodic Average Costing system by the end of 2017.

Changes in Internal Control Over Financial Reporting

We have implemented procedures to address the material weakness identified in our Form 10-K for the year ended December 31, 2015. There have been no further changes during the second quarter of 2017 or subsequent to June 30, 2017 in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

We utilize various analytical tools to ensure an accurate valuation of inventory of our raw materials. We analyze changing prices, ensure accurate physical counts, confirm formulas used in computations, and evaluate the reasonableness of the results. Results that do not fall within a reasonable parameter are investigated. Such investigation may include, but is not limited to, price, quantities, and overall valuation. The major modification we are reviewing and planning is the implementation of the Oracle Periodic Average Costing system by the end of 2017. This system is intended to reduce or eliminate input errors for the purchase price of raw materials.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Please refer to Note 6 to the financial statements for a complete description of all legal proceedings.

Item 1A. Risk Factors.

There were no material changes in the Risk Factors applicable to the Company as set forth in our Form 10-K annual report for 2016.

Item 3. Defaults Upon Senior Securities.

Working Capital Restrictions and Limitations on the Payment of Dividends

The Company declared a dividend to the Series I Class B and Series II Class B Convertible Preferred Shareholders in the aggregate amount of $55,113. This dividend was paid on July 20, 2017.

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The certificates of designation for each of the outstanding series of Class B Convertible Preferred Stock each currently provide that, if a dividend upon any shares of Preferred Stock is in arrears, no dividends may be paid or declared upon any stock ranking junior to such stock and generally no junior preferred stock may be redeemed. However, under certain conditions, and for certain Series of Class B Convertible Preferred Stock, we may purchase junior stock when dividends are in arrears.

Series I Class B Convertible Preferred Stock

For the six months ended June 30, 2017, no dividends were in arrears.

Series II Class B Convertible Preferred Stock

For the six months ended June 30, 2017, no dividends were in arrears.

Series III Class B Convertible Preferred Stock

For the six months ended June 30, 2017, the amount of dividends in arrears was $64,622 and the total arrearage was $4,081,000 as of June 30, 2017.

Series IV Class B Convertible Preferred Stock

For the six months ended June 30, 2017, the amount of dividends in arrears was $171,250 and the total arrearage was $5,970,000 as of June 30, 2017.

Series V Class B Convertible Preferred Stock

For the six months ended June 30, 2017, the amount of dividends in arrears was $6,400 and the total arrearage was $990,000 as of June 30, 2017.

Item 5. **Other Information.**

Our annual meeting of shareholders will be held on September 8, 2017 at 10:00 a.m. Central time and we are soliciting the vote of shareholders of Common Stock with regard to the election of Class 1 Directors. The Proxy Statement has been delivered via the notice and access method, meaning most Common Stockholders will generally only receive a short notice notifying them of where they can download copies of the proxy materials. Shareholders desiring paper copies of the proxy materials may request them.

Item 6. **Exhibits.**

Exhibit No.	Description of Document
31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Certification Pursuant to 18 U.S.C. Section 1350
101	The following materials from Retractable Technologies, Inc. s Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Balance Sheets as of June 30, 2017 and December 31, 2016, (ii) Condensed Statements of Operations for the six months and three months ended June 30, 2017 and 2016, (iii) Condensed Statements of Cash Flows for the six months ended June 30, 2017 and 2016, and (iv) Notes to Condensed Financial Statements

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SIGNATURES

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

DATE: August 14, 2017

RETRACTABLE TECHNOLOGIES, INC.
(Registrant)

BY: /s/ Douglas W. Cowan
DOUGLAS W. COWAN
VICE PRESIDENT,
CHIEF FINANCIAL OFFICER, AND
CHIEF ACCOUNTING OFFICER