

BRAZILIAN PETROLEUM CORP
Form 6-K
March 18, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of March, 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 office)

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

Form 20-F Form 40-F

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

Yes No

A free translation from the original in Portuguese

FINANCIAL STATEMENTS

***PETRÓLEO BRASILEIRO S.A.
PETROBRAS***

***December 31, 2004 and 2003 together
with Report of Independent Auditors***

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

FINANCIAL STATEMENTS

December 31, 2004 and 2003

Contents

Report of Independent Auditors	1
Balance Sheet	3
Statement of Income	4
Statement of Changes in Shareholders' Equity (Parent Company)	5
Statement of Changes in Financial Position	6
Statement of Cash Flows	8
Statement of Value Added	9
Statement Segmentation of Business (Consolidated)	10
Social Balance Sheet	14
Notes to the Financial Statements	14
1. Consolidation principles	13
2. Summary of significant accounting policies	15
3. Cash and cash equivalents	19
4. Accounts receivable, net	20
5. Inventories	20
6. Petroleum and alcohol account - National Treasury Secretariat (STN)	21
7. Marketable securities	22
8. Project financings	23
9. Investments	36
10. Property, plant and equipment	59
11. Financings	67
12. Financial income (expenses), net and other operating income (expenses), net	72
13. Taxes, contributions and participations	74
14. Employee benefits	80
15. Profit sharing for employees and management	90
16. Accounts payable - temporary agreement on price stabilization in Argentina	90
17. Shareholders' equity	91
18. Commitments and contingencies	95
19. Guarantees on concession contracts for oil exploration	106
20. Segment information	106
21. Derivative instruments, hedging and risk management activities	108
22. Environment	117
23. Remuneration of parent company directors and employees (in reais)	117
24. Subsequent events	117

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
PETRÓLEO BRASILEIRO S.A. - PETROBRAS

1. We have audited the accompanying balance sheets of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and the consolidated balance sheets of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and its subsidiaries as of December 31, 2004 and 2003, and the related statements of income, changes in shareholders' equity and changes in financial position 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.
2. We conducted our audits in accordance with auditing standards generally accepted in Brazil, including: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) the examination, on a test basis, of the documentary evidence and accounting records supporting the amounts and disclosures in the financial statements, and (c) an assessment of the accounting practices used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and the consolidated financial position of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and its subsidiaries at December 31, 2004 and 2003, and the results of their operations, the changes in their shareholders' equity and the changes in their financial position for the years then ended, in accordance with the accounting practices adopted in Brazil.
4. Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The Social Balance Sheet and the statements of cash flow (consolidated and parent company), of value added (consolidated and parent company) and segmentation of business (consolidated), prepared in accordance with the accounting practices adopted in Brazil, are presented for purposes of additional information and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures described in the second paragraph and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rio de Janeiro, February 25, 2005

ERNST & YOUNG
Auditores Independentes S/S
CRC - 2SP 015.199/O-6 - F - RJ

Paulo José Machado
Accountant CRC - 1RJ 061.469/O - 4

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 6-K

A free translation from the original in Portuguese

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

Balance sheet

Years ended December 31, 2004 and 2003

(In thousands of reais)

Assets	Consolidated		Parent Company	
	2004	2003	2004	2003
Current assets				
Cash and cash equivalents (Note 3)	18.943.428	24.952.544	11.580.288	20.223.379
Restricted bank accounts	217.748	102.195		
Accounts receivable, net (Note 4)	10.609.231	8.134.569	7.421.319	5.856.483
Dividends receivable (Note 9c)	48.625		440.240	474.458
Inventories (Note 5)	14.418.636	10.395.149	11.555.627	8.382.732
Taxes, contributions and participations (Note 13)	4.494.737	4.040.132	2.966.007	2.965.599
Prepaid expenses (Note 10e)	874.293	722.962	735.261	556.426
Other current assets	1.680.720	2.353.867	744.528	787.544
	51.287.418	50.701.418	35.443.270	39.246.621
Noncurrent assets				
Accounts receivable, net (Note 4)	2.905.347	2.812.306	35.220.122	23.307.148
Petroleum and Alcohol Account - STN (Note 6)	748.788	689.360	748.788	689.360
Marketable securities (Note 7)	557.486	638.837	4.840	4.839
Project financings (Note 8a)	919.852	1.959.947	1.830.257	2.694.871
Advances to suppliers (Note 8a)	958.692	1.021.751	958.692	1.021.751
Judicial deposits (Note 18f)	1.510.089	1.335.350	766.381	604.077
Investments in privatization process (Note 9r)	331.589	244.753	1.476	2.500
Prepaid expenses (Note 10e)	1.384.303	1.173.972	1.076.077	848.677
Advance for migration - pension plan (Note 14a)	1.217.612	1.193.322	1.217.612	1.193.322
Deferred income tax and social contribution (Note 13a)	4.005.318	3.300.899	2.030.268	2.023.031
Structured finance of exports		866.760		
Compulsory loans ELETROBRAS	117.488	118.305	117.488	118.305
Other noncurrent assets	1.560.176	1.593.378	1.155.662	1.156.416
	16.216.740	16.948.940	45.127.663	33.664.297
Permanent assets				
Investments (Note 9)	2.075.027	2.022.657	14.048.878	11.816.533
Property, plant and equipment (Note 10)	76.745.317	65.946.649	42.582.076	34.825.796
Deferred charges	710.616	614.699	434.058	269.406
	79.530.960	68.584.005	57.065.012	46.911.735

Total assets

147.035.118	136.234.363	137.635.945	119.822.653
-------------	-------------	-------------	-------------

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 6-K

Liabilities and shareholders equity	Consolidated		Parent Company	
	2004	2003	2004	2003
Current liabilities				
Financing (Note 11)	5,139.605	7,577.888	1,144.973	1,347.164
Interest on financing (Note 11)	355.596	554.183	165.265	185.031
Suppliers	9,037.303	7,039.312	26,949.707	20,688.178
Taxes, contribution and participation (Note 13)	7,688.987	7,323.763	6,583.563	6,406.289
Dividends (Note 17c)	5,062.239	5,659.187	5,044.074	5,647.170
Project financings (Note 8d)	1,236.683	2,141.042	4,652.469	4,160.023
Provision for pension plan (Note 14c)	441.374	462.349	414.865	434.667
Payroll and related charges	871.957	808.215	653.812	617.555
Contingency accrual (Note 18a)	333.111	1,720.610	333.111	1,720.610
Advances from customers	780.028	664.537	381.719	463.525
Other payables	3,011.109	2,946.778	1,613.792	1,871.460
	33,957.992	36,897.864	47,937.350	43,541.672
Long-term liabilities				
Financing (Note 11)	31,721.395	34,115.878	8,589.120	9,722.513
Subsidiaries and affiliated companies (Note 9c)	74.352	17.453	3,420.119	4,109.494
Deferred income tax and social contribution (Note 13a)	6,747.084	6,044.032	5,263.660	4,444.930
Provision for pension plan (Note 14c)	696.273	345.398	601.347	288.249
Provision for health care benefits (Note 14c)	5,673.650	4,563.826	5,214.410	4,216.517
Contingency accrual (Note 18a)	629.307	842.347	220.721	221.051
Other payables	2,499.086	2,109.131	2,135.582	1,758.655
	48,041.147	48,038.065	25,444.959	24,761.409
Deferred income (Note 9e)	502.171	311.735		
Minority interest	2,262.245	1,619.370		
Shareholders equity (Note 17)				
Capital	33,235.445	20,201.941	33,235.445	20,201.941
Capital reserves	354.673	339.865	354.673	339.865
Revaluation reserve	69.094	72.029	69.094	72.029
Revenue reserves	28,612.351	28,753.494	30,594.424	30,905.737
	62,271.563	49,367.329	64,253.636	51,519.572

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 6-K

Total liabilities and shareholders equity	147.035.118	136.234.363	137.635.945	119.822.653
--	-------------	-------------	-------------	-------------

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

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 6-K

A free translation from the original in Portuguese

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

STATEMENT OF INCOME

Years ended December 31, 2004 and 2003

(In thousands of reais, except per share amounts)

	Consolidated		Parent Company	
	2004	2003	2004	2003
Gross operating revenues				
Sales				
Products	149.973.540	131.837.043	119.709.723	107.147.946
Services, mainly freight	429.672	151.217	315.004	213.296
	150.403.212	131.988.260	120.024.727	107.361.242
Sales deductions	(42.201.733)	(36.245.558)	(34.450.292)	(30.488.178)
Net operating revenues	108.201.479	95.742.702	85.574.435	76.873.064
Cost of products and services sold	(63.100.143)	(52.893.317)	(48.607.576)	(40.579.901)
Gross profit	45.101.336	42.849.385	36.966.859	36.293.163
Operating expenses				
Selling	(4.751.501)	(3.364.418)	(2.858.630)	(2.295.896)
Financial (Note 12)				
Expenses	(4.101.844)	(3.195.132)	(2.252.841)	(1.980.791)
Income	930.789	1.817.356	1.232.940	2.292.425
Net monetary and exchange variation (Note 12)	753.178	2.727.906	328.870	1.009.483
General and administrative				
Directors' fees	(26.390)	(28.765)	(3.214)	(3.014)
Administrative	(4.006.311)	(3.140.912)	(2.596.338)	(1.984.471)
Taxes	(1.206.284)	(982.611)	(807.547)	(650.884)
Cost of research and technological development	(695.650)	(570.850)	(688.562)	(570.858)
Exploratory costs for the extraction of crude oil and gas	(1.735.624)	(1.637.818)	(1.219.946)	(1.279.240)
Other operating expenses, net (Note 12)	(2.865.627)	(5.591.195)	(3.595.151)	(5.948.450)
	(17.705.264)	(13.966.439)	(12.460.419)	(11.411.696)
Participation in subsidiaries and affiliated companies				
Equity pickup (Note 9b)	(144.661)	(1.009.121)	1.349.879	706.015
Operating income	27.251.411	27.873.825	25.856.319	25.587.482

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 6-K

Nonoperating expenses	(531.125)	(484.708)	(550.694)	(319.650)
<hr/>				
Income before social contributions, income tax, profit sharing for employees and management and minority interest	26.720.286	27.389.117	25.305.625	25.267.832
Social contribution (Note 13c)	(1.928.597)	(2.045.555)	(1.830.978)	(1.896.639)
Income tax (Note 13c)	(5.321.097)	(5.770.142)	(5.060.476)	(5.069.436)
<hr/>				
Income before profit sharing for employees and management and minority interest	19.470.592	19.573.420	18.414.171	18.301.757
Profit sharing for employees and management (Note 15)	(783.224)	(894.442)	(660.000)	(777.051)
<hr/>				
Income before minority interest	18.687.368	18.678.978	17.754.171	17.524.706
Minority interest	(826.614)	(884.309)		
<hr/>				
Net income for the year	17.860.754	17.794.669	17.754.171	17.524.706
<hr/>				
Net income per share of paid-up capital at year end - R\$ (Note 17a)	16,29	16,23	16,19	15,98
<hr/>				

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

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 6-K

A free translation from the original in Portuguese

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

Statement of changes in shareholders' equity (parent company)

Years ended December 31, 2004 and 2003

(In thousands of reais)

	Capital		Capital reserves			Revenue reserves			Total shareholders equity
	Subscribed and paid-up capital	Monetary adjustments	Subventions AFRMM	Tax incentives	Revaluation reserve	Legal	Statutory	Retention of earnings	
At December 31, 2002	16.291.561	339.307	99.009	213.766	93.756	2.271.467	579.846	16.882.018	36.770.730
Prior years adjustments (Note 2h)								2.373.858	2.373.858
Capital increase on January 29, 2003	444.797								444.797
Capital increase - EGM - March 27, 2003	3.100.715							(3.100.715)	
Capital increase on May 9, 2003	25.561								25.561
AFRMM funds used			27.090						27.090
Realization of reserves					(21.727)			21.727	
Net income for the year								17.524.706	17.524.706
Appropriation of net income to reserves						876.235	99.313	10.901.988	(11,877,536)
Retention of earnings								2.395.585	(2,395,585)
Proposed dividends (Note 17c)								(5.647.170)	(5.647.170)
At December 31, 2003	19.862.634	339.307	126.099	213.766	72.029	3.147.702	679.159	27.078.876	51.519.572
Capital increase on March 29, 2004	13.033.504							(13.033.504)	
Treasury shares								(2)	(2)
AFRMM funds used			14.808						14.808
Reserves set up					9.161				9.161
Realization of reserves					(12.096)			12.096	
Net income for the year								17.754.171	17.754.171
Appropriation of net income to reserves						887.708	164.480	11.657.907	(12.710.095)
Retention of earnings								12.096	(12.096)
Proposed dividends (Note 17c)								(5.044.074)	(5.044.074)
At December 31, 2004	32.896.138	339.307	140.907	213.766		4.035.410	843.639	25.715.375	
	33.235.445		354.673		69.094		30.594.424		64.253.636

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

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 6-K

A free translation from the original in Portuguese

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2004 and 2003

(In thousands of reais)

	Consolidated		Parent Company	
	2004	2003	2004	2003
Financial resources were provided by:				
Operations				
Net income for the year	17.860.754	17.794.669	17.754.171	17.524.706
Minority interest	826.614	884.309		
Equity pickup	56.649	1.001.364	(1.345.357)	(698.957)
Goodwill/discount - amortization	14.900	7.757	(4.522)	(7.058)
Dividends	202.545	101.407	546.885	474.458
Depreciation and amortization	6.170.537	5.082.142	3.807.002	2.850.438
Net book value of permanent assets written off	1.988.902	1.232.114	1.097.034	796.498
Monetary and exchange variation and net earnings on noncurrent assets and long-term liabilities	(2.001.985)	(4.414.832)	127.926	330.830
Employee benefits and other provisions	2.555.545	649.976	2.195.396	1.931.313
Deferred income tax and social contribution, net	1.733.745	(330.644)	821.126	388.074
Other	(33.160)	(70.290)	7.793	
	29.375.046	22.008.262	24.929.371	23.598.095
Shareholders				
Capital payment		470.358		470.358
		470.358		470.358
Other sources:				
Financing	4.573.214	11.659.644	369.624	2.227.694
Credits and subventions for investments	14.808	27.090	14.808	27.090
Proceeds from the sale of assets	2.622.726		2.622.726	
Increase (decrease) in long-term liabilities	(2.073.501)	634.025	(1.273.477)	(988.420)
	5.137.247	12.320.759	1.733.681	1.266.364
Total funds provided	34.512.293	34.799.379	26.663.052	25.334.817
Financial resources were used for:				
Increase in the Petroleum and Alcohol Account - STN	46.252	15.216	46.252	15.216
Investments	910.167	43.946	1.214.962	888.191
Acquisition of minority interest	45.349	527.387		
Property, plant and equipment:				
Cost of exploration and developing production of oil and gas	7.042.225	6.129.811	5.813.253	4.884.759
Other	11.993.176	11.729.659	7.094.042	6.282.364
Deferred charges	260.197	167.859	169.453	86.940

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 6-K

Transactions with subsidiaries and affiliated companies

13.248.121

(3.467.038)