BRAZILIAN PETROLEUM CORP
Form 6-K
June 08, 2005
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the month of June 2005

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation PETROBRAS

(Translation of Registrant s Name Into English)

Avenida República do Chile, 65

20035-900-Rio de Janeiro, RJ

Federative Republic of Brazil

(Address of principal executive offices)

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

(Check One) 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 information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

(Check One) Yes ¨ No x

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82-.)

Table of Contents

PETROBRAS ANNOUNCES FISCAL YEAR 2004 RESULTS

(Rio de Janeiro June 8, 2005) PETRÓLEO BRASILEIRO S.A. PETROBRAS today announced its consolidated results stated in U.S. dollars, prepared in accordance with U.S. GAAP.

PETROBRAS reported consolidated net income of U.S.$ 6,190 million and consolidated net operating revenues of U.S.$ 37,452 million for the year ended December 31, 2004, compared to consolidated net income of U.S.$ 6,559 million and consolidated net operating revenues of U.S.$ 30,797 million for the year ended December 31, 2003.

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

I am pleased to present the results for 2004. It was a year marked by important events, the consolidation of our strategies and the development of new businesses and markets.

During 2004, we invested U.S.$ 7,718 million in Brazil and abroad. This significant volume of investments was funded by the generation of cash from our operating activities and access to the capital markets, which allowed us to strengthen our operations and produce strong results.

The financial result in 2004 enabled our Board of Directors to propose a distribution to shareholders of dividends and interest on capital totaling U.S.$ 1,847 million (U.S.$ 1.68 per share) at the shareholders meeting held on March 31, 2005. Of this amount, interest on capital represents U.S.$ 1,652 million (U.S.$ 1.51 per share).

A few noteworthy highlights achieved in 2004 include:

An increase of 1.6% in proven oil, condensate and natural gas reserves, from 11.64 billion barrels of oil equivalent (boe) in 2003 to 11.82 billion boe in 2004. This increase includes 1.1 billion boe related to extensions and discoveries during 2004, primarily in the fields of Golfinho, Baleia Azul, Baleia Anã and Baleia Bicuda off the coast of Espírito Santo, Piranema off the coast of Sergipe, and Lagosta off the coast of São Paulo;

The anchoring and commencement test of oil production by FPSO P-43, with production capacity of 150,000 barrels per day in the Barracuda field in the Campos Basin;

Execution of an agreement with Sevan Marine to lease platform SSP 300 in the Piranema field, located off the coast of Sergipe;

The discovery of light crude oil (38 degrees API) in Rio Grande do Norte, located in the municipal district of Serra do Mel in the western region of the onshore Potiguar Basin;

The start-up of full operations of (1) the second coking unit at the Paulínia refinery (REPLAN) and (2) the unit for diesel hydro desulphurization (HDS) at the Presidente Getúlio Vargas Refinery, located in Paraná (REPAR). The REPLAN unit has the capacity to process 31 million barrels per day of vacuum residuals, and transform them into lighter products. The main purpose of the HDS unit at REPAR is to improve the quality of final products, including the reduction of sulphur content to less than 500 parts per million (ppm);

Table of Contents

The acquisition of Liquigás Distribuidora S.A. (formerly known as Sophia do Brasil S.A. and Agip do Brasil S.A.) by our subsidiary Petrobras Distribuidora S.A.- BR, which contributed to the expansion of our market share in LPG distribution in Brazil. This acquisition also consolidates our presence in the automobile fuel distribution market in certain regions in Brazil;

Implementation of the Integrated Company Management System (SAP-ERP), which is comprised of a group of software programs that integrate all of our standard information processes using a single database that is updated in real time, allowing the control of all operating activities; and

Creation of a Committee for Social Responsibility and Environmental Management to establish directives and guide our development in the field of social and environmental responsibility throughout the Company.

Over the course of 2004, we were able to consolidate our base for sustainable growth in the future, while preserving our commitment to social and environmental responsibility.

Financial Highlights

				Year ended December 31,	
3Q-2004	**4Q-2004**	**4Q-2003**		**2004**	**2003**
			Income statement data		
14,095	14,722	11,390	Sales of products and services	51,954	42,690
10,221	10,701	8,149	Net operating revenues	37,452	30,797
(114)	552	(253)	Financial income (expense), net	(372)	(136)
1,839	1,707	894	Net income	6,190	6,559
			Basic and diluted earnings per common and preferred share		
1.68	1.56	0.81	Before effect of change in accounting principle	5.65	5.35
1.68	1.56	0.81	After effect of change in accounting principle	5.65	5.99
			Other data		
44.9	41.5	46.5	Gross margin (%) (1)	45.8	49.9
18.0	16.0	11.0	Net margin (%) (2)	16.5	21.3
65	64	70	Debt to equity ratio (%) (3)	64	70
			Financial and Economic Indicators		
41.54	44.00	29.41	Brent crude (U.S.$/bbl)	38.21	28.84
2.9773	2.7862	2.9000	Average Commercial Selling Rate for U.S. Dollars (R$/U.S.$)	2.9262	3.0745
2.8586	2.6544	2.8892	Period-end Commercial Selling Rate for U.S. Dollars (R$/U.S.$)	2.6544	2.8892

(1) Gross margin equals net operating revenues less cost of sales divided by net operating revenues.

(2) Net margin equals net income divided by net operating revenues.

(3) Debt to equity ratio equals total liabilities divided by the sum of total liabilities and total shareholders equity.

2

Table of Contents

Balance sheet data	U.S. $ million 12.31.2004	U.S. $ million 12.31.2003	Percent Change (12.31.2004 versus 12.31.2003)
Total assets	63,082	53,612	17.7
Cash and cash equivalents	6,856	8,344	(17.8)
Short-term debt	547	1,329	(58.8)
Total long-term debt	13,344	13,033	2.4
Total project financings	5,712	5,908	(3.3)
Total capital lease obligations	1,335	1,620	(17.6)
Net debt (1)	14,082	13,246	6.3
Shareholders equity (2)	22,506	16,336	37.8
Total capitalization (3)	43,444	38,226	13.7

	U.S. $ million 12.31.2004	U.S. $ million 12.31.2003
Reconciliation of Net debt		
Total long-term debt	13,344	13,033
Plus short-term debt	547	1,329
Plus total project financings	5,712	5,908
Plus total capital lease obligations	1,335	1,620
Less cash and cash equivalents	6,856	8,344
Less Junior Notes (4)		300
Net debt (1)	14,082	13,246

(1) Our net debt is not computed in accordance with U.S. GAAP and should not be considered in isolation or as a substitute for total long-term debt calculated in accordance with U.S. GAAP. Our calculation of net debt may not be comparable to the calculation of net debt by other companies. Management believes that net debt is an appropriate supplemental measure that helps investors assess our liquidity and assists management in targeting leverage improvements. Please see the table above for a reconciliation of net debt to total long-term debt.

(2) Shareholders equity includes unrecognized losses in the amount of U.S.$ 1,975 million at December 31, 2004 and U.S.$ 1,588 million at December 31, 2003, in each case related to Amounts not recognized as net periodic pension cost .

(3) Total capitalization means shareholders equity plus short-term debt, total long-term debt, total project financings and total capital lease obligations.

(4) In May 2004, PFL and the PF Export Trust, executed an amendment to the Trust Agreement allowing the Junior Trust Certificates to be set-off against the related Notes.

OPERATING HIGHLIGHTS

Year ended December 31,

3Q-2004	4Q-2004	4Q-2003		2004	2003
			Average daily crude oil and gas production		
1,692	1,680	1,680	Crude oil and NGLs *(Mbpd)* (1)	1,661	1,701
1,523	1,511	1,513	Brazil	1,493	1,540
169	169	167	International	168	161
2,208	2,160	2,058	Natural gas *(Mmcfpd)* (2)	2,154	2,010
1,620	1,602	1,536	Brazil	1,590	1,500
588	558	522	International	564	510
			Crude oil and NGL average sales price *(U.S. dollars per bbl)*		
36.13	35.11	26.79	Brazil (3)	33.49	27.01
28.31	27.18	22.85	International	26.51	22.75
			Natural gas average sales price *(U.S. dollars per Mcf)*		
1.77	2.14	1.89	Brazil	1.93	1.79
1.09	1.29	1.15	International	1.17	1.26
			Lifting costs *(U.S. dollars per boe)*		
			Crude oil and natural gas Brazil		
10.72	12.50	9.18	Including government take (4)	10.77	8.62
4.10	4.76	4.04	Excluding government take (4)	4.33	3.48
2.53	2.90	2.74	Crude oil and natural gas International	2.60	2.46
			Refining costs *(U.S. dollars per boe)*		
1.18	1.61	1.53	Brazil	1.36	1.17
1.22	1.22	1.29	International	1.21	1.17
			Refining and marketing operations *(Mbpd)*		
2,125	2,125	2,085	Primary Processed Installed Capacity	2,125	2,085
			Brazil		
1,996	1,996	1,956	Installed capacity	1,996	1,956
1,659	1,727	1,604	Output of oil products	1,696	1,639
86%	89%	81%	Utilization	87%	82%
			International		
129	129	129	Installed capacity	129	129
104	106	94	Output of oil products	101	93
79%	83%	73%	Utilization	78%	73%
77	77	79	**Domestic crude oil as % of total feedstock processed**	76	80
			Imports *(Mbpd)*		
439	452	310	Crude oil imports	450	319
166	132	57	Oil product imports	109	105
137	126	102	Import of gas, alcohol and others	124	89
			Exports *(Mbpd)*		
208	137	260	Crude oil exports	181	233
258	193	184	Oil product exports	228	213
5	10	2	Fertilizer and other exports	6	6
271	370	23	Net imports	268	61
			Sales Volume *(thousand bpd)*		
1,676	1,625	1,537	Oil Products	1,589	1,510
38	34	36	Alcohol and Others	32	33
217	227	190	Natural Gas	210	177
1,931	1,886	1,763	Total	1,831	1,720
497	614	457	Distribution	498	435
(469)	(548)	(424)	Inter-company sales	(450)	(393)
1,959	1,952	1,796	Total domestic market	1,879	1,762
472	341	446	Exports	416	452
190	272	227	International sales	229	242
223	114	138	Other operations (5)	179	141
885	727	811	Total international market	824	835

2,844	2,679	2,607	Total	2,703	2,597

(1) Includes production from shale oil reserves.

3

Table of Contents

(2) Does not include liquefied natural gas. Includes reinjected gas.

(3) Crude oil and NGL average sales price in Brazil includes intra-company transfers and sales to third parties.

(4) Government take includes royalties, special government participation and rental of areas.

(5) Includes third-party sales by our international subsidiary, Petrobras International Finance Company (PIFCo).

ANALYSIS OF OPERATING HIGHLIGHTS

Exploration and Production

Crude Oil and NGLs

Domestic crude oil and NGL production decreased 3.1% to 1,493 thousand barrels per day for 2004, as compared to 1,540 thousand barrels per day for 2003. This decrease was primarily due to: (1) an interruption in production of DP-Seillean in the Jubarte field due to scheduled inspections; (2) the termination of production of FPSO Brasil**;** (3) the closing of wells located in the Marlim Sul fields; (4) a temporary shut-down of the P-40 production platform - (Marlim Sul) due to elevated production of water and limited oil processing at the platform; (5) a shut-down of some Albacora wells for maintenance on turbo-compressors; (6) a scheduled stoppage of the Linguado, Pampo and Enchova platforms, (7) limited initial production in the Marlim field due mainly to high levels of water and associated gas production; and (8) a delay in the delivery of platforms P-43, P- 48 and P-50 to fields at Barracuda, Caratinga and Albacora Leste, respectively.

International crude oil and NGL production increased 4.3% to 168 thousand barrels per day for 2004, as compared to 161 thousand barrels per day for 2003, principally due to the consolidation of Petrobras Energia Participaciones S.A. (PEPSA) and Petrolera Entre Lomas S.A. (PELSA) as of May 2003.

Natural Gas

Domestic natural gas production increased 6.0% to 1,590 million cubic feet per day (Mmcfpd) for 2004, as compared to 1,500 Mmcfpd in 2003. This increase was primarily the result of the Cabiúnas project, which is a program designed to meet the petrochemical sector s increased demands for natural gas. International natural gas production increased 10.6% to 564 Mmcfpd in 2004, as compared to 510 Mmcfpd in 2003, mainly due to (1) increased production of Bolivian gas, driven by increased demand in the Brazilian market; and (2) additional natural gas sales from Bolivia to Argentina, beginning in June 2004.

Reserves

Proved reserves in Brazil, which are estimated by our management in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (the SEC), amounted to 10.57 billion and 10.40 billion barrels of oil equivalent for 2004 and 2003, respectively. Total production decreased 2.1% to 602 million barrels of oil equivalent for 2004, as compared to 615 million barrels of oil equivalent for 2003. As of December 31, 2004, our proved reserves to production ratio was 17.6 years.

Lifting Costs

Our lifting costs in Brazil, excluding government take (comprised of royalties, special government participation and rental of areas), increased 24.4% to U.S.$ 4.33 per barrel of oil equivalent for 2004, from U.S.$ 3.48 per barrel of oil equivalent for 2003. This increase was primarily due to: (1) maintenance and technical services for well restoration, drilling rigs and special ships (these prices are tied to international oil prices); (2) additional maintenance materials and services at ocean terminals, transport lines and facilities associated with our health, safety and environmental program; (3) additional sea and aerial transport costs related to operational support of production; and (4) higher personnel expenses primarily related to: (a) overtime payments as set forth in our collective bargaining agreement; (b) an increase in our workforce; and (c) a revision in the actuarial calculations relating to future health care and pension benefits.

Our lifting costs in Brazil, including government take, increased 24.9% to U.S.$ 10.77 per barrel of oil equivalent for 2004, from U.S.$ 8.62 per barrel of oil equivalent for 2003, due primarily to the higher operating expenses mentioned above, and increased expenses from special governmental participation due to the higher average reference price for domestic oil. The increase in these costs was partially offset by the 5.0% reduction in production from certain fields, primarily the Marlim and Marlim Sul oil fields, which have a higher special participation rate.

Our international lifting costs increased 5.7% to U.S.$ 2.60 per barrel of oil equivalent for 2004, as compared to U.S.$ 2.46 per barrel of oil equivalent for 2003. This increase was primarily due to increased expenses for personnel, materials and third party services contracted at Block 18 in Ecuador and increased maintenance expenses in Angola and in the United States.

Refining

The feedstock (output of oil products) processed by refineries in Brazil increased 3.5% from 1,639 Mbpd during 2003 to 1,696 Mbpd during 2004, due to the modernization and expansion of the refining facilities at RLAM, REVAP, REGAP and REPLAN during 2003 and the 5.2% increase in internal consumption of oil products in Brazil.

Refining costs

Domestic unit refining costs increased 16.2% to U.S.$ 1.36 per barrel of oil equivalent for 2004, as compared to U.S.$ 1.17 per barrel of oil equivalent for 2003. This increase was primarily due to: (1) higher personnel expenses primarily related to: (a) overtime payments as set forth in our collective bargaining agreement; (b) an increase in our workforce; and (c) a revision in the actuarial calculations relating to future health care and pension benefits; (2) an increase in costs related to planned stoppages at certain refineries; and (3) third-party services, mainly for corrective maintenance.

International unit refining costs increased 3.4% to U.S.$1.21 per barrel of oil equivalent for 2004, as compared to U.S.$ 1.17 per barrel of oil equivalent for 2003. This increase was primarily due to increased expenses for personnel, materials, maintenance and contracted services which primarily consisted of environmental and quality control consulting in Argentina.

Sales Volume

Our domestic sales volume, consisting primarily of sales of diesel oil, gasoline, jet fuel, naphtha, fuel oil and liquefied petroleum gas, increased 6.6% to 1,879 thousand barrels per day for 2004, as compared to 1,762 thousand barrels per day for 2003. The increase in sales volume was primarily due to the rise in the sales of diesel oil, gasoline, jet fuel and LPG as a result of the rebound of the Brazilian economy in 2004, after a contraction in 2003. This increase was partially offset by a reduction in the volume of sales of fuel oil, which reflected the increased use of products that serve as substitutes for fuel oil, such as imported coke, coal (domestic and imported), wood, biomass, and natural gas.

Table of Contents

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We earn income from:

- domestic sales, which consist of sales of oil products (such as diesel oil, gasoline, jet fuel, naphtha, fuel oil and liquefied petroleum gas), natural gas and petrochemical products;
- export sales, which consist primarily of sales of crude oil and oil products;
- international sales (excluding export sales), which consist of sales of crude oil, natural gas and oil products that are purchased, produced and refined abroad; and
- other sources, including services, investment income and foreign exchange gains.

Our expenses include:

- costs of sales (which are comprised primarily of labor expenses, cost of operating and purchases of crude oil and oil products); maintaining and repairing property, plants and equipment; depreciation and amortization of fixed assets and depletion of oil fields, and costs of exploration; ;
- selling, general and administrative expenses; and
- interest expense, monetary and foreign exchange losses.

Fluctuations in our financial condition and results of operations are driven by a combination of factors, including:

- the volume of crude oil, oil products and natural gas we produce and sell;
- changes in international prices of crude oil and oil products, which are denominated in U.S. dollars;
- related changes in domestic prices of crude oil and oil products, which are denominated in Reais;

- fluctuations in the Real/U.S. dollar exchange rate;

- Brazilian political and economic conditions; and

- the amount of taxes and duties that we are required to pay with respect to our operations, by virtue of our status as a Brazilian company and our involvement in the oil and gas industry.

Table of Contents

RESULTS OF OPERATIONS FOR 2004 COMPARED TO 2003

The comparison between our results of operations for 2004 and 2003 has been affected by the 4.8% decrease in the average Real/U.S. dollar exchange rate for 2004 as compared to the average Real/U.S. dollar exchange rate for 2003. For ease, we refer to this change in the average exchange rate as the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

We acquired PEPSA and PELSA in May 2003. Our results of operations for 2003 only include PEPSA and PELSA s results from June to December of 2003. See Note 20 to our audited consolidated financial statements for the year ended December 31, 2004 for further information about the acquisition and the pro forma consolidated income statements for the year ended December 31, 2003.

We adopted FIN 46 in our financial statements for the year ended December 31, 2003. Our interest in certain project financings special purpose entities and thermoelectric plants were consolidated on a line-by-line basis in the income statement beginning as of January 1, 2004. Although there were effects in each line of the income statement, it did not have a significant impact on our net income.

Revenues

Net operating revenues increased 21.6% to U.S.$ 37,452 million for 2004, as compared to U.S.$ 30,797 million for 2003. This increase was primarily attributable to an increase in prices of our products, both in the domestic market and outside Brazil, an increase in sales volume in the domestic market, and the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Consolidated sales of products and services increased 21.7% to U.S.$ 51,954 million for 2004, as compared to U.S.$ 42,690 million for 2003, primarily due to the increases mentioned immediately above.

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

- Value-added and other taxes on sales of products and services and social security contributions. These taxes increased 23.2% to U.S.$ 11,882 million for 2004, as compared to U.S.$ 9,644 million for 2003, primarily due to the increase in prices and sales volume of our products and services; and

- CIDE, the per-transaction tax due to the Brazilian government, which increased 16.5% to U.S.$ 2,620 million for 2004, as compared to U.S.$ 2,249 million for 2003. This increase was primarily attributable to the increase in sales volume of our products and services and to the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Cost of sales

Cost of sales for 2004 increased 31.7% to U.S.$ 20,303 million, as compared to U.S.$ 15,416 million for 2003. This increase was principally a result of:

- a U.S.$ 2,037 million increase in the cost of imports due to higher prices and a greater volume of imports;
- a U.S.$ 775 million increase in costs associated with a 6.6% increase in our domestic sales volumes;
- a U.S.$ 644 million increase in costs of certain thermoelectric plants, whose financial statements we have been consolidating line by line since January 1, 2004, as a result of the adoption of FIN 46;
- a U.S.$ 556 million increase in costs associated with our international trading activities, due to increases in volume and prices from offshore operations, conducted by PIFCo;
- a U.S.$ 495 million increase in taxes and charges imposed by the Brazilian government totaling U.S.$ 3,576 million for 2004, as compared to U.S.$ 3,081

Table of Contents

million for 2003, including an increase in the special participation charge (an extraordinary charge payable in the event of high production and/or profitability from our fields) to U.S.$ 1,883 million for 2004, as compared to U.S.$ 1,625 million for 2003, as a result of higher international oil prices;

a U.S.$ 354 million increase in costs associated with the full consolidation of PEPSA and PELSA; and

the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Depreciation, depletion and amortization

We calculate depreciation, depletion and amortization of exploration and production assets on the basis of the units of production method. Depreciation, depletion and amortization expenses increased 39.0% to U.S.$ 2,481 million for 2004, as compared to U.S.$ 1,785 million for 2003. This increase was primarily attributable to the following:

an increase of approximately U.S.$ 331 million resulting from higher depreciation principally associated with the Dourado, Roncador, Marlim Sul and Jubarte Fields as a result of increased property, plant and equipment (PP&E) expenditures;

an increase of approximately U.S.$ 156 million resulting from the full consolidation of PEPSA and PELSA; and

the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Exploration, including exploratory dry holes

Exploration costs, including exploratory dry holes increased 19.7% to U.S.$ 613 million for 2004, as compared to U.S.$ 512 million for 2003. This increase was primarily attributable to the following:

an increase of U.S.$ 165 million in dry holes expenses, including U.S.$ 72 million associated with the write-off of signature bonuses in Angola;

an increase of U.S.$ 56 million in geological and geophysical expenses;

an increase of approximately U.S.$ 29 million resulting from the full consolidation of PEPSA and PELSA; and

the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

These increases were partially offset by a decrease of U.S.$ 196 million due to a revision in the estimated expenses for dismantling oil and gas producing areas and future well abandonment.

Impairment of oil and gas properties

For 2004, we recorded an impairment charge of U.S.$ 65 million, as compared to an impairment charge of U.S.$ 70 million for 2003. The impairment charge in 2004 related to capital expenditures for Brazilian fields in production, but with only marginal reserves. We also recorded an impairment charge of U.S.$ 13 million due to goodwill assessment. In 2003, the impairment charge was related to certain of our oil and gas producing properties in Brazil, Colombia and Angola. These charges were recorded based upon our annual assessment of these fields using prices consistent with those used in our overall strategic plan and discounted at a rate of 10%, a rate consistent with the rate used for internal project valuations.

Table of Contents

Selling, general and administrative expenses

Selling, general and administrative expenses increased 38.7 % to U.S.$ 2,901 million for 2004, as compared to U.S.$ 2,091 million for 2003.

Selling expenses increased 51.4% to U.S.$ 1,544 million for 2004, as compared to U.S.$ 1,020 million for 2003. This increase was primarily attributable to the following:

- an increase of U.S.$ 368 million in expenses mainly associated with the transportation costs of oil products. A portion of these expenses were previously classified as cost of sales in 2003;
- an increase of approximately U.S.$ 33 million in selling expenses resulting from the full consolidation of PEPSA and PELSA;
- an increase of approximately U.S.$ 33 million in selling expenses resulting from the charge for doubtful accounts; and
- the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

General and administrative expenses increased 26.7% to U.S.$ 1,357 million for 2004, as compared to U.S.$ 1,071 million for 2003. This increase was primarily attributable to the following:

- the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003;
- an increase of approximately U.S.$ 110 million in expenses related to technical consulting services in connection with our increased outsourcing of selected non-core general activities;
- an increase of approximately U.S.$ 45 million resulting from the full consolidation of PEPSA and PELSA; and
- an increase of approximately U.S.$ 72 million in employee expenses due to the increase in our workforce and salaries; and an increase in the actuarial calculations relating to future health care and pension benefits.

Research and development expenses

Research and development expenses increased 23.4% to U.S.$ 248 million for 2004, as compared to U.S.$ 201 million for 2003. This increase was primarily related to additional investments in programs for environmental safety, deepwater and refining technologies of approximately U.S.$ 36 million and to the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Other operating expenses

Other operating expenses decreased 20.6% to an expense of U.S.$ 259 million for 2004, as compared to an expense of U.S.$ 326 million for 2003.

The charges for 2004 were:

- a U.S.$110 million expense for idle capacity from thermoelectric power plants;
- a U.S.$85 million expense for unscheduled stoppages of plant and equipment; and
- a U.S.$64 million increase in contractual losses from compliance with our ship or pay commitments with respect to our investments in the OCP pipeline in Ecuador.

The charges for 2003 were:

- a U.S.$173 million expense for unscheduled stoppages of plant and equipment;
- a U.S.$97 million provision for expected losses on the sale of property, plant and equipment related to offshore production; and
- a U.S.$56 million increase in losses associated with our ship or pay commitments related to the OCP pipeline in Ecuador.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies increased 22.0% to a gain of U.S.$ 172 million for 2004, as compared to a gain of U.S.$ 141 million for 2003, due primarily to a U.S.$ 21 million gain as a result of the consolidation of PEPSA and PELSA and their equity method investees for the full year in 2004, as opposed to approximately seven months in 2003.

Table of Contents

Financial income

We derive financial income from several sources, including interest on cash and cash equivalents. The majority of our cash equivalents are short-term Brazilian government securities, including securities indexed to the U.S. dollar. We also hold U.S. dollar deposits.

Financial income increased 51.3% to U.S.$ 911 million for 2004 as compared to U.S.$ 602 million for 2003. This increase was primarily attributable to fair value adjustments on gas hedge transactions, which was partially offset by a decrease in financial interest income from short-term investments due to higher investments in securities indexed to the U.S. dollar in 2004 when compared to 2003, resulting in lower income due to the effect of the 8.1% appreciation of the Real against the U.S. dollar during 2004, as compared to the 18.2% appreciation of the Real against the U.S. dollar during 2003. A breakdown of financial income and expenses is shown in Note 14 to our audited consolidated financial statements for the year ended December 31, 2004.

Financial expense

Financial expense increased 39.0% to U.S.$ 1,733 million for 2004, as compared to U.S.$ 1,247 million for 2003. This increase was primarily attributable to an increase of approximately U.S.$ 233 million in financial expenses resulting from PEPSA s hedge operations; as well as a loss of U.S.$ 137 million on repurchases of our own securities.

Monetary and exchange variation on monetary assets and liabilities, net

Monetary and exchange variation on monetary assets and liabilities, net generated a gain of U.S.$ 450 million for 2004, as compared to a gain of U.S.$ 509 million for 2003. The decrease in monetary and exchange variation on monetary assets and liabilities, net is primarily attributable to the effect of the 8.1% appreciation of the Real against the U.S. dollar during 2004, as compared to the 18.2% appreciation of the Real against the U.S. dollar during 2003.

Employee benefit expense

Employee benefit expense consists of financial costs associated with expected pension and health care costs. Our employee benefit expense increased 9.2% to U.S.$ 650 million for 2004, as compared to U.S.$ 595 million for 2003. This increase in costs was primarily attributable to an increase of U.S.$ 25 million from the annual actuarial calculation of our pension and health care plan liability and to the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Other taxes

Other taxes, consisting of miscellaneous value-added, transaction and sales taxes, increased 32.1% to U.S.$ 440 million for 2004, as compared to U.S.$ 333 million for 2003. This increase was primarily attributable to the following:

- an increase of U.S.$ 37 million in the CPMF, a tax payable in connection with certain financial transactions;
- an increase of U.S.$ 22 million in taxes related to our international activities;
- an increase of U.S.$ 18 million in the PASEP/COFINS taxes on financial income, due to an increase in the COFINS tax rate from 3.0% to 7.6% beginning February 1, 2004; and
- the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Table of Contents

Other expenses, net

Other expenses, net are primarily composed of gains and losses recorded on sales of fixed assets, general advertising and marketing expenses and certain other non-recurring charges. Other expenses, net decreased to an expense of U.S.$ 357 million for 2004, as compared to an expense of U.S.$ 700 million for 2003.

The most significant charges for 2004 were:

- a U.S.$ 262 million expense for institutional relations and cultural projects;
- a U.S.$ 87 million expense for legal liability and contingencies related to pending lawsuits; and
- a U.S.$ 46 million provision for tax assessments received from the Instituto Nacional de Seguridade Social (National Social Security Institute, or INSS). See Note 21 to our audited consolidated financial statements for the year ended December 31, 2004.

The most significant charges for 2003 were:

- a U.S.$ 198 million expense for institutional relations and cultural projects;
- a U.S.$ 183 million loss related to our investments in certain thermoelectric power plants resulting from our contractual obligations to cover losses when decreased demand for power and electricity resulted in lower prices;
- a U.S.$ 130 million expense for legal liability and contingencies related to pending lawsuits. See Note 21 to our audited consolidated financial statements for the year ended December 31, 2004;
- a U.S.$ 114 million expense for a lower of cost or market adjustment with respect to turbines we expected to use in connection with our thermoelectric projects, but which we did not use for such projects; and
- a U.S.$ 55 million provision for tax assessments received from the Instituto Nacional de Seguridade Social (National Social Security Institute, or INSS).

Income tax (expense) benefit

Income before income taxes, minority interest and accounting changes increased 1.8% to U.S.$ 8,935 million for 2004, as compared to U.S.$ 8,773 million for 2003. The income tax expense decreased 16.2% to U.S.$ 2,231 million for 2004, as compared to an expense of U.S.$ 2,663

11

million for 2003, primarily due to the additional tax benefits related to interest on shareholders equity that amounted to U.S.$ 650 million for 2004, as compared to U.S.$ 364 million for 2003.

The reconciliation between the tax calculated based upon statutory tax rates to income tax expense and effective rates is shown in Note 4 to our audited consolidated financial statements for the year ended December 31, 2004.

Cumulative effect of change in accounting principle

As of January 1, 2003, we generated a gain of U.S.$ 697 million (net of U.S.$ 359 million of taxes) resulting from the adoption of SFAS No. 143 Accounting for Asset Retirement Obligations. The adjustment was due to the difference in the method of accruing end of life asset retirement obligations under SFAS 143, as compared with the method required by SFAS 19 Financial Accounting and Reporting by Oil and Gas Producing Companies.

Table of Contents

Increase of authorized capital

The General Extraordinary Shareholders Meeting, held in conjunction with the General Ordinary Meeting on March 29, 2004, approved an increase in authorized capital from R$ 30 billion (U.S.$ 10.4 billion) to R$ 60 billion (U.S.$ 20.8 billion).

Natural gas derivative contract

In connection with a long-term contract to buy gas (Gas Supply Agreement or the GSA) to supply thermoelectric plants and for other uses in Brazil, we entered into a contract, effective October 2002, with a gas producer that constituted a derivative financial instrument under SFAS 133. This contract, the Natural Gas Price Volatility Reduction Contract (or PVRC), matures in 2019 and was executed with the purpose to reduce the volatility of price respective to the GSA.

At inception, the PVRC had a positive value to us of U.S.$ 169 million, which is deemed a deferred purchase incentive and is being amortized into income on the basis of the volumes anticipated under the PVRC. The liability was U.S.$ 153 million at December 31, 2004 and generated a gain in the amount of U.S.$ 11 million, net of deferred tax effect of U.S.$ 5 million.

The PVRC is being accounted for under SFAS 133 as a derivative instrument, since the Company did not satisfy the documentation required for hedge accounting, and is being marked to its calculated fair value with changes in such value recognized in income. As of December 31, 2004, we recorded a derivative asset based on the fair value calculation in the amount of U.S.$ 635 million, and a mark-to-market gain in the amount of U.S.$ 365 million, net of deferred tax effect of US$188 million.

See Note 23 to our audited consolidated financial statements for the year ended December 31, 2004.

Table of Contents

THE PETROLEUM AND ALCOHOL ACCOUNT

Prior to 2002, the Petroleum and Alcohol account was a special account that reflected the impact on us of the Brazilian government s regulatory policies for the Brazilian oil industry and its fuel alcohol program. To facilitate the eventual settlement of the account, the Brazilian government issued National Treasury Bonds-Series H in our name, which were placed with a federal depositary to support the balance of the account.

In accordance with Brazilian legislation, the fuel market was deregulated in its entirety in January 2002. On December 31, 2004 the balance of the Petroleum and Alcohol account was U.S.$ 282 million.

Under Brazilian law, the settlement of the Petroleum and Alcohol account with the Brazilian government should have occurred by June 30, 2004. On July 2, 2004, the Government effected a deposit in the amount of U.S.$ 56 million corresponding to the National Treasury Bonds-Series H, as they had expired, in partial guarantee of the amount of the accounts, of which U.S.$ 3 million were made available to us and the remaining U.S.$ 53 million was placed in an account, in our favor, although we are prevented from withdrawing or transferring these bonds. We have continued discussions with the National Treasury Secretary in order to conclude the settlement process.

The value of the Petroleum and Alcohol account may be paid by issuing National Treasury shares in an amount equal to the final value of the account or by canceling amounts that we may owe to the Federal Government, including taxes or a combination of the foregoing options.

The following summarizes the changes in the Petroleum and Alcohol account for the year ended December 31, 2004:

	U.S. $ million
Balance as of December 31, 2003	239
Reimbursements to Petrobras	1
Financial income	4
Result of audit conducted by the Federal Government	16
Partial settlement	(3)
Translation gain	25
Balance as of December 31, 2004	**282**

Table of Contents

BUSINESS SEGMENTS

NET INCOME BY BUSINESS SEGMENT

	U.S. $ million Year ended December 31,	
	2004	**2003**
Exploration and Production	5,961	5,504
Supply (1)	854	1,743
Gas and Energy	154	(196)
International (1) (2)	243	96
Distribution	200	138
Corporate	(1,055)	(496)
Eliminations	(167)	(230)
Net income	6,190	6,559

(1) Net operating revenues and the cost of sales with respect to 2003 were reclassified from the International segment to the Supply segment in relation to certain offshore operations. There was no significant impact on the results reported for these segments.

(2) Since June 1, 2003, the international business segment includes the Argentine operations of PEPSA and PELSA (both acquired in May 2003).

Exploration and Production

Our exploration and production segment includes our exploration, development and production activities in Brazil, sales and transfers of crude oil in the domestic and foreign markets and transfers of natural gas to our Gas and Energy segment.

Consolidated net income for our exploration and production segment increased 8.3% to U.S.$ 5,961 million for 2004, as compared to U.S.$ 5,504 million for 2003. This increase was primarily attributable to:

a U.S.$ 3,173 million increase in net operating revenues, primarily related to the positive effects of higher international oil prices on the sales/transfer prices of domestic oil and the 6.0% increase in natural gas production, despite the 3.1% decrease in oil and NGL production and the more moderate price increases of heavy crude oil in the international market compared to lighter crude oil. The spread between the price of domestic oil sold/transferred and the average Brent price rose from U.S.$ 1.75/bbl in 2003, to U.S.$ 4.72/bbl in 2004.

These effects were partially offset by the following items:

- a U.S.$ 939 million increase in cost of sales as a result of an increase in our production costs and because of the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003, despite the 3.1% decrease in oil and NGL production;

- a U.S.$ 367 million increase in depreciation, depletion and amortization expenses, mainly due to higher depreciation associated with the Dourado, Roncador, Marlim Sul and Jubarte fields because of the additional PP&E expenditures and because of the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003; and

- the cumulative effect of a change in accounting principles relating to future liabilities for site restoration costs, which led to an increase in our net income of U.S.$ 697 million, net of taxes, in 2003.

Table of Contents

Supply

Our supply segment includes refining, logistics, transportation and the purchase of crude oil, as well as the purchase and sale of oil products and fuel alcohol. Additionally, this segment includes the petrochemical and fertilizers division, which includes investments in domestic petrochemical companies and our two domestic fertilizer plants.

Our supply segment registered net income of U.S.$ 854 million for 2004, a decrease of 51.0% as compared to net income of U.S.$ 1,743 million for 2003. This decrease was primarily a result of:

- an increase of U.S.$ 5,690 million in the cost of sales, mainly attributable to: (1) an increase in the cost to acquire oil and oil products because of higher international prices; (2) higher unit refining costs; and (3) a 5.2% increase in the volume of oil products sold in the domestic market;
- an increase of U.S.$ 228 million in selling, general and administrative expenses, primarily related to the increase in sales expenses arising from increased volumes sold; and
- an increase of U.S.$ 151 million in depreciation, depletion and amortization resulting from additional investments in refining facilities in order to optimize production and increase processing capacity.

These effects were partially offset by an increase of U.S.$ 4,761 million in net operating revenues, primarily related to the increased volume of sales in the domestic market, the increase in the average realization value of oil products sold in the domestic market and the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Gas and Energy

Our gas and energy segment consists principally of the purchase, sale, transportation and distribution of natural gas produced in or imported into Brazil. Additionally, this segment includes our participation in domestic electricity production, including investments in domestic natural gas transportation companies, state owned natural gas distributors and thermoelectric companies.

Consolidated net income for our gas and energy segment was a net gain U.S.$ 154 million in 2004, as compared to a net loss of U.S.$ 196 million in 2003. The net income was primarily a result of:

- a U.S.$ 541 million increase in net operating revenues primarily due to: (1) the 18.6% increase in the volume of natural gas sold, reflecting the continued expansion of natural gas consumption in Brazil, mainly in thermal generation, but also in the industrial and automotive segments; (2) an increase in revenues of certain thermoelectric plants, whose financial statements we have been consolidating line by line since December 2003, as a result of the adoption of FIN 46; and (3) the effects of the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003. These increases were partially offset by a reduction in average realization value of natural gas; and financial income, net, of U.S.$ 730 million in 2004 as compared to financial expenses, net, of U.S.$ 78 million in 2003. This financial income was primarily attributable to the recognition of a U.S.$ 492 million gain with respect to a fair value adjustment on a gas hedge transaction.

These effects were partially offset by the following items:

a U.S.$ 950 million increase in cost of sales primarily due to:

(1) a 18.6% increase in the volume of natural gas sold, reflecting the continued expansion of natural gas consumption in Brazil, mainly in thermal generation, as well as the industrial and automotive segments; (2) the increase in the portion of Bolivian gas which is more expensive than domestic gas that comprised our natural gas sales, from 39.0% in 2003 to 46.3% in 2004; (3) an increase in costs of certain thermoelectric plants, whose financial statements we have been consolidating line by line since December 2003, as a result of the adoption of FIN 46; and (4) the effects of the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003; and

a loss of U.S.$ 110 million because certain thermoelectric power plants remained unexpectedly idle.

Table of Contents

International

The international segment represents our international activities conducted in 13 countries, which include Exploration and Production, Supply, Distribution and Gas and Energy.

Consolidated net income for our international segment was U.S.$ 243 million in 2004, as compared to U.S.$ 96 million in 2003. The increase in net income was primarily attributable to the following effects, most of them associated with the consolidation of PEPSA and PELSA:

- an increase of U.S.$ 1,445 million of net operating revenues, which primarily reflects the effects of increased international oil prices, increased gas sales from Bolivia, and increased sales volumes, primarily in Argentina, Bolivia and Colombia;
- an increase of U.S.$ 735 million in cost of sales, primarily due to the increase in sales volume;
- financial expenses, net, of U.S.$ 417 million in 2004 as compared to U.S.$ 129 million in 2003, primarily as a result of the Argentine Peso/U.S. dollar exchange rate as well as from losses associated with PEPSA s hedge operations of U.S.$ 233 million;
- an increase of U.S.$ 135 million in depreciation, depletion and amortization, primarily as a result of increased PP&E expenditures;
- an increase of U.S.$ 127 million in selling, general and administrative expenses, primarily related to the increase in sales expenses as a result of the increase in sales volume; and
- an increase of U.S.$ 65 million in exploration costs, including exploratory dry holes and impairment, which primarily reflects a write-off of the signing bonus for Block 34 in Angola related to dry wells (U.S.$ 72 million).

Distribution

Our distribution segment represents the oil product and fuel alcohol distribution activities conducted by our majority owned subsidiary, Petrobras Distribuidora S.A. - BR in Brazil. In accordance with our strategic objectives to increase market share in the LPG distribution segment and consolidate the automotive fuels distribution market in certain regions of Brazil, our distribution business now includes the operations of Liquigás Distribuidora S.A (formerly known as Sophia do Brasil S.A. and Agip do Brasil S.A.), acquired on August 9, 2004.

Our participation in the Brazilian fuel distribution market in 2004 represented 35.6% of all sales, including Liquigás Distribuidora S.A., which represented 2.8% of total sales, as compared to 31.5% in 2003.

Consolidated net income for our distribution segment increased 44.9% to U.S.$ 200 million for 2004, as compared to U.S.$ 138 million for 2003, primarily attributable to the:

- U.S.$ 2,473 million increase in net operating revenues, due primarily to the 12.0% increase in sales volume;
- U.S.$ 42 million increase in net operating revenues due to the consolidation of Liquigás Distribuidora S.A; and
- the effects of the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

These effects were partially offset by the following items:

- an increase of U.S.$ 2,214 million in the cost of sales, mainly attributable to the increase in sales volume;
- an increase of U.S.$ 151 million in selling, general and administrative expenses, mainly due to an increase of the provision for doubtful accounts and increased expenses for the distribution of products; and
- the effects of the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

Table of Contents

Corporate

Our corporate segment includes those activities not attributable to other segments, including corporate financial management, overhead related to central administration and other expenses, including actuarial expenses related to our pension and health care plans.

Consolidated net loss for the units that make up our corporate segment increased to U.S.$ 1,055 million during 2004, as compared to a net loss of U.S.$ 496 million during 2003. This increase in net loss was primarily attributable to:

- financial expenses, net, of U.S.$ 621 million in 2004, as compared to financial income, net, of U.S.$ 506 million in 2003, resulting mainly from the effect of the 8.1% appreciation of the Real against the U.S. dollar during 2004 as compared to the 18.2% appreciation of the Real against the U.S. dollar during 2003, and lower revenues from financial investments, due to a reduction in the volume of investments and the lower return in 2004;

- an increase of U.S.$ 55 million in employee benefit expense, primarily attributable to the increase of U.S.$ 25 million from the annual actuarial calculation of our pension and health care plan liability; and to the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003;

- an increase of U.S.$ 64 million in other taxes, mainly attributable to (1) the increase in the PASEP/COFINS taxes on financial income, primarily as a result of the change in the COFINS tax rate, from 3.0% to 7.6%, beginning February 1, 2004, (2) an increase in the CPMF, a tax payable in connection with certain financial transactions and (3) the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003;

- an increase of U.S.$ 72 million in selling, general and administrative expenses, mainly as a result of the increase in expenses related to personnel and technical consulting services in connection with our increased outsourcing of selected non-core general and administrative activities; and

- the 4.8% increase in the value of the Real against the U.S. dollar in 2004, as compared to 2003.

These effects were partially offset by a U.S.$ 679 million increase in gains associated with income tax benefits, principally deferred tax benefits.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal uses of funds are for capital expenditures, dividend payments and repayment of debt. We have historically met these requirements with internally generated funds, short-term debt, long-term debt, project financings and sale and lease back agreements. We believe these sources of funds, together with our strong cash and cash equivalents on hand, will continue to allow us to meet our currently anticipated capital requirements. In 2005, our major cash needs include planned capital expenditures of U.S.$ 9,818 million, announced dividends of U.S.$ 1,847 million and payments of U.S.$ 3,325 million on our long-term debt, leasing and project financing obligations.

Financing Strategy

The objective of our financing strategy is to help us achieve the targets set forth in our Strategic Plan released on May 14, 2004, which provides for capital expenditures of U.S.$ 53.6 billion from 2004-2010. We also aim to increase the average life of our debt portfolio and reduce our cost of capital through a variety of medium and long-term financing arrangements, including supplier financing, project financings, bank financing, securitizations and issuances of debt and equity securities.

Government Regulation

The Ministry of Planning, Budget and Management controls the total amount of medium and long-term debt that we and our Brazilian subsidiaries are allowed to incur through the annual budget approval process (*Plano de Dispêndio Global*, or PDG). Before issuing medium and long-term debt, we and our Brazilian subsidiaries must also obtain the approval of the National Treasury shortly before issuance.

All of our foreign currency denominated debt, as well as the foreign currency denominated debt of our Brazilian subsidiaries requires registration with the Central Bank. The issuance of debt by our international subsidiaries, however, is not subject to registration with the Central Bank or approval by the National Treasury. In addition, all issuances of medium and long-term notes and debentures require the approval of our board of directors. Borrowings that exceed the approved budget amount for any year also require approval from the Brazilian Senate.

Sources of Funds

Our Cash Flow

At December 31, 2004, we had cash and cash equivalents of U.S.$ 6,856 million as compared to U.S.$ 8,344 million at December 31, 2003.

Operating activities provided net cash flows of U.S.$ 8,833 million in 2004, as compared to U.S.$ 7,303 million in 2003. This increase was due primarily to the increase in net operating revenues in 2004.

Net cash used in investing activities increased to U.S.$8,421 million in 2004, as compared to U.S.$ 5,519 million in 2003. This increase was due primarily to our investments in capital expenditures associated with our operating activities and to the acquisition of Liquigás Distribuidora S.A.

Financing activities used net cash of U.S.$ 2,204 million in 2004, as compared to providing net cash in the amount of U.S.$ 2,376 million in 2003. This change in the balance of the cash flows was due primarily to higher dividend and short-term debt payments in 2004, and the decreased amount of Global Notes issued in the international capital markets in 2004, as compared to issuances in 2003.

Table of Contents

Short-Term Debt

Our outstanding short-term debt serves mainly to support our imports of crude oil and oil products, and is provided almost completely by international banks and under our commercial paper program. At December 31, 2004, our short-term debt (excluding current portions of long-term obligations) decreased to U.S.$ 547 million as compared to U.S.$ 1,329 million at December 31, 2003. The decreased use of short-term credit facilities was related to our decision to take steps to lengthen our debt profile and pay down short-term debt. Our short-term debt is denominated principally in U.S. dollars.

Long-Term Debt

Our outstanding long-term debt consists primarily of the issuance of securities in the international capital markets, debentures in the domestic capital markets, amounts outstanding under facilities guaranteed by export credit agencies and multilateral agencies and financing from the Banco Nacional de Desenvolvimento Econômico e Social (the Brazilian National Development Bank, or BNDES) and other financial institutions. Outstanding long-term debt, plus the current portion of our long-term debt, totaled U.S.$ 13,344 million at December 31, 2004, as compared to U.S.$ 13,033 million at December 31, 2003.

The increase in our long-term debt was due primarily to the issuance on September 8, 2004, through PIFCo, of U.S.$ 600 million of Global Notes for 98.638% of their face value, with an annual coupon of 7.75% due 2014. The issuance reflects our efforts to continue to lengthen our debt profile.

Included in these figures at December 31, 2004 are the following international debt issues:

Notes	**Principal Amount**
9.00% Notes due 2004(1)	EUR 91 million
10.00% Notes due 2006	U.S.$250 million
6.625% Step Down Notes due 2007(1)	EUR 134 million
9.125% Notes due 2007(2)	U.S.$500 million
9.875% Notes due 2008(2)	U.S.$450 million
6.750% Senior Trust Certificates due 2010(3)	U.S.$95 million
Floating Rate Senior Trust Certificates due 2010(3)	U.S.$55 million
9.750% Notes due 2011(2)	U.S.$600 million
6.600% Senior Trust Certificates due 2011(3)	U.S.$300 million
Floating Rate Senior Trust Certificates due 2013(3)	U.S.$300 million
4.750% Senior Exchangeable Notes due 2007(4)	U.S.$338 million
Global Step-up Notes due 2008(5)	U.S.$400 million
9.125% Global Notes due 2013(6)	U.S.$750 million
8.375% Global Notes due 2018(6)	U.S.$750 million
3.748% Senior Trust Certificates due 2013(3)	U.S.$200 million
6.436% Senior Trust Certificates due 2015(3)	U.S.$550 million
9.375% Notes due 2013(7)	U.S.$100 million
7.75% Global Notes due 2014(2)	U.S. $600 million

(1) Euro; U.S.$ 1.3612 = EUR 1.00 at December 31, 2004.

(2) Issued by PIFCo, with support from us through a standby purchase agreement and with insurance against 18 months of inconvertibility and transfer risk for interest payments.

(3) Issued by PIFCo in connection with a financing program supported by future sales of bunker fuel and fuel oil.

(4) Issued by PIFCo on October 17, 2002 in connection with our acquisition of PEPSA.

(5) The Global Step-up Notes bear interest from March 31, 2003 at a rate of 9.00 % per year until April 1, 2006 and at rate of 12.375% per year thereafter, with interest payable semi-annually. Issued by PIFCo, with support from us through a standby purchase agreement.

(6) Issued by PIFCo for general corporate purposes, with support from us through a standby purchase agreement.

(7) Issued by PEPSA on October 31, 2003 to cancel existing liabilities.

Table of Contents

Project financings

Since 1997, we have utilized project financings to provide capital for our large exploration and production and related projects, including some natural gas processing and transportation systems. All of these projects, and the related debt obligations of special purpose companies established for these financings, are on-balance sheet and accounted for under the line item Project Financings . Under typical contractual arrangements, we are responsible for completing the development of the oil and gas fields, operating the fields, paying all operating expenses relating to the projects and remitting a portion of the net proceeds generated from the fields to fund the special purpose companies debt and return on equity payments. At the end of each financing project, we have the option to purchase the project assets from the special purpose company or, in some cases, acquire control over the special purpose company itself.

Outstanding project financings, plus the current portion of our project financings, totaled U.S.$ 5,712 million at December 31, 2004, as compared to U.S.$ 5,908 million at December 31, 2003.

Extinguished securities

At December 31, 2004 and 2003, we had amounts invested abroad in an exclusive investment fund that held debt securities of some of our group companies in the amount of U.S.$ 2,013 million and U.S.$ 920 million, respectively. Once these securities are purchased by the fund, the related amounts, together with applicable interest, are removed from the presentation of marketable securities and long-term debt.

Off Balance Sheet Arrangements

At December 31, 2004, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Table of Contents

Uses of Funds

Capital Expenditures

In the pursuit of the goals outlined in our Strategic Plan we continue to prioritize capital expenditures for the development of crude oil and natural gas production projects through internal investments and through structured undertakings with partners.

We invested a total of U.S.$ 7,718 million in 2004, a 17.8% increase from our investments in 2003. Our investments in 2004 were primarily directed towards increasing our production capabilities in the Campos Basin, modernizing our refineries and expanding our pipeline transportation and distribution systems. Of the total amount of capital expenditures in 2004, U.S.$ 4,574 million were made in connection with exploration and development projects mainly in the Campos Basin (59.3%), which includes investments financed through project financing structures.

The following table sets forth our consolidated capital expenditures (including project financings and investments in thermoelectric power plants) for each of our business segments for 2004 and 2003:

Activities

	U.S.$ million Year ended December 31,	
	2004	**2003**
Exploration and Production	4,574	3,658
Supply	1,367	1,451
Gas and Energy	782	694
International:		
Exploration and Production	666	428
Supply	43	18
Distribution	12	33
Gas and Energy	6	1
Distribution	47	106
Corporate	221	162
Total capital expenditures	**7,718**	**6,551**

Table of Contents

Dividends

Based on our financial results and cash available for distribution, the general shareholders meeting held on March 31, 2005 approved a distribution of dividends of U.S.$ 1,847 million (U.S.$ 1.68 per share) including the portion of interest on shareholders equity approved by the Board of Directors on September 17, 2004 and paid to shareholders on February 15, 2005, amounting to U.S.$ 1,239 million, (U.S.$ 1.13 per share). The remaining balance includes dividends in the amount of U.S.$ 248 million and interest on shareholders equity in the amount of U.S.$ 413 million.

Risk Management Activities

We are exposed to a number of market risks arising in the normal course of our business. We may use derivative and non-derivative instruments to manage these risks. For a description of our risk management activities, see Note 22 to our audited consolidated financial statements for the year ended December 31, 2004**.**

Contractual Obligations

The following table summarizes our outstanding contractual obligations at December 31, 2004:

	Payments due by period (in millions of U.S. dollars)				
Contractual Obligations:	*Total*	*Less than 1 year*	*1-3 years*	*3-5 years*	*More than 5 years*
Balance Sheet Items:					
Long-Term Debt Obligations	13,344	1,199	3,623	2,447	6,075
Pension Fund Obligations(1)	11,509	587	1,328	1,574	8,020
Project Finance Obligations	5,712	1,313	2,115	1,672	612
Capital (Finance) Lease Obligations	1,335	266	415	343	311
Total Balance Sheet Items	31,900	3,365	7,481	6,036	15,018
Other Long-Term Contractual Obligations:					
Natural Gas Ship-or-Pay Commitments	9,750	650	1,300	1,300	6,500
Contract Service Obligations	5,771	2,176	2,364	745	486
Natural Gas Supply Agreements	5,188	532	696	660	3,300
Operating Lease Obligations	4,349	1,223	1,533	846	747
Purchase Obligations	1,047	509	496	34	8
Total Other Long-Term Contractual Obligations	26,105	5,090	6,389	3,585	11,041
Total	58,005	8,455	13,870	9,621	26,059

(1) There are plan assets in the amount of U.S.$ 7,104 million that guarantee the pension plan obligations. These assets are presented as a reduction to the net actuarial liabilities. See Note 18 to our audited consolidated financial statements for the year ended December 31, 2004.

Table of Contents

Income Statement

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

				Year ended December 31,	
3Q-2004	**4Q-2004**	**4Q-2003**		**2004**	**2003**
14,095	14,722	11,390	Sales of products and services	51,954	42,690
			Less:		
(3,149)	(3,349)	(2,585)	Value-added and other taxes on sales and services	(11,882)	(9,644)
(725)	(672)	(656)	CIDE	(2,620)	(2,249)
10,221	10,701	8,149	Net operating revenues	37,452	30,797
(5,630)	(6,257)	(4,358)	Cost of Sales	(20,303)	(15,416)
(651)	(667)	(463)	Depreciation, depletion and amortization	(2,481)	(1,785)
(233)	(176)	(201)	Exploration, including exploratory dry holes	(613)	(512)
	(65)	(43)	Impairment	(65)	(70)
(810)	(912)	(669)	Selling, general and administrative expenses	(2,901)	(2,091)
(66)	(68)	(64)	Research and development expenses	(248)	(201)
(32)	(84)	(173)	Other operating expenses	(259)	(326)
(7,422)	(8,229)	(5,971)	Total costs and expenses	(26,870)	(20,401)
39	31	38	Equity in results of non-consolidated companies	172	141
100	366	109	Financial income	911	602
(495)	(303)	(330)	Financial expense	(1,733)	(1,247)
281	489	(32)	Monetary and exchange variation on monetary assets and liabilities, net	450	509
(156)	(182)	(204)	Employee benefit expense	(650)	(595)
(75)	(95)	(109)	Other taxes	(440)	(333)
(209)	(31)	(97)	Other expenses, net	(357)	(700)
(515)	275	(625)		(1,647)	(1,623)
2,284	2,747	1,553	Income before income taxes and minority interests and accounting change	8,935	8,773
			Income tax expense:		
(255)	(647)	(346)	Current	(2,114)	(2,599)
(16)	20	(303)	Deferred	(117)	(64)
(271)	(627)	(649)	Total income tax expense	(2,231)	(2,663)
(174)	(413)	(10)	Minority interest in results of consolidated subsidiaries	(514)	(248)
1,839	1,707	894	Income before effect of change in accounting principle	6,190	5,862
			Cumulative effect of change in accounting principle, net of taxes		697

1,839	1,707	894	Net income for the period	6,190	6,559
			Weighted average number of shares outstanding		
634,168,418	634,168,418	634,168,418	Common/ADS	634,168,418	634,168,418
462,369,507	462,369,507	462,369,507	Preferred/ADS	462,369,507	461,379,749
			Basic and diluted earnings per share		
			Common/ADS and Preferred/ADS		
1.68	1.56	0.81	Before effect of change in accounting principle	5.65	5.35
1.68	1.56	0.81	After effect of change in accounting principle	5.65	5.99

24

Table of Contents

Selected Balance Sheet Data

(in millions of U.S. dollars, except for share data)

	As of December 31, 2004	As of December 31, 2003
Assets		
Current assets		
Cash and cash equivalents	6,856	8,344
Marketable securities	388	800
Accounts receivable, net	4,285	2,905
Inventories	4,904	2,947
Other current assets	2,993	2,438
Total current assets	19,426	17,434
Property, plant and equipment, net	37,020	30,805
Investments in non-consolidated companies and other investments	1,862	1,173
Other assets		
Petroleum and Alcohol account Receivable from Federal Government	282	239
Government securities	326	283
Marketable securities	313	806
Goodwill	211	183
Advances to suppliers	580	416
Prepaid Expenses	271	190
Fair value asset of gas hedge	635	
Other assets	2,156	2,083
Total other assets	4,774	4,200
Total assets	63,082	53,612
Liabilities and shareholders equity		
Current liabilities		
Trade accounts payable	3,284	2,261
Taxes payable, other than income taxes	2,298	2,157
Short-term debt	547	1,329
Current portion of long-term debt	1,199	1,145
Current portion of project financings	1,313	842
Current portion of capital lease obligations	266	378
Dividends and interest on capital payable	1,900	1,955
Other current liabilities	2,521	1,970
Total current liabilities	13,328	12,037
Long-term liabilities		
Long-term debt	12,145	11,888
Project financings	4,399	5,066
Employee benefits obligation - Pension	2,915	1,895
Employee benefits obligation - Health care	2,137	1,580
Capital lease obligations	1,069	1,242
Thermoelectric liabilities	1,095	1,142
Deferred purchase incentive	153	
Other liabilities	2,458	2,059

Total long-term liabilities	26,371	24,872
Minority interest	877	367
Shareholders equity		
Shares authorized and issued:		
Preferred share 2004 and 2003 - 462,369,507 shares	4,772	2,973
Common share 2004 and 2003 - 634,168,418 shares	6,929	4,289
Reserves and others	10,805	9,074
Total shareholders equity	22,506	16,336
Total liabilities and shareholders equity	63,082	53,612

25

Table of Contents

Statement of Cash Flows Data

(in millions of U.S. dollars)

3Q-2004	4Q-2004	4Q-2003		Year ended December 31, 2004	2003
			Cash flows from operating activities		
1,839	1,707	894	Net income for the period	6,190	6,559
			Adjustments to reconcile net income to net cash provided by operating activities		
674	658	475	Depreciation, depletion and amortization	2,497	1,805
260	331	37	Loss on property, plant and equipment and dry holes costs	751	326
	(16)		Amortization of deferred purchase incentive	(16)	
(273)	(181)	105	Foreign exchange and monetary loss (gain)	23	(138)
			Cumulative effect of change in accounting principle, net of taxes		(697)
151	82	414	Others	179	310
			Decrease (increase) in assets		
(315)	(80)	(532)	Accounts receivable	(928)	(477)
(5)	2	(2)	Petroleum and Alcohol account	(20)	(15)
	678	(1.266)	Marketable securities	678	(1,266)
(469)	(72)	339	Inventories	(1,527)	244
33	42	(36)	Advances to suppliers	3	562
(15)	(4)	(18)	Interest receivable on government securities	(38)	(157)
95	(162)	164	Others	(475)	(179)
			Increase (decrease) in liabilities		
310	203	62	Trade accounts payable	838	(156)
(135)	(25)	4	Taxes payable, other than income taxes	(65)	35
(217)	211	(79)	Income taxes payable	120	25
(46)	170	72	Contingencies	81	(78)
	(6)	199	Employee postretirement benefits, net of unrecognized pension obligation	561	535
(178)	263	230	Other liabilities	(19)	65
1,709	**3,801**	**1,062**	**Net cash provided by operating activities**	**8,833**	**7,303**
			Cash flows from investing activities		
(1,810)	(2,953)	(2,437)	Additions to property, plant and equipment	(7,718)	(6,551)
(471)	(142)	1,038	Others	(703)	1,032
(2,281)	**(3,095)**	**(1,399)**	**Net cash used in investing activities**	**(8,421)**	**(5,519)**
193	**52**	**1,455**	**Cash flows from financing activities**	**(2,204)**	**2,376**
(379)	**758**	**1,118**	**Increase (decrease) in cash and cash equivalents**	**(1,792)**	**4,160**
474	284	102	Effect of exchange rate changes on cash and cash equivalents	304	883
5,719	5,814	7,124	Cash and cash equivalents at beginning of period	8,344	3,301
5,814	**6,856**	**8,344**	**Cash and cash equivalents at the end of period**	**6,856**	**8,344**

26

Income Statement by Segment

	Year ended December 31, 2004							
	U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
STATEMENT OF INCOME								
Net operating revenues to third parties	2,487	20,046	1,505	3,085	10,329			37,452
Inter-segment net operating revenues	16,384	8,702	515	519	159		(26,279)	
Net operating revenues	18,871	28,748	2,020	3,604	10,488		(26,279)	37,452
Cost of Sales	(7,093)	(25,897)	(1,995)	(1,870)	(9,471)		26,023	(20,303)
Depreciation, depletion and amortization	(1,322)	(548)	(100)	(423)	(59)	(29)		(2,481)
Exploration, including exploratory dry holes and impairment	(470)		(13)	(195)				(678)
Selling, general and administrative expenses	(235)	(960)	(178)	(335)	(567)	(626)		(2,901)
Research and development expenses	(109)	(53)	(9)	(2)	(2)	(73)		(248)
Other operating expenses	(41)	(44)	(110)	(64)				(259)
Cost and expenses	(9,270)	(27,502)	(2,405)	(2,889)	(10,099)	(728)	26,023	(26,870)
Equity in results of non-consolidated companies		12	68	92				172
Financial income (expenses), net	(143)	82	730	(417)	(3)	(621)		(372)
Employee benefit expense						(650)		(650)
Other taxes	(12)	(25)	(30)	(47)	(54)	(272)		(440)
Other expenses, net	(46)	11	(87)	6	(80)	(161)		(357)
	(201)	80	681	(366)	(137)	(1,704)		(1,647)
Income (loss) before income taxes and minority interest	9,400	1,326	296	349	252	(2,432)	(256)	8,935
Income tax benefits (expense)	(3,217)	(438)	(32)	42	(52)	1,377	89	(2,231)
Minority interest	(222)	(34)	(110)	(148)				(514)
Net income (loss)	5,961	854	154	243	200	(1,055)	(167)	6,190

Table of Contents

Income Statement by Segment

	Year ended December 31, 2003 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
STATEMENT OF INCOME								
Net operating revenues to third parties	2,369	17,292	1,229	2,030	7,877			30,797
Inter-segment net operating revenues	13,329	6,695	250	129	138		(20,541)	
Net operating revenues (*)	15,698	23,987	1,479	2,159	8,015		(20,541)	30,797
Cost of sales (*)	(6,154)	(20,207)	(1,045)	(1,135)	(7,257)		20,382	(15,416)
Depreciation, depletion and amortization	(955)	(397)	(87)	(288)	(29)	(29)		(1,785)
Exploration, including exploratory dry holes and impairment	(452)			(130)				(582)
Selling, general and administrative expenses	(123)	(732)	(149)	(208)	(416)	(554)	91	(2,091)
Research and development expenses	(92)	(50)	(6)			(53)		(201)
Other operating expenses	(209)	(61)		(56)				(326)
Cost and expenses	(7,985)	(21,447)	(1,287)	(1,817)	(7,702)	(636)	20,473	(20,401)
Equity in results of non-consolidated companies		25	56	62		(2)		141
Financial income (expenses), net	(317)	146	(78)	(129)	(62)	506	(202)	(136)
Employee benefit expense						(595)		(595)
Other taxes	(9)	(24)	(19)	(25)	(48)	(208)		(333)
Other expenses, net	(15)	(39)	(387)	1	(1)	(259)		(700)
Income (loss) before income taxes and minority interest and accounting change	7,372	2,648	(236)	251	202	(1,194)	(270)	8,773
Income tax benefits (expense)	(2,506)	(874)	196	(154)	(63)	698	40	(2,663)
Minority interest	(59)	(31)	(156)	(1)	(1)			(248)
Income before effect of change in accounting principle	4,807	1,743	(196)	96	138	(496)	(230)	5,862
Cumulative effect of change in accounting principle, net of taxes	697							697
Net income (loss)	5,504	1,743	(196)	96	138	(496)	(230)	6,559

(*) Net operating revenues and the cost of sales with respect to 2003 were reclassified from the International segment to the Supply segment in relation to certain offshore operations. There was no significant impact on the results reported for these segments.

Table of Contents

Other Expenses, Net by Segment

	Year ended December 31, 2004							
	U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Provision for losses on financial exposure - Thermoelectric power plants			13					13
Institutional Relations and Culture Projects		(3)			(35)	(224)		(262)
Losses resulted from Contingencies		(12)			(11)	(5)		(28)
Losses resulted from Legal Proceedings	(27)				(32)			(59)
INSS Contingencies for joint liability	(46)							(46)
Others	27	26	(100)	6	(2)	68		25
	(46)	11	(87)	6	(80)	(161)		(357)

	Year ended December 31, 2003							
	U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Provision for losses on financial exposure - Thermoelectric power plants			(183)					(183)
Institutional Relations and Culture Projects		(2)			(27)	(169)		(198)
Losses resulted from Contingencies	(10)	(21)		(16)		(68)		(115)
Losses resulted from Legal Proceedings		(12)				(3)		(15)
Adjustment of Market Value of Turbines for Thermoelectrics Plants			(114)					(114)
INSS Contingencies for joint liability	(52)	(2)				(1)		(55)
Other	47	(2)	(90)	17	26	(18)		(20)
	(15)	(39)	(387)	1	(1)	(259)		(700)

29

Table of Contents

Selected Balance Sheet Data by Segment

	Year ended December 31, 2004 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Current assets	2,551	7,341	1,139	1,940	1,717	6,506	(1,768)	19,426
Cash and cash equivalents	878	496	178	490	104	4,710		6,856
Other current assets	1,673	6,845	961	1,450	1,613	1,796	(1,768)	12,570
Investments in non-consolidated companies and other investments	8	919	307	516	25	87		1,862
Property, plant and equipment, net	20,458	6,333	4,506	4,160	1,011	571	(19)	37,020
Non current assets	1,270	438	1,331	316	265	6,783	(5,629)	4,774
Petroleum and Alcohol account						282		282
Government securities						326		326
Other assets	1,270	438	1,331	316	265	6,175	(5,629)	4,166
Total assets	24,287	15,031	7,283	6,932	3,018	13,947	(7,416)	63,082

Table of Contents

	Year ended December 31, 2003 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Current assets	2,057	4,871	528	1,738	1,208	9,000	(1,968)	17,434
Cash and cash equivalents	1,042	575	109	445	33	6,140		8,344
Other current assets	1,015	4,296	419	1,293	1,175	2,860	(1,968)	9,090
Investments in non-consolidated companies and other investments	6	463	151	449	22	82		1,173
Property, plant and equipment, net	16,742	4,980	4,174	4,181	442	336	(50)	30,805
Non current assets	970	285	751	306	208	4,945	(3,265)	4,200
Petroleum and Alcohol account						239		239
Government securities						283		283
Other assets	970	285	751	306	208	4,423	(3,265)	3,678
Total assets	19,775	10,599	5,604	6,674	1,880	14,363	(5,283)	53,612

31

Table of Contents

Selected Data for International Segment

	Year ended December 31, 2004						
	U.S.$ million						
	INTERNATIONAL						
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
TOTAL ASSETS	4,898	1,162	721	197	2,155	(2,201)	6,932
STATEMENT OF INCOME							
Net Operating Revenues	1,800	2,160	431	880	18	(1,685)	3,604
Net operating revenues to third parties	713	1,084	405	865	18		3,085
Inter-segment net operating revenues	1,087	1,076	26	15		(1,685)	519
Net income (loss)	194	208	69	(134)	(91)	(3)	243

	Year ended December 31, 2003						
	U.S.$ million						
	INTERNATIONAL						
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
TOTAL ASSETS	4,401	1,161	568	150	2,384	(1,990)	6,674
STATEMENT OF INCOME							
Net Operating Revenues	1,069	1,363	162	621	14	(1,070)	2,159
Net operating revenues to third parties	535	730	159	592	14		2,030
Inter-segment net operating revenues	534	633	3	29		(1,070)	129
Net income (loss)	54	45	50	(6)	(59)	12	96

32

Table of Contents

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

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

Contacts:

Petróleo Brasileiro S.A PETROBRAS

Investor Relations Department

Raul Adalberto de Campos Executive Manager

E-mail: petroinvest@petrobras.com.br

Av. República do Chile, 65 - 4th floor

20031-912 Rio de Janeiro, RJ

(55-21) 2534-1510 / 2534-9947

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

33

Table of Contents

Consolidated Financial Statements

Petróleo Brasileiro S.A. - Petrobras and subsidiaries

December 31, 2004, 2003 and 2002, together with Report of Independent Registered Public Accounting Firm

Table of Contents

PETRÓLEO BRASILEIRO S.A. PETROBRAS AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Contents

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Executive Board and Shareholder of

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

We have audited the accompanying consolidated balance sheets of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and its subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in shareholders equity and cash flows, for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. The statements of income, changes in shareholders equity and cash flows of PETRÓLEO BRASILEIRO S.A. - PETROBRAS for the year ended December 31, 2002, were audited by other auditors whose report dated February 13, 2003 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Table of Contents

As discussed in Note 3, the Company made the following accounting changes: Effective December 31, 2004 the Company adopted a new actuarial methodology respective to the calculation of the Accumulated Benefit Obligation under FAS 87. Effective January 1, 2003, the Company adopted SFAS No. 143 Accounting for Asset Retirement Obligations (SFAS 143). Additionally, at December 31, 2003 the Company adopted FIN 46 Consolidation of Variable Interest Entities .

ERNST & YOUNG

Auditores Independentes S/S

Paulo José Machado
Partner

Rio de Janeiro, Brazil

May 13, 2005

2

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

Expressed in Millions of United States Dollars

	As of December 31,	
	2004	**2003**
Assets		
Current assets		
Cash and cash equivalents (Note 5)	6,856	8,344
Marketable securities (Note 6)	388	800
Accounts receivable, net (Note 7)	4,285	2,905
Inventories (Note 8)	4,904	2,947
Deferred income tax (Note 4)	325	256
Recoverable taxes (Note 9)	1,475	917
Advances to suppliers	422	504
Other current assets	771	761
	19,426	17,434
Property, plant and equipment, net (Note 10)	37,020	30,805
Investments in non-consolidated companies and other investments (Note 11)	1,862	1,173
Other assets		
Accounts receivable, net (Note 7)	411	528
Advances to suppliers	580	416
Petroleum and Alcohol account Receivable from Federal Government (Note 12)	282	239
Government securities	326	283
Marketable securities (Note 6)	313	806
Restricted deposits for legal proceedings and guarantees (Note 21 (a))	699	543
Recoverable taxes (Note 9)	536	467
Goodwill (Note 20)	211	183
Prepaid expenses	271	190
Fair value asset of gas hedge (Note 23)	635	
Other assets	510	545
	4,774	4,200
Total assets	63,082	53,612

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

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

Expressed in Millions of United States Dollars

	As of December 31,	
	2004	**2003**
Liabilities and shareholders equity		
Current liabilities		
Trade accounts payable	3,284	2,261
Income tax	271	148
Taxes payable, other than income taxes	2,298	2,157
Short-term debt (Note 13)	547	1,329
Current portion of long-term debt (Note 13)	1,199	1,145
Current portion of project financings (Note 15)	1,313	842
Current portion of capital lease obligations (Note 1 6)	266	378
Accrued interest	204	181
Dividends and interest on capital payable (Note 19)	1,900	1,955
Contingencies (Note 21)	131	84
Payroll and related charges	618	581
Advances from customers	290	258
Employees postretirement benefits obligation - Pension (Note 18)	166	160
Other payables and accruals	841	558
	13,328	12,037
Long-term liabilities		
Long-term debt (Note 13)	12,145	11,888
Project financings (Note 15)	4,399	5,066
Employees postretirement benefits obligation - Pension (Note 1 8)	2,915	1,895
Employees postretirement benefits obligation - Health care (Note 18)	2,137	1,580
Capital lease obligations (Note 16)	1,069	1,242
Deferred income tax (Note 4)	1,558	1,122
Provision for abandonment of wells (Note 3 (a))	403	396
Thermoelectric liabilities (Note 3 (b))	1,095	1,142
Contingencies (Note 21)	233	271
Deferred purchase incentive (Note 23)	153	
Other liabilities	264	270
	26,371	24,872
Minority interest	877	367

Shareholders equity		
Shares authorized and issued (Note 19)		
Preferred share - 2004 and 2003 462,369,507 shares	4,772	2,973
Common share - 2004 and 2003 634,168 ,418 shares	6,929	4,289
Capital reserve (Note 19)	134	118
Retained earnings		
Appropriated (Note 19)	11,526	10,696
Unappropriated	13,199	14,141
Accumulated other comprehensive income		
Cumulative translation adjustments	(12,539)	(14,450)
Amounts not recognized as net periodic pension cost, net of tax (Note 18)	(1,975)	(1,588)
Unrealized gains (losses) on securities, net of tax	460	157
	22,506	16,336
Total liabilities and shareholders equity	63,082	53,612

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

4

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

December 31, 2004, 2003 and 2002

Expressed in Millions of United States Dollars (except number of shares and earnings per share)

	Year ended December 31,		
	2004	**2003**	**2002**
Sales of products and services	51,954	42,690	32,987
Less:			
Value-added and other taxes on sales and services	(11,882)	(9,644)	(7,739)
Contribution of intervention in the economic domain charge - CIDE	(2,620)	(2,249)	(2,636)
Net operating revenues	37,452	30,797	22,612
Cost of sales	20,303	15,416	11,506
Depreciation, depletion and amortization	2,481	1,785	1,930
Exploration, including exploratory dry holes	613	512	435
Selling, general and administrative expenses	2,901	2,091	1,741
Impairment (Note 10 (b))	65	70	75
Research and development expenses	248	201	147
Other operating expenses	259	326	
Total costs and expenses	26,870	20,401	15,834
Equity in results of non-consolidated companies (Note 11)	172	141	(178)
Financial income (Note 14)	911	602	1,142
Financial expenses (Note 14)	(1,733)	(1,247)	(774)
Monetary and exchange variation on monetary assets and liabilities, net (Note 14)	450	509	(2,068)
Employee benefit expense	(650)	(595)	(451)
Other taxes	(440)	(333)	(360)
Other expenses, net	(357)	(700)	(857)
	(1,647)	(1,623)	(3,546)
Income before income taxes, minority interest and accounting change	8,935	8,773	3,232

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

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

December 31, 2004, 2003 and 2002

Expressed in Millions of United States Dollars (except number of shares and earnings per share)

	Year ended December 31,		
	2004	**2003**	**2002**
Income tax expense (Note 4)			
Current	(2,114)	(2,599)	(1,269)
Deferred	(117)	(64)	116
	(2,231)	(2,663)	(1,153)
Minority interest in results of consolidated subsidiaries	(514)	(248)	232
Income before effect of change in accounting principle	6,190	5,862	2,311
Cumulative effect of change in accounting principle, net of taxes (Note 3 (a))		697	
Net income for the year	6,190	6,559	2,311
Net income applicable to each class of shares			
Common/ADS	3,580	3,797	1,349
Preferred/ADS	2,610	2,762	962
Net income for the year	6,190	6,559	2,311
Basic and diluted earnings per share (Note 19 (c))			
Common/ADS and Preferred/ADS			
Before effect of change in accounting principle	5.65	5.35	2.13
After effect of change in accounting principle	5.65	5.99	2.13
Weighted average number of shares outstanding			
Common/ADS	634,168,418	634,168,418	634,168,418
Preferred/ADS	462,369,507	461,379,749	451,935,669

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

6

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

December 31, 2004, 2003 and 2002

Expressed in Millions of United States Dollars

	Year ended December 31,		
	2004	**2003**	**2002**
Cash flows from operating activities			
Net income for the year	6,190	6,559	2,311
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, depletion and amortization	2,497	1,805	1,951
Dry hole costs	520	207	198
Loss on property, plant and equipment	231	119	99
Minority interest in loss (income) of subsidiaries	514	248	(232)
Amortization of deferred purchase incentive	(16)		
Deferred income taxes	117	64	(116)
Foreign exchange and monetary loss (gain)	23	(138)	2,714
Accretion expense asset retirement obligation	33	43	
Impairment of oil and gas properties	51	70	75
Provision for uncollectible accounts	65	25	56
Cumulative effect of change in accounting principle, net of taxes		(697)	
Equity in the results of non-consolidated companies	(172)	(141)	178
Financial income on mark to market of gas hedge	(466)		
Others	37	1	2
Decrease (increase) in assets			
Marketable securities	678	(1,266)	
Accounts receivable	(928)	(477)	(541)
Petroleum and Alcohol account	(20)	(15)	(157)
Interest receivable on government securities	(38)	(157)	(10)
Inventories	(1,527)	244	(1,139)
Advances to suppliers	3	562	(797)
Prepaid expenses	(70)	96	(31)
Recoverable taxes	(578)	(365)	(190)
Others	173	90	(266)
Increase (decrease) in liabilities			
Trade accounts payable	838	(156)	669
Payroll and related charges	(20)	222	95
Taxes payable, other than income taxes	(65)	35	441
Income taxes payable	120	25	
Employee postretirement benefits, net of unrecognized pension obligation	561	535	177
Accrued interest	18	62	158
Contingencies	81	(78)	365

Abandonment	(171)	(29)	
Other liabilities	154	(190)	277
Net cash provided by operating activities	8,833	7,303	6,287

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

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

December 31, 2004, 2003 and 2002

Expressed in Millions of United States Dollars

	Year ended December 31,		
	2004	**2003**	**2002**
Cash flows from investing activities			
Additions to property, plant and equipment	(7,718)	(6,551)	(4,911)
Investment in Perez Companc S.A. PEPSA			(1,073)
Investments in thermoelectric plants			(447)
Investment in non-consolidated companies	(142)	(73)	(153)
Liquigás Distribuidora S.A. acquisition (Note 20)	(511)		
Dividends received from non-consolidated companies	53	13	11
Restricted deposits for legal proceedings	(103)	(188)	(84)
Effect on cash from merger with PEPSA		231	
Effect on cash of FIN 46 adoption		1,049	
Others			1
Net cash used in investing activities	(8,421)	(5,519)	(6,656)
Cash flows from financing activities			
Short-term debt, net issuances and repayments	(680)	321	(367)
Proceeds from issuance of long-term debt	1,457	4,629	1,937
Principal payments of long-term debt	(1,160)	(1,315)	(1,173)
Proceeds from project financings	971	1,132	
Payments of project financings	(652)	(1,340)	(746)
Payment of financings lease obligations	(331)	(108)	(247)
Dividends paid to shareholders	(1,785)	(941)	(999)
Dividends paid to minority interests	(24)	(2)	(19)
Net cash provided by (used) in financing activities	(2,204)	2,376	(1,614)
Increase (decrease) in cash and cash equivalents	(1,792)	4,160	(1,983)
Effect of exchange rate changes on cash and cash equivalents	304	883	(2,076)
Cash and cash equivalents at beginning of year	8,344	3,301	7,360
Cash and cash equivalents at end of year	6,856	8,344	3,301

Year ended December 31,

	2004	2003	2002
Supplemental cash flow information:			
Cash paid during the year for			
Interest, net of amount capitalized	995	622	200
Income taxes	2,054	2,384	812
Withholding income tax on financial investments	69	47	120
Non-cash investing and financing transactions during the year			
Capital lease obligations			144
Project financings expenditures funded by special purpose companies			946
Transfer of Government securities to PETROS			313
Consolidation of merchant type thermoelectrics		1,142	
Exchange of BR shares for PETROBRAS preferred shares		130	
Recognition of asset retirement obligation FAS 143	158	114	
Consummation of gas hedge asset with deferred purchase incentive liability	169		

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

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

December 31, 2004, 2003 and 2002

Expressed in Millions of United States Dollars (except per-share amounts)

	Year ended December 31,		
	2004	2003	2002
Preferred shares			
Balance at January 1	2,973	2,459	1,882
Capital increase with issue of preferred shares		130	
Capital increase with undistributed earnings reserve	1,799	384	577
Balance at December 31	4,772	2,973	2,459
Common shares			
Balance at January 1	4,289	3,761	2,952
Capital increase with undistributed earnings reserve	2,640	528	809
Balance at December 31	6,929	4,289	3,761
Capital reserve fiscal incentive			
Balance at January 1	118	89	128
Transfer from (to) unappropriated retained earnings	16	29	(39)
Balance at December 31	134	118	89
Accumulated other comprehensive income			
Cumulative translation adjustments			
Balance at January 1	(14,450)	(17,306)	(11,854)
Change in the year	1,911	2,856	(5,452)
Balance at December 31	(12,539)	(14,450)	(17,306)
Amounts not recognized as net periodic pension cost			
Balance at January 1	(1,588)	(1,361)	(1,867)
(Increase) decrease in additional minimum liability	(586)	(344)	724
Tax effect on above	199	117	(218)
Balance at December 31	(1,975)	(1,588)	(1,361)

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

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Continued)

December 31, 2004, 2003 and 2002

Expressed in Millions of United States Dollars (except per-share amounts)

	Year ended December 31,		
	2004	**2003**	**2002**
Unrecognized gains (losses) on securities			
Balance at January 1	157	(11)	13
Unrealized gains (losses)	459	254	(36)
Tax effect on above	(156)	(86)	12
Balance at December 31	460	157	(11)
Appropriated retained earnings			
Legal reserve			
Balance at January 1	1,089	643	768
Transfer from (to) unappropriated retained earnings, net of gain or loss on translation	431	446	(125)
Balance at December 31	1,520	1,089	643
Undistributed earnings reserve			
Balance at January 1	9,372	4,778	5,886
Capital increase	(4,439)	(912)	(1,386)
Transfer from unappropriated retained earnings, net of gain or loss on translation	4,755	5,506	278
Balance at December 31	9,688	9,372	4,778

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

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Continued)

December 31, 2004, 2003 and 2002

Expressed in Millions of United States Dollars (except per-share amounts)

	Year ended December 31,		
	2004	**2003**	**2002**
Statutory reserve			
Balance at January 1	235	164	215
Transfer from (to) unappropriated retained earnings, net of gain or loss on translation	83	71	(51)
Balance at December 31	318	235	164
Total appropriated retained earnings	11,526	10,696	5,585
Unappropriated retained earnings			
Balance at January 1	14,141	16,085	15,124
Net income for the year	6,190	6,559	2,311
Dividends reclasification (Note 19 b)		(816)	
Dividends (per share: 2004 - US $1.68 to common and preferred shares; 2003 - US $1.49 to common and preferred shares; 2002 - US $1.19 to common and preferred shares)	(1,847)	(1,635)	(1,287)
Appropriation (to) from fiscal incentive reserve	(16)	(29)	39
Appropriation to reserves	(5,269)	(6,023)	(102)
Balance at December 31	13,199	14,141	16,085
Total shareholders equity	22,506	16,336	9,301
Comprehensive income (loss) is comprised as follows:			
Net income for the year	6,190	6,559	2,311
Cumulative translation adjustments	1,911	2,856	(5,452)
Amounts not recognized as net periodic pension cost	(387)	(227)	506
Unrealized gain on available-for-sale securities	303	168	(24)
Total comprehensive income (loss)	8,017	9,356	(2,659)

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

11

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except when specifically indicated)

1. The Company and its operations

PETRÓLEO BRASILEIRO S.A. - PETROBRAS is Brazil s national oil company and, directly or through its subsidiaries (collectively, PETROBRAS or the Company), is engaged in the exploration, exploitation and production of oil from reservoir wells, shale and other rocks, and in the refining, processing, trade and transport of oil and oil derivatives, natural gas and other fluid hydrocarbons, in addition to other energy related activities. Additionally, PETROBRAS may promote the research, development, production, transport, distribution and marketing of all sectors of energy, as well as other related or similar activities.

PETROBRAS was incorporated under Law No. 2,004 on October 3, 1953. Until November of 1995, PETROBRAS was the exclusive agent of the Brazilian Federal Government (the Federal Government) for purposes of exploiting the Federal Government s constitutional and statutory control over activities involving exploration, production, refining, distribution, import, export, marketing and transportation of hydrocarbons and oil products in Brazil and its continental waters. When adopted in 1953, the relevant provisions of the Brazilian constitution and statutory law gave the Federal Government a monopoly in these areas subject only to the right of companies then engaged in oil refining and the distribution of oil and oil products to continue those activities in Brazil. Therefore, except for limited competition from those companies in their grandfathered activities, PETROBRAS had a monopoly over its businesses for approximately 42 years. As a result of a change in the Brazilian constitution in November of 1995, and the subsequent and ongoing implementation of that change, PETROBRAS has ceased to be the Federal Government s exclusive agent in Brazil s hydrocarbons sector and up to 2001 had been operating in an environment of gradual deregulation and increasing competition.

In accordance with Law No. 9,478 (Petroleum Law) and Law No. 9,990, dated August 6, 1997 and July 21, 2000, respectively, the fuel market in Brazil was totally liberalized beginning January 1, 2002 permitting other companies to produce and sell on the domestic market, and also to import and export oil products.

The Company also has oil and gas operations in international locations, with the most significant international operations being in other Latin American countries.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except when specifically indicated)

2. Summary of significant accounting policies

In preparing these consolidated financial statements, the Company has followed accounting policies that are in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these financial statements requires the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto.

Estimates adopted by management include: oil and gas reserves, pension and health care liabilities, environmental obligations, depreciation, depletion and amortization, abandonment costs, contingencies and income taxes. While the Company uses its best estimates and judgments, actual results could differ from those estimates as future confirming events occur.

(a) Basis of financial statements preparation

The accompanying consolidated financial statements of PETRÓLEO BRASILEIRO S.A. - PETROBRAS (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC). U.S. GAAP differs in certain respects from Brazilian accounting practice as applied by PETROBRAS in its statutory financial statements prepared in accordance with Brazilian Corporate Law and regulations promulgated by the Brazilian Securities Commission (CVM).

The U.S. dollar amounts for the years presented have been translated from the Brazilian Real amounts in accordance with Statement of Financial Accounting Standards SFAS No. 52 - Foreign Currency Translation (SFAS 52) as applicable to entities operating in non-hyperinflationary economies. Transactions occurring in foreign currencies are first remeasured to the Brazilian Real and then translated to the U.S. dollar, with remeasurement gains and losses being recognized in the statements of income. While PETROBRAS has selected the U.S. Dollar as its reporting currency, the functional currency of PETROBRAS and all Brazilian subsidiaries is the Brazilian Real. The functional currency of PIFCo and certain of the special purpose companies is the U.S. dollar, and the functional currency of PEPSA is the Argentine Peso.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except when specifically indicated)

2. Summary of significant accounting policies (Continued)

(a) Basis of financial statements preparation (Continued)

The Company has translated all assets and liabilities into U.S. dollars at the current exchange rate (R $2.6544 and R $2.8892 to US $1.00 at December 31, 2004 and 2003, respectively), and all accounts in the statements of income and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the year. The net translation gain/ (loss) in the amount of US $1,911 in 2004 (2003 - US $2,856 and 2002 - US $(5,452)) resulting from this remeasurement process was excluded from income and presented as a cumulative translation adjustment (CTA) within Other Comprehensive Income in the statement of changes in shareholders equity.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries in which (a) the Company directly or indirectly has either a majority of the equity of the subsidiary or otherwise has management control, or (b) the Company has determined itself to be the primary beneficiary of a variable interest entity in accordance with FIN 46 (Note 3(b)). Intercompany accounts and transactions are eliminated.

Table of Contents

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in Millions of United States Dollars

(except when specifically indicated)

2. Summary of significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

The following majority-owned subsidiaries and variable interest entities are consolidated:

Subsidiary companies