

BRAZILIAN PETROLEUM CORP
Form 6-K
November 23, 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 November, 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
20031-912 - Rio de Janeiro, RJ
Federative Republic of Brazil
(Address of principal executive office)

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

Form 20-F 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

Consolidated Financial Information

*Petróleo Brasileiro S.A.
PETROBRAS and Subsidiaries*

*September 30, 2005 and 2004
with Review Report of Independent Registered
Public Accounting Firm*

PETRÓLEO BRASILEIRO S.A. PETROBRAS AND SUBSIDIARIES

CONSOLIDATED FINANCIAL INFORMATION

September 30, 2005 and 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Petróleo Brasileiro S.A. - PETROBRAS

We have reviewed the condensed consolidated balance sheet of Petróleo Brasileiro S.A. - PETROBRAS and subsidiaries as of September 30, 2005 and the related condensed consolidated statements of income, cash flows and changes in shareholders' equity for the nine-month periods ended September 30, 2005 and 2004. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Petróleo Brasileiro S.A. - PETROBRAS and subsidiaries as of December 31, 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended not presented herein, and in our report dated May 13, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG
Auditores Independentes S/S

Paulo José Machado
Partner

Rio de Janeiro, Brazil
November 11, 2005

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND
SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

September 30, 2005 and December 31, 2004

Expressed in Millions of United States Dollars (except for the number of shares)

| | September 30, 2005 | December 31, 2004 |
|--|-----------------------------------|------------------------------|
| | (unaudited) | (Note 1) |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 9,412 | 6,856 |
| Marketable securities | 34 | 388 |
| Accounts receivable, net | 5,524 | 4,285 |
| Inventories (Note 4) | 6,399 | 4,904 |
| Deferred income taxes | 379 | 325 |
| Recoverable taxes | 2,001 | 1,475 |
| Advances to suppliers | 639 | 422 |
| Other current assets | 842 | 771 |
| | 25,230 | 19,426 |
| Property, plant and equipment, net | 46,161 | 37,020 |
| Investments in non-consolidated companies and other investments | 1,970 | 1,862 |
| Other assets | | |
| Accounts receivable, net | 576 | 411 |
| Advances to suppliers | 473 | 580 |
| Petroleum and alcohol account receivable from Federal Government (Note 5) | 344 | 282 |
| Government securities | 385 | 326 |
| Marketable securities | 204 | 313 |
| Restricted deposits for legal proceedings and guarantees (Note 13) | 940 | 699 |
| Recoverable taxes | 671 | 536 |
| Goodwill | 240 | 211 |
| Prepaid expenses | 260 | 271 |
| Fair value asset of gas hedge (Note 2 (c)) | 630 | 635 |
| Other assets | 858 | 510 |

| | | |
|--------------|---------------|--------|
| | 5,581 | 4,774 |
| Total assets | 78,942 | 63,082 |

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND
SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

September 30, 2005 and December 31, 2004

Expressed in Millions of United States Dollars (except for the number of shares)

| | September 30, 2005 | December 31, 2004 |
|---|-----------------------------------|------------------------------|
| | (unaudited) | (Note 1) |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Trade accounts payable | 4,666 | 3,284 |
| Income taxes payable | 622 | 271 |
| Taxes payable, other than income taxes | 2,907 | 2,298 |
| Short-term debt (Note 6) | 1,030 | 547 |
| Current portion of long-term debt (Note 6) | 948 | 1,199 |
| Current portion of project financings (Note 8) | 2,306 | 1,313 |
| Current portion of capital lease obligations (Note 9) | 247 | 266 |
| Accrued interest | 211 | 204 |
| Dividends and interest on capital payable | 1,025 | 1,900 |
| Contingencies (Note 13) | 94 | 131 |
| Payroll and related charges | 780 | 618 |
| Advances from customers | 508 | 290 |
| Employees' postretirement benefits obligation - Pension | 178 | 166 |
| Other payables and accruals | 673 | 841 |
| | 16,195 | 13,328 |
| Long-term liabilities | | |
| Long-term debt (Note 6) | 11,545 | 12,145 |
| Project financings (Note 8) | 4,129 | 4,399 |
| Employees' postretirement benefits obligation - Pension | 4,157 | 2,915 |
| Employees' postretirement benefits obligation - Health care | 3,031 | 2,137 |
| Capital lease obligations (Note 9) | 930 | 1,069 |
| Deferred income taxes | 2,378 | 1,558 |
| Provision for abandonment | 516 | 403 |
| Thermoelectric liabilities (Note 10) | 819 | 1,095 |
| Contingencies (Note 13) | 267 | 233 |
| Deferred purchase incentive (Note 2 (c)) | 146 | 153 |
| Other liabilities | 405 | 264 |
| | 28,323 | 26,371 |

| | | |
|---|----------------|----------|
| Minority interest | 1,202 | 877 |
| Shareholders' equity (Note 12) | | |
| Shares authorized and issued | | |
| Preferred share 2005 - 1,849,478,028 shares (2004 - 1,849,478,028 shares) | 4,772 | 4,772 |
| Common share 2005 - 2,536,673,672 shares (2004 - 2,536,673,672 shares) | 6,929 | 6,929 |
| Capital reserve | 164 | 134 |
| Retained earnings | | |
| Appropriated | 13,768 | 11,526 |
| Unappropriated | 16,815 | 13,199 |
| Accumulated other comprehensive income | | |
| Cumulative translation adjustments | (7,282) | (12,539) |
| Amounts not recognized as net periodic pension cost, net of tax | (2,360) | (1,975) |
| Unrealized gains on available for sale securities, net of tax | 416 | 460 |
| | 33,222 | 22,506 |
| Total liabilities and shareholders' equity | 78,942 | 63,082 |

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND
SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

September 30, 2005 and 2004

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

| | Nine-month period ended September 30, | |
|---|--|-------------|
| | 2005 | 2004 |
| Sales of products and services | 52,555 | 37,232 |
| Less: | | |
| Value-added and other taxes on sales and services | (10,149) | (7,952) |
| Contribution of intervention in the economic domain charge CIDE | (2,345) | (1,948) |
| Net operating revenues | 40,061 | 27,332 |
| Cost of sales | 21,337 | 14,627 |
| Depreciation, depletion and amortization | 2,139 | 1,814 |
| Exploration, including exploratory dry holes | 438 | 437 |
| Selling, general and administrative expenses | 2,957 | 1,989 |
| Research and development expenses | 275 | 180 |
| Other operating expenses | 249 | 175 |
| Total costs and expenses | 27,395 | 19,222 |
| Equity in results of non-consolidated companies | 113 | 141 |
| Financial income (Note 7) | 86 | 545 |
| Financial expenses (Note 7) | (909) | (1,430) |
| Monetary and exchange variation on monetary assets and liabilities, net (Note 7) | 229 | (39) |
| Employee benefit expense for non-active participants | (708) | (468) |
| Other taxes | (257) | (345) |
| Other expenses, net | (602) | (326) |
| | (2,048) | (1,922) |

| | | |
|--|---------------|-------|
| Income before income taxes and minority interest | 10,618 | 6,188 |
|--|---------------|-------|

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND
SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME (Continued)

September 30, 2005 and 2004

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

(Unaudited)

| | Nine-month period ended September 30, | |
|---|--|---------------|
| | 2005 | 2004 |
| Income taxes expense (Note 3) | | |
| Current | (2,913) | (1,467) |
| Deferred | (680) | (137) |
| | (3,593) | (1,604) |
| Minority interest in results of consolidated subsidiaries | (204) | (101) |
| Net income for the period | 6,821 | 4,483 |
| Net income applicable to each class of shares | | |
| Common | 3,945 | 2,593 |
| Preferred | 2,876 | 1,890 |
| Net income for the period | 6,821 | 4,483 |
| Basic and diluted earnings per share (Note 12) | | |
| Common and Preferred | 1.56 | 1.02 |
| Basic and diluted earnings per ADS | 6.24 | 4.08 |
| Weighted average number of shares outstanding (Note 12) | | |
| Common | 2,536,673,672 | 2,536,673,672 |
| Preferred | 1,849,478,028 | 1,849,478,028 |

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND
SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

September 30, 2005 and 2004

Expressed in Millions of United States Dollars

(Unaudited)

| | Nine-month period ended September 30, | |
|---|--|-------------|
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Net income for the period | 6,821 | 4,483 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 2,140 | 1,839 |
| Dry hole costs | 252 | 244 |
| Loss on sale of property, plant and equipment | 299 | 176 |
| Amortization of deferred purchase incentive | (34) | - |
| Deferred income taxes | 680 | 137 |
| Equity in the results of non-consolidated companies | (113) | (141) |
| Minority interest in results of consolidated subsidiaries | 204 | 101 |
| Accretion expense - asset retirement obligation | 56 | - |
| Foreign exchange and monetary gain (loss) | (155) | 204 |
| Financial expense on gas hedge operations | 116 | - |
| Decrease (increase) in assets: | | |
| Accounts receivable, net | (870) | (848) |
| Petroleum and alcohol account, receivable from Federal Government | (6) | (22) |
| Marketable securities | 444 | (34) |
| Inventories | (618) | (1,455) |
| Recoverable taxes | (392) | (272) |
| Advances to suppliers | (137) | (39) |
| Others | (148) | (40) |
| Increase (decrease) in liabilities | | |
| Trade accounts payable | 931 | 635 |
| Payroll and related charges | 105 | (44) |
| Taxes payable, other than income taxes | 95 | (40) |
| Income taxes payable | 344 | (91) |
| Employee's postretirement benefits, net of unrecognized pension obligation | 810 | 567 |
| Accrued interest | (4) | 15 |
| Contingencies | (42) | (89) |
| Other liabilities | 31 | (254) |

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| | | |
|---|----------------|---------|
| Net cash provided by operating activities | 10,809 | 5,032 |
| Cash flows from investing activities | | |
| Additions to property, plant and equipment | (6,811) | (4,765) |
| Investments | (39) | (58) |
| Acquisition of Liquigás Distribuidora S.A (formerly known as Sophia do Brasil S.A.) | - | (450) |
| Others | (61) | (53) |
| Net cash used in investing activities | (6,911) | (5,326) |
| Cash flows from financing activities | | |
| Short-term debt, net of issuances and repayments | (1,061) | (853) |
| Proceeds from issuance and draw-down on long-term debt | 776 | 1,458 |
| Principal payments on long-term debt | (908) | (897) |
| Proceeds from project financings | 1,306 | 538 |
| Payments of project financings | (324) | (408) |
| Payment of capital lease obligations | (330) | (300) |
| Dividends paid to shareholder and minority interests | (1,909) | (1,794) |
| Net cash used in financing activities | (2,450) | (2,256) |
| Increase (Decrease) in cash and cash equivalents | 1,448 | (2,550) |
| Effect of exchange rate changes on cash and cash equivalents | 1,108 | 20 |
| Cash and cash equivalents at beginning of period | 6,856 | 8,344 |
| Cash and cash equivalents at end of period | 9,412 | 5,814 |

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND
SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

September 30, 2005 and 2004

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

(Unaudited)

| | Nine-month period ended September 30, | |
|--|--|-------------|
| | 2005 | 2004 |
| Preferred shares | | |
| Balance at January 1 | 4,772 | 2,973 |
| Capital increase from undistributed earnings reserve | - | 1,799 |
| | | |
| Balance at September 30 | 4,772 | 4,772 |
| | | |
| Common shares | | |
| Balance at January 1 | 6,929 | 4,289 |
| Capital increase from undistributed earnings reserve | - | 2,640 |
| | | |
| Balance at September 30 | 6,929 | 6,929 |
| | | |
| Capital reserve - fiscal incentive | | |
| Balance at January 1 | 134 | 118 |
| Transfer from unappropriated retained earnings | 30 | 6 |
| | | |
| Balance at September 30 | 164 | 124 |
| | | |
| Accumulated other comprehensive income | | |
| | | |
| Cumulative translation adjustments | | |
| Balance at January 1 | (12,539) | (14,450) |
| Change in the period | 5,257 | 215 |
| | | |
| Balance at September 30 | (7,282) | (14,235) |

Amounts not recognized as net periodic pension cost

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| | | |
|--|----------------|---------|
| Balance at January 1 | (1,975) | (1,588) |
| Increase in additional minimum liability | (582) | (26) |
| Tax effect on above | 197 | 9 |
| | | |
| Balance at September 30 | (2,360) | (1,605) |

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND
SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Continued)

September 30, 2005 and 2004

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

(Unaudited)

| | Nine-month period ended September 30, | |
|---|--|-------------|
| | 2005 | 2004 |
| Unrecognized gains on available for sale securities | | |
| Balance at January 1 | 460 | 157 |
| Unrealized (losses) gains | (67) | 186 |
| Tax effect on above | 23 | (63) |
| Balance at September 30 | 416 | 280 |
| Appropriated retained earnings | | |
| Legal reserve | | |
| Balance at January 1 | 1,520 | 1,089 |
| Transfer from unappropriated retained earnings, net of gain or loss on translation | 296 | 12 |
| Balance at September 30 | 1,816 | 1,101 |
| Undistributed earnings reserve | | |
| Balance at January 1 | 9,688 | 9,372 |
| Capital increase | - | (4,439) |
| Transfer from (to) unappropriated retained earnings, net of gain or loss on translation | 1,884 | (1,167) |
| Balance at September 30 | 11,572 | 3,766 |

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND
SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Continued)

September 30, 2005 and 2004

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

(Unaudited)

| | Nine-month period ended September 30, | |
|--|--|-------------|
| | 2005 | 2004 |
| Statutory reserve | | |
| Balance at January 1 | 318 | 235 |
| Transfer from unappropriated retained earnings, net of gain or loss on translation | 62 | 3 |
| Balance at September 30 | 380 | 238 |
| Total appropriated retained earnings | 13,768 | 5,105 |
| Unappropriated retained earnings | | |
| Balance at January 1 | 13,199 | 14,957 |
| Net income for the period | 6,821 | 4,483 |
| Dividends (per share: 2005 US\$ 0.21 to common and preferred shares; 2004 US\$ 0.46 to common and preferred shares) | (933) | (2,002) |
| Appropriation (to) fiscal incentive reserves | (30) | (6) |
| Appropriation (to) from reserves | (2,242) | 1,152 |
| Balance at September 30 | 16,815 | 18,584 |
| Total shareholders' equity | 33,222 | 19,954 |
| Comprehensive income is comprised as follows: | | |
| Net income for the period | 6,821 | 4,483 |
| Cumulative translation adjustments | 5,257 | 215 |
| Amounts not recognized as net periodic pension cost | (385) | (17) |
| Unrealized (loss) gain on available-for-sale securities | (44) | 123 |

| | | |
|----------------------------|---------------|-------|
| Total comprehensive income | 11,649 | 4,804 |
|----------------------------|---------------|-------|

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS
AND SUBSIDIARIES**

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

Expressed in Millions of United States Dollars
(except when specifically indicated) (Unaudited)

1. Basis of Financial Statements Preparation

The accompanying unaudited condensed consolidated financial statements of Petróleo Brasileiro S.A. - PETROBRAS (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Accordingly they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These unaudited consolidated financial statements and the accompanying notes should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004 and the notes thereto.

The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The consolidated financial statements as of September 30, 2005 and for the nine-month periods ended September 30, 2005 and 2004, included in this report, are unaudited. However, in management's opinion, such consolidated financial statements reflect all normal recurring adjustments that are necessary for a fair presentation. The results for the interim periods are not necessarily indicative of trends or of results expected for the full year ending December 31, 2005.

The preparation of these financial statements requires the use of estimates and assumptions that affect the determination of the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto.

Certain prior period amounts have been reclassified to conform to the current period's presentation. These reclassifications had no impact on the Company's net income or shareholders' equity.

Pursuant to Rule 436 (c) under the Securities Act of 1933 (the Act), this is not a report and should not be considered a part of any registration statement prepared or certified within the meanings of Sections 7 and 11 of the Act and therefore, the independent accountant's liability under Section 11 does not extend to the information included herein.

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS
AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION**

Expressed in Millions of United States Dollars
(except when specifically indicated) (Unaudited)

2. Derivative Instruments, Hedging and Risk Management Activities

The Company is exposed to a number of market risks arising from the normal course of its business. Such market risks principally involve the possibility that changes in interest rates, currency exchange rates or commodity prices will adversely affect the value of the Company's financial assets and liabilities or future cash flows and earnings. The Company maintains an overall risk management policy that is developed under the direction of the Company's executive officers.

The Company may use derivative and non-derivative instruments to implement its overall risk management strategy. However, by using derivative instruments, the Company exposes itself to credit and market risk. Credit risk is the failure of a counterparty to perform under the terms of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a favorable change in interest rates, currency exchange rates, or commodity prices. The Company addresses credit risk by restricting the counterparties to such derivative financial instruments to major financial institutions. Market risk is managed by the Company's executive officers. The Company does not hold or issue financial instruments for trading purposes.

a) Foreign currency risk management

The Company's foreign currency risk management strategy may involve the use of derivative instruments to protect against foreign exchange rate volatility, which may impair the value of certain of the Company's obligations. The Company currently uses zero-cost foreign exchange collars to implement this strategy.

During 2000, the Company entered into three zero cost foreign exchange collars to reduce its exposure to variations between the U.S. Dollar and the Japanese Yen, and between the U.S. Dollar and Euro relative to long-term debt denominated in foreign currencies with a notional amount of approximately US\$ 470. The Company does not use hedge accounting for these derivative instruments. These collars establish a ceiling and a floor for the associated exchange rates. If the exchange rate falls below the defined floor, the counterparties will pay to the Company the difference between the actual rate and the floor rate on the notional amount. Conversely, if the exchange rate rises above the defined ceiling, the Company will pay to the counterparties the difference between the actual rate and the ceiling rate on the notional amount. The contracts expire upon the maturity date of each note.

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS
AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION**

Expressed in Millions of United States Dollars

(except when specifically indicated) (Unaudited)

2. Derivative Instruments, Hedging and Risk Management Activities (Continued)a) Foreign currency risk management (Continued)

One of the Euro zero cost collars was settled on December 31, 2004, with cash of US\$ 18 being received.

The call and put portion of the Company's zero cost foreign exchange collars at September 30, 2005 have a fair value of US\$ 15 and US\$ 1, respectively (US\$ 18 and US\$ 3 at December 31, 2004, respectively).

b) Crude oil price risk management

The Company is exposed to crude oil price risks as a result of the fluctuation of crude oil and oil product prices. The Company's crude oil price risk management activities primarily consist of futures contracts traded on stock exchanges and options and swaps entered into with major financial institutions. The futures contracts provide economic hedges to anticipated crude oil purchases and sales, generally forecast to occur within a 30 to 360 day period, and reduce the Company's exposure to volatile commodity prices.

The Company's exposure on these contracts is limited to the difference between contract value and market value on the volumes hedged. Crude future contracts are marked to market and related gains and losses are recognized currently under earnings, irrespective of when physical crude sales occur. During the nine-month periods ended September 30, 2005 and 2004, the Company carried out economic hedging activities on 20.5% and 38.1%, respectively, of its total traded volume (imports and exports). The open positions on the futures market, compared to spot market value, resulted in a loss of US\$ 5 and a loss of US\$ 17.5 during the nine-month periods ended September 30, 2005 and 2004, respectively.

c) Natural gas derivative contract

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

**PETRÓLEO BRASILEIRO S.A. - PETROBRAS
AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION**

Expressed in Millions of United States Dollars

(except when specifically indicated) (Unaudited)

2. Derivative Instruments, Hedging and Risk Management Activities (Continued)**c) Natural gas derivative contract (Continued)**

The terms of the PVRC include for the period from 2005 to 2019, a collar with PETROBRAS receiving cash payments when the calculated price is over the established ceiling and PETROBRAS making cash payments when the price is below the established floor, with no cash payments being made when the price is between the ceiling and the floor.

As of September 30, 2005 and December 31, 2004, the Company recorded a liability of US\$ 146 and US\$ 153, respectively, which is deemed a deferred purchase incentive, and which is being amortized into cost of sales on the basis of the volumes anticipated under the PVRC. At September 30, 2005, the Company recorded a gain in the amount of US\$ 5, net of deferred tax effect of US\$ 2, related to the amortization of this deferred purchase incentive.

As of September 30, 2005 and December 31, 2004, the Company recorded a derivative asset based on the fair value calculation in the amount of US\$ 630 and US\$ 635, respectively. At September 30, 2005 the Company recorded a mark-to-market (or MTM) gain in the amount of US\$ 20, net of deferred tax effect of US\$ 11. The derivative losses or gains are recorded as a component of financial expenses. The second quarter decrease in the fair value calculation for the PVRC contract was principally attributable to a change in Bolivia Hydrocarbon Tax Law, whose concepts are included in calculation of the ceiling and floor price. Such was principally offset by a third quarter gain in the fair value calculation for the PVRC contract which was principally attributable to changes in Brent crude reference prices.

d) Interest Rate Risk Management

The Company's interest rate risk is a function of the Company's long-term debt and, to a lesser extent, short-term debt. The Company's foreign currency floating rate debt is principally subject to fluctuations in LIBOR and the Company's floating rate debt denominated in Reais is principally subject to fluctuations in the Brazilian long-term interest rate (TJLP), as fixed by the Brazilian Central Bank. The Company currently does not utilize derivative financial instruments to manage its exposure to fluctuations in interest rates. However, the Company has been studying various forms of derivatives to reduce its exposure to interest rate fluctuations and may use these financial instruments in the future.

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2. Derivative Instruments, Hedging and Risk Management Activities (Continued)

e) Risk management activity at PEPSA

PEPSA also uses derivative instruments such as options, swaps and others, mainly to mitigate the impact of changes in crude oil prices, interest rates and future exchange rates. Such derivative instruments are designed to mitigate specific exposures, and are assessed periodically to assure high correlation of the derivative instrument to the risk exposure identified and to assure the derivative is highly effective in offsetting changes in cash flows inherent in the covered risk.

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3. Income Taxes

Substantially all of the Company's taxable income is generated in Brazil and is therefore subject to the Brazilian statutory tax rate. The following table reconciles the tax calculated based upon statutory tax rates to the income taxes expense recorded in these consolidated financial statements.

| | Nine-month period ended September, 30 | |
|---|--|-------------|
| | 2005 | 2004 |
| Income before income taxes and minority interest | 10,618 | 6,188 |
| Tax expense at statutory rates (34 %) | (3,610) | (2,104) |
| Adjustments to derive effective tax rate: | | |
| Non-deductible post-retirement and health-benefits | (193) | (109) |
| Equity in non-consolidated companies | 37 | 48 |
| Tax benefit on interest on shareholders' equity | 317 | 511 |
| Others | (144) | 50 |
| Income tax expense per consolidated statement of income | (3,593) | (1,604) |

4. Inventories

| | September 30, 2005 | December 31, 2004 |
|---------------------------------|-----------------------------------|------------------------------|
| Products | | |
| Oil products | 2,434 | 1,728 |
| Fuel alcohol | 87 | 72 |
| | 2,521 | 1,800 |
| Raw materials, mainly crude oil | 2,886 | 2,286 |

| | | |
|------------------------|--------------|-------|
| Materials and supplies | 849 | 697 |
| Others | 143 | 121 |
| | 6,399 | 4,904 |

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5. Receivable from Federal Government

a) Changes in the Petroleum and alcohol account

The following summarizes the changes in the Petroleum and alcohol account for the nine-month period ended September 30, 2005:

**Nine-month period ended
September 30, 2005**

| | |
|------------------|-----|
| Opening balance | 282 |
| Financial income | 7 |
| Translation gain | 55 |
| Ending balance | 344 |

b) Certification by the Federal Government

The ANP/STN Integrated Audit Committee submitted, on June 23, 2004, its final report certifying and approving the balance of the Petroleum and alcohol account. The conclusion of this audit process for the Petroleum and alcohol account establishes the basis for concluding the settlement process between the Federal Government and PETROBRAS.

c) National Treasury Bonds Series H (NTN-H)

The Company and the Federal Government reached an agreement whereby the Federal Government issued National Treasury Bonds - H (NTN-H) into a federal depository on behalf of the Company to support the balance of the Petroleum and alcohol account.

As of June 30, 2004, there were 138,791 National Treasury Notes series H (NTN-H), in the amount of US\$ 56, at which time the balance of the Petroleum and alcohol account was US\$ 241. Upon maturity of the NTN-H, the Federal Government made US\$ 3 available to PETROBRAS and the remaining US\$ 53 was deposited in an account in the Company's name, however, such amount is restricted from use by order of STN. The legal, valid, and binding nature of the account is not affected by any difference between the balance of the account and the value of the outstanding bonds.

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5. Receivable from Federal Government (Continued)

d) Settlement of the Petroleum and alcohol account with the Federal Government

The remaining balance of the Petroleum and alcohol account may be paid as follows:

- National Treasury Bonds issued at the same amount as the final balance of the Petroleum and alcohol account as determined by the audit;
- Offset of the balance of the Petroleum and alcohol account, with any other amount owed by PETROBRAS to the Federal Government, including taxes; or
- by a combination of the above options.

6. Financings

a) Short-term debt

The Company's short-term borrowings are principally sourced from commercial banks and include import and export financing denominated in United States dollars, as follows:

| | September 30, 2005 | December 31, 2004 |
|-----------------------------|-----------------------------------|------------------------------|
| Imports - oil and equipment | 368 | 456 |
| Working capital | 662 | 91 |
| | 1,030 | 547 |

The weighted average annual interest rates on outstanding short-term borrowings were 4.43% at September 30, 2005 and December 31, 2004.

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6. Financings (Continued)

b) Long-term debt

- Composition

| | September 30, 2005 | December 31, 2004 |
|--|-----------------------------------|------------------------------|
| Foreign currency | | |
| Notes | 5,644 | 6,440 |
| Financial institutions | 3,197 | 3,217 |
| Sale of future receivables | 1,269 | 1,707 |
| Suppliers credits | 1,049 | 726 |
| Senior exchangeable notes | 330 | 330 |
| Assets related to export program to be offset against sales of future receivables | (300) | (300) |
| Repurchased securities (1) | (356) | (291) |
| | 10,833 | 11,829 |
| Local currency | | |
| Debentures | 975 | 814 |
| National Economic and Social Development Bank BNDES | 321 | 343 |
| Debentures (related party) | 305 | 274 |
| Others | 59 | 84 |
| | 1,660 | 1,515 |
| Total | 12,493 | 13,344 |
| Current portion of long-term debt | (948) | (1,199) |
| | 11,545 | 12,145 |

- (1) At September 30, 2005 and December 31, 2004, the Company had amounts invested abroad in an exclusive investment fund that held debt securities of some of the PETROBRAS group companies and some of the SPEs

that the Company consolidates according to FIN 46, in the total amount of US\$ 2,078 and US\$ 2,013, respectively. These securities are considered to be extinguished, and thus the related amounts, together with applicable interest have been removed from the presentation of marketable securities and long-term debt, of US\$ 356 and US\$ 291, respectively, and project financings, of US\$ 1,722 in both periods. See also Note 8. Gains and losses on extinguishment are recognized as incurred. Subsequent reissuances of notes at amounts greater or lower than par are recorded as premium or discounts and are amortized over the life of the notes. In the nine-month period ended September 30, 2005, PETROBRAS recognized net losses on extinguishment of debt of US\$ 17 (US\$ 113 for the nine month period ended September 30, 2004) and had no debt reissuances (reissuance premiums of US\$ 83 were recorded for the nine month period ended September 30, 2004).

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6. Financings (Continued)

b) Long-term debt (Continued)

- Composition of foreign currency denominated debt by currency

| | September 30, 2005 | December 31, 2004 |
|-----------------------|-------------------------------|--------------------------|
| Currency | | |
| United States dollars | 10,121 | 10,949 |
| Japanese Yen | 442 | 553 |
| Euro | 270 | 326 |
| Others | - | 1 |
| | 10,833 | 11,829 |

- Maturities of the principal of long-term debt

The long-term portion at September 30, 2005 becomes due in the following years:

| | |
|---------------------|--------|
| 2006 | 698 |
| 2007 | 2,060 |
| 2008 | 1,544 |
| 2009 | 856 |
| 2010 | 1,492 |
| 2011 and thereafter | 4,895 |
| | 11,545 |

- Composition of long-term debt by annual interest rate

Interest rates on long-term debt were as follows:

December 31

| | September 30, 2005 | 2004 |
|------------------|-----------------------------------|-------------|
| Foreign currency | | |
| 6% or less | 3,647 | 4,769 |
| Over 6% to 8% | 2,334 | 2,178 |
| Over 8% to 10% | 4,505 | 4,552 |
| Over 10% to 15% | 347 | 330 |
| | 10,833 | 11,829 |
| Local currency | | |
| 6% or less | 90 | 393 |
| Over 6% to 8% | 287 | - |
| Over 8% to 10% | 276 | 248 |
| Over 10% to 15% | 1,007 | 874 |
| | 1,660 | 1,515 |
| | 12,493 | 13,344 |

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7. Financial Income (Expenses), Net

Financial expenses, financial income and monetary and exchange variation on monetary assets and liabilities, net, allocated to income for the nine-month periods ended September 30, 2005 and 2004 are shown as follows:

| | Nine-month period ended September 30, | |
|---|--|-------------|
| | 2005 | 2004 |
| Financial expenses | | |
| Loans and financings | (819) | (915) |
| Capitalized interest | 425 | 164 |
| Leasing | (75) | (79) |
| Project financings | (332) | (230) |
| Losses on derivative instruments | (111) | (248) |
| Repurchased securities losses | (17) | (113) |
| Gains on fair value of gas hedge | 31 | - |
| Others | (11) | (9) |
| | (909) | (1,430) |
| Financial income | | |
| Investments | (131) | 274 |
| Advances to suppliers | 25 | 24 |
| Government securities | 32 | 19 |
| Others | 160 | 228 |
| | 86 | 545 |
| Monetary and exchange variation | | |
| Monetary and exchange variation on monetary assets | (338) | 288 |
| Monetary and exchange variation on monetary liabilities | 567 | (327) |
| | 229 | (39) |
| | (594) | (924) |

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8. Project Financings

Since 1997, the Company has utilized project financing to provide capital for the continued development of the Company's exploration and production and related projects. Project financing special purpose entities are consolidated on a line by line basis and the project financings obligation represents the debt of the consolidated SPE with the third-party lender. The Company's responsibility under these contracts is to complete the development of the oil and gas fields, operate the fields, pay for all operating expenses related to the projects and remit a portion of the net proceeds generated from the fields to fund the special purpose companies' debt and return on equity payments. At the conclusion of the term of each financing project, the Company will have the option to purchase the leased or transferred assets from the consolidated special purpose company.

The following summarizes the liabilities related to the projects that were in progress at September 30, 2005 and December 31, 2004:

| | September 30, 2005 | December 31, 2004 |
|--|-----------------------------------|------------------------------|
| Barracuda/Caratinga | 2,739 | 2,534 |
| Companhia Locadora de Equipamentos Petrolíferos - CLEP (1) | 1,722 | 1,700 |
| Cabiúnas | 787 | 1,045 |
| Espadarte/Voador/Marimbá (EVM) | 466 | 516 |
| Nova Marlim | 503 | 386 |
| Marlim | 598 | 593 |
| Nova Transportadora do Sudeste - NTS | 475 | 260 |
| Nova Transportadora do Nordeste - NTN | 326 | 141 |
| PDET S.A. | 184 | 111 |
| Pargo, Carapeba, Garoupa and Cherne (PCGC) | 56 | 67 |
| Albacora | 78 | 81 |
| Transportadora Urucu Manaus (2) | 108 | - |
| Transportadora Gasene (3) | 115 | - |
| Repurchased securities (4) | (1,722) | (1,722) |
| | 6,435 | 5,712 |
| Current portion of project financings | (2,306) | (1,313) |
| | 4,129 | 4,399 |

(1) Former Langstrand Holdings S.A.

- (2) Transportadora Urucu - Manaus S.A. is responsible for the development of a Gas and Energy project which relates to the construction of a 395 km gas pipeline between Coari and Manaus.
- (3) Transportadora Gasene S.A. will own the Southeast- Northeast gas pipeline, which aims at interconnecting the Southeastern and Northeastern gas pipeline networks, thus forming the Brazilian Natural Gas Transportation Network (Rede Brasileira de Transporte de Gás Natural - RBTGN).
- (4) At September 30, 2005 and December 31, 2004, the Company had amounts invested abroad in an exclusive investment fund. These securities are considered to be extinguished, and thus the related amounts, together with applicable interest have been removed from the presentation of marketable securities and project financings. See also Note 6.

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8. Project Financings (Continued)

At September 30, 2005, the long-term portion of project financing becomes due in the following years:

| | |
|---------------------|-------|
| 2006 | 693 |
| 2007 | 1,099 |
| 2008 | 767 |
| 2009 | 646 |
| 2010 | 589 |
| 2011 and thereafter | 335 |
| | 4,129 |

As of September 30, 2005, the amounts of cash outlay commitments assumed related to consolidated structured project financings are presented as follows:

| | |
|-------------------------------------|-------|
| PDET S.A. | 723 |
| Nova Transportadora do Sudeste NTS | 135 |
| Nova Transportadora do Nordeste NTN | 172 |
| | 1,030 |

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9. Capital Lease Obligations

The Company leases certain offshore platforms and vessels, which are accounted for as capital leases. At September 30, 2005, these assets had a net book value of US\$ 1,466 (US\$ 1,518 at December 31, 2004).

The following is a schedule by year of the future minimum lease payments at September 30, 2005:

| | |
|---|-------|
| 2005 | 98 |
| 2006 | 301 |
| 2007 | 279 |
| 2008 | 246 |
| 2009 | 222 |
| 2010 | 174 |
| 2011 and thereafter | 207 |
| Estimated future lease payments | 1,527 |
| Less amount representing interest at 6.2% to 12.0% annual | (350) |
| Less amount representing executory costs | |
| Present value of minimum lease payments | 1,177 |
| Less current portion of capital lease obligations | (247) |
| Long-term portion of capital lease obligations | 930 |

10. Thermoelectric Liabilities

The balance of thermoelectric obligations was US\$ 819 and US\$ 1,095 at September 30, 2005 and December 31, 2004, respectively.

On August 13, 2004, the Board of Directors of PETROBRAS approved the financial conditions for the acquisition of 100% interest of Eletrobolt Thermoelectric plant. The documentation for acquisition of Sociedade Fluminense de Energia (SFE), the owner of Eletrobolt, was signed April 29, 2005, thus concluding the process for acquisition of that company. The agreed-upon price of its shares is US\$ 65. The Company's previous investment on Eletrobolt was being accounted for in accordance to FIN 46 and the acquisition was accounted for as a business combination but had no material impact on PETROBRAS consolidated accounting records. Due to the immateriality, proforma information

has not been presented.

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10. Thermoelectric Liabilities (Continued)

In February, 2005, in order to facilitate the financial restructuring process of Termorio, PETROBRAS acquired the remaining 50% interest of Termorio's voting capital from NRG for US\$ 83 bringing its ownership to 100% of total and voting capital. The Company's previous investment on Termorio was being accounted for in accordance to FIN 46 and the acquisition was accounted for as a business combination but had no material impact on PETROBRAS consolidated accounting records. Due to the immateriality, proforma information has not been presented.

On June 24, 2005, PETROBRAS acquired Termoceará Ltda. This is a plant with net generation capacity of 220 MW/h, of the *Merchant* type, for which PETROBRAS executed between 2001 and 2002 a contract with a clause for contingent payments related to taxes, charges and tariffs, operational costs, maintenance and investments (*capacity*), in case the plant did not generate revenues sufficient to cover these costs. The acquisition price was equal to US\$ 137, of which US\$ 81 related to the purchase of tangible assets of the thermoelectric plant and US\$ 56 was designated to settle of payables to the lenders of the project (BNDES and Eximbank). The excess of amounts paid over fair value of assets acquired is attributable to intangible assets and goodwill. The Company's previous investment on Termoceará was being accounted for in accordance to FIN 46 and the acquisition was accounted for as a business combination but had no material impact on PETROBRAS consolidated accounting records. Due to the immateriality, proforma information has not been presented.

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11. Employees Postretirement Benefits and Other Benefits

The Company sponsors a contributory defined benefit pension plan covering substantially all of its employees and provides certain health care benefits for a number of active and retired employees. In 2004, the Company made contributions of US\$ 221 to pension and health care plans.

Net periodic benefit cost includes the following components:

| | As of September 30, | | | |
|--|---------------------|----------------------------|---------------------|----------------------------|
| | 2005 | | 2004 | |
| | Pension benefits | Health care benefits | Pension benefits | Health care benefits |
| Service cost – benefits earned during the period | 108 | 54 | 99 | 33 |
| Interest on projected benefit obligation | 1,010 | 357 | 639 | 253 |
| Expected return on plan assets | (701) | - | (450) | - |
| Amortization of net (gain)/ loss | 297 | 111 | - | - |
| Translation (gain)/ loss | 1 | (1) | 17 | 14 |
| Recognized actuarial loss | - | - | 180 | 59 |
| | 715 | 521 | 485 | 359 |
| Employees contributions | (93) | - | (81) | - |
| Net periodic benefit cost | 622 | 521 | 404 | 359 |

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12. Shareholders Equity

The Company's subscribed and fully paid-in capital at September 30, 2005 consisted of 2,536,673,672 common shares and 1,849,478,028 preferred shares (2,536,673,672 common shares and 1,849,478,028 preferred shares at December 31, 2004), as retroactively restated for the stock split discussed below.

On July 22, 2005, the Extraordinary General Meeting approved a four to one stock split, resulting in the distribution of 3 (three) new shares of the same class for each share held, based on the shareholding structure at August 31, 2005. At the same date, an amendment to Article 4 of the Company's By Laws to cause capital be divided into 4,386,151 thousand shares, of which 2,536,673 thousand are common and 1,849,478 thousand are preferred shares, with no nominal value, was approved; such amendment to the Company's By Laws is effective from September 1, 2005. The relation between American Depository Receipt (*ADR*) and shares of each class was changed from one to four shares for one ADR. All share and per share information in the accompanying financial statements and notes has been adjusted to reflect the result of the share split.

The dividends related to the fiscal year ended December 31, 2004, approved at the General Shareholders Meeting held March 31, 2005, in the amount of US\$ 1,900, (including the portion of interest on shareholders' equity, in the amount of US\$ 1,239, paid to the shareholders on February 15, 2005) were made available to stockholders on May 17, 2005.

On June 17, 2005, the Board of Directors of the Company approved the distribution of interest on shareholders' equity to shareholders in the amount of US\$ 933, as provided for in article 9 of Law No. 9,249/95 and Decrees No. 2,673/98 and No. 3,381/00.

This amount will be made available to shareholders up to January 31, 2006, based on their shareholdings at June 30, 2005, corresponding to US\$ 0.21 per common and preferred share, and will be reduced from the dividends that will be determined based on adjusted net income for 2005, and monetarily adjusted by reference to the Selic variation if paid before December 31, 2006, from the date of actual payment through to the end of said year. If paid in 2005, the amount to be distributed will be monetarily adjusted based on the Selic variation as from December 31, 2005 to the date of beginning of payment.

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12. Shareholders Equity (Continued)

Basic and diluted earnings per share amounts have been calculated as follows:

| | Nine-month period ended September 30, | |
|--|--|---------------|
| | 2005 | 2004 |
| Net income for the period | 6,821 | 4,483 |
| Less priority preferred share dividends | (431) | (274) |
| Less common shares dividends, up to the priority preferred shares dividends on a per-share basis | (591) | (376) |
| Remaining net income to be equally allocated to common and preferred shares | 5,799 | 3,833 |
| Weighted average number of shares outstanding | | |
| Common | 2,536,673,672 | 2,536,673,672 |
| Preferred | 1,849,478,028 | 1,849,478,028 |
| Basic and diluted earnings per share | | |
| Common and Preferred | 1.56 | 1.02 |
| Basic and diluted earnings per ADS | 6.24 | 4.08 |

13. Commitments and Contingencies

PETROBRAS is subject to a number of commitments and contingencies arising in the normal course of its business. Additionally, the operations and earnings of the Company have been, and may be in the future, affected from time to time in varying degrees by political developments and laws and regulations, such as the Federal Government's continuing role as the controlling shareholder of the Company, the status of the Brazilian economy, forced divestiture of assets, tax increases and retroactive tax claims, and environmental regulations. The likelihood of such occurrences and their overall effect upon the Company are not readily determinable.

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13. Commitments and Contingencies (Continued)

a) Litigation

The Company is a defendant in numerous legal actions involving civil, tax, labor, corporate and environment issues arising in the normal course of its business. Based on the advice of its internal legal counsel and management's best judgment, the Company has recorded accruals in amounts sufficient to provide for losses that are considered probable and reasonably estimable. The following presents these accruals by nature of claim:

| | September 30, 2005 | December 31, 2004 |
|--|-----------------------------------|------------------------------|
| Labor claims | 38 | 26 |
| Tax claims | 81 | 73 |
| Civil claims | 123 | 123 |
| Commercials claims and other contingencies | 36 | 35 |
| | 278 | 257 |
| Contingencies for joint liability | 83 | 107 |
| Total | 361 | 364 |
| Current contingencies | 94 | 131 |
| Long-term contingencies | 267 | 233 |

As of September 30, 2005 and December 31, 2004, in accordance with Brazilian law, the Company had paid US\$ 940 and US\$ 699, respectively, into federal depositories to provide collateral for these and other claims until they are settled. These amounts are reflected in the balance sheet as restricted deposits for legal proceedings and guarantees.

b) Environmental matters

The Company is subject to various environmental laws and regulations. These laws regulate the activities involving discharge of oil, gas or other materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of such materials at various sites.

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14. Segment Information

The following presents the Company's assets by segment:

As of September 30, 2005

| | Exploration and Production | Supply | Gas and Energy | International (see separate disclosure) | Distribution | Corporate | Eliminations | Total |
|---|---|---------------|-------------------------------|--|---------------------|------------------|---------------------|--------------|
| Current assets | 2,891 | 10,281 | 1,598 | 2,484 | 2,180 | 9,335 | (3,539) | 25,230 |
| Cash and cash equivalents | 537 | 616 | 359 | 575 | 113 | 7,212 | - | 9,412 |
| Other current assets | 2,354 | 9,665 | 1,239 | 1,909 | 2,067 | 2,123 | (3,539) | 15,818 |
| Investments in non-consolidated companies and other investments | 9 | 914 | 380 | 540 | 20 | 107 | - | 1,970 |
| Property, plant and equipment, net | 25,741 | 8,278 | 5,520 | 4,452 | 1,280 | 925 | (35) | 46,161 |
| Non current assets | 960 | 401 | 1,717 | 454 | 317 | 5,774 | (4,042) | 5,581 |
| Petroleum and alcohol account | - | - | - | - | - | 344 | - | 344 |
| Government securities | - | - | - | - | - | 385 | - | 385 |

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| | | | | | | | | |
|--------------|--------|--------|-------|-------|-------|--------|---------|--------|
| Other assets | 960 | 401 | 1,717 | 454 | 317 | 5,045 | (4,042) | 4,852 |
| Total assets | 29,601 | 19,874 | 9,215 | 7,930 | 3,797 | 16,141 | (7,616) | 78,942 |

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14. Segment Information (Continued)

As of September 30, 2005

| | International | | | | | | |
|---|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| | Exploration and Production | Supply | Gas and Energy | Distribution | Corporate | Eliminations | Total |
| Current assets | 1,536 | 766 | 472 | 93 | 586 | (969) | 2,484 |
| Cash and cash equivalents | 100 | 89 | 3 | 5 | 378 | - | 575 |
| Other current assets | 1,436 | 677 | 469 | 88 | 208 | (969) | 1,909 |
| Investments in non-consolidated companies and other investments | 176 | 52 | 241 | - | 71 | - | 540 |
| Property, plant and equipment, net | 3,594 | 522 | 201 | 77 | 58 | - | 4,452 |
| Non current assets | 435 | 32 | 20 | 23 | 1,931 | (1,987) | 454 |
| Other assets | 435 | 32 | 20 | 23 | 1,931 | (1,987) | 454 |
| Total assets | 5,741 | 1,372 | 934 | 193 | 2,646 | (2,956) | 7,930 |

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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14. Segment Information (Continued)

As of December 31, 2004

| | Exploration and Production | Supply | Gas and Energy | International (see separate disclosure) | Distribution | Corporate | Eliminations | 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 |
|--------------|--------|--------|-------|-------|-------|--------|---------|--------|

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14. Segment Information (Continued)

As of December 31, 2004

International

| | Exploration and Production | Supply | Gas and Energy | Distribution | Corporate | Eliminations | Total |
|--|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| Current assets | 1,112 | 579 | 272 | 99 | 638 | (760) | 1,940 |
| Cash and cash equivalents | 151 | 45 | 2 | 6 | 286 | - | 490 |
| Other current assets | 961 | 534 | 270 | 93 | 352 | (760) | 1,450 |
| Investments in non-consolidated companies and other investments | 159 | 50 | 239 | - | 68 | - | 516 |
| Property, plant and equipment, net | 3,317 | 507 | 199 | 87 | 50 | - | 4,160 |
| Non current assets | 310 | 26 | 11 | 11 | 1,399 | (1,441) | 316 |
| Other assets | 310 | 26 | 11 | 11 | 1,399 | (1,441) | 316 |
| Total assets | 4,898 | 1,162 | 721 | 197 | 2,155 | (2,201) | 6,932 |

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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14. Segment Information (Continued)

Revenues and net income by segment are as follows:

| | Nine-month period ended September 30, 2005 | | | | | | | |
|--|--|---------------|----------------------|---|--------------|-----------|--------------|----------|
| | Exploration and Production (1) | Supply (1) | Gas and Energy | International (see separate disclosure) | Distribution | Corporate | Eliminations | Total |
| Net operating revenues to third parties | 1,187 | 23,801 | 1,340 | 2,679 | 11,054 | - | - | 40,061 |
| Inter-segment net operating revenues | 19,944 | 8,704 | 672 | 659 | 163 | - | (30,142) | - |
| Net operating revenues | 21,131 | 32,505 | 2,012 | 3,338 | 11,217 | - | (30,142) | 40,061 |
| Cost of Sales | (7,933) | (28,658) | (1,565) | (1,741) | (10,129) | - | 28,689 | (21,337) |
| Depreciation, depletion and amortization | (1,115) | (488) | (71) | (358) | (71) | (36) | - | (2,139) |
| Exploration, including exploratory dry holes | (366) | - | - | (72) | - | - | - | (438) |
| Selling, general and administrative expenses | (226) | (869) | (254) | (299) | (625) | (725) | 41 | (2,957) |
| Research and development expenses | (105) | (35) | (16) | (1) | (1) | (117) | - | (275) |
| Other operating expenses | (44) | (30) | (136) | (39) | - | - | - | (249) |

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| | | | | | | | | |
|---|---------|----------|---------|---------|----------|---------|---------|----------|
| Costs and expenses | (9,789) | (30,080) | (2,042) | (2,510) | (10,826) | (878) | 28,730 | (27,395) |
| Equity in results of non-consolidated companies | - | 10 | 46 | 51 | - | 6 | - | 113 |
| Financial income (expenses), net | - | 188 | 98 | (313) | (31) | (536) | - | (594) |
| Employee benefit expense for non active participants | - | (1) | - | - | - | (707) | - | (708) |
| Other taxes | (12) | (23) | (16) | (30) | (49) | (127) | - | (257) |
| Other expenses, net | (11) | (78) | (188) | (65) | (18) | (242) | - | (602) |
| Income (loss) before income taxes and minority interest | 11,319 | 2,521 | (90) | 471 | 293 | (2,484) | (1,412) | 10,618 |
| Income tax benefits (expense) | (3,856) | (825) | (19) | (165) | (105) | 907 | 470 | (3,593) |
| Minority interest | (5) | (26) | (92) | (81) | - | - | - | (204) |
| Net income (loss) | 7,458 | 1,670 | (201) | 225 | 188 | (1,577) | (942) | 6,821 |

(1) In 2005 revenues from commercialization of oil to third parties are being classified in accordance with the points of sale, which could be Exploration & Production or Supply segments. Until 2004, revenues from commercialization of oil were completely allocated to Exploration & Production. This classification generated no significant impact on the results reported for these segments and segments information has not been restated as it is impractical to gather and collect data for prior periods as to point of sale.

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NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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14. Segment Information (Continued)

Nine-month period ended September 30, 2005

| | International | | | | | | |
|---|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| | Exploration and Production | Supply | Gas and Energy | Distribution | Corporate | Eliminations | Total |
| Net operating revenues to third parties | 689 | 771 | 386 | 812 | 21 | - | 2,679 |
| Inter-segment net operating revenues | 1,091 | 987 | 23 | 3 | - | (1,445) | 659 |
| Net operating revenues | 1,780 | 1,758 | 409 | 815 | 21 | (1,445) | 3,338 |
| Cost of sales | (460) | (1,574) | (325) | (796) | (21) | 1,435 | (1,741) |
| Depreciation, depletion and amortization | (283) | (48) | (10) | (8) | (9) | - | (358) |
| Exploration, including exploratory dry holes | (72) | - | - | - | - | - | (72) |
| Selling, general and administrative expenses | (87) | (43) | (8) | (48) | (113) | - | (299) |
| Research and development expenses | - | - | - | - | (1) | - | (1) |
| Other operating expenses | (38) | 7 | 3 | - | (46) | 35 | (39) |
| Costs and expenses | (940) | (1,658) | (340) | (852) | (190) | 1,470 | (2,510) |
| Equity in results of non-consolidated companies | 5 | 13 | - | - | 31 | 2 | 51 |
| Financial income (expenses), net | (206) | (1) | 1 | - | (107) | - | (313) |
| Other taxes | (3) | (4) | - | (1) | (22) | - | (30) |
| Other expenses, net | (72) | - | - | - | 7 | - | (65) |

| | | | | | | | |
|---|-------|------|------|------|-------|----|-------|
| Income (loss) before income taxes and minority interest | 564 | 108 | 70 | (38) | (260) | 27 | 471 |
| Income tax benefits (expense) | (211) | (32) | (18) | 15 | 81 | - | (165) |
| Minority interest | (50) | (19) | (6) | 5 | (11) | - | (81) |
| Net income (loss) | 303 | 57 | 46 | (18) | (190) | 27 | 225 |

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14. Segment Information (Continued)

Nine-month period ended September 30, 2004

| | Exploration and Production | Supply | Gas and Energy | International (see separate disclosure) | Distribution | Corporate | Eliminations | Total |
|--|---|---------------|-------------------------------|--|---------------------|------------------|---------------------|--------------|
| Net operating revenues to third parties | 1,906 | 15,271 | 1,178 | 2,237 | 6,740 | - | - | 27,332 |
| Inter-segment net operating revenues | 12,022 | 5,290 | 268 | 406 | 119 | - | (18,105) | - |
| Net operating revenues | 13,928 | 20,561 | 1,446 | 2,643 | 6,859 | - | (18,105) | 27,332 |
| Cost of Sales | (5,176) | (18,481) | (1,383) | (1,349) | (6,190) | - | 17,952 | (14,627) |
| Depreciation, depletion and amortization | (1,021) | (344) | (76) | (319) | (29) | (25) | - | (1,814) |
| Exploration, including exploratory dry holes | (292) | - | - | (145) | - | - | - | (437) |
| Selling, general and administrative expenses | (178) | (680) | (119) | (229) | (372) | (411) | - | (1,989) |
| Research and development expenses | (85) | (40) | (5) | (1) | (3) | (46) | - | (180) |
| Other operating expenses | (32) | (29) | (63) | (51) | - | - | - | (175) |

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| | | | | | | | | |
|---|---------|----------|---------|---------|---------|---------|--------|----------|
| Costs and expenses | (6,784) | (19,574) | (1,646) | (2,094) | (6,594) | (482) | 17,952 | (19,222) |
| Equity in results of non-consolidated companies | - | 24 | 49 | 67 | - | 1 | - | 141 |
| Financial income (expenses), net | (242) | 1 | (60) | (391) | (15) | (217) | - | (924) |
| Employee benefit expense | - | (2) | - | - | (13) | (453) | - | (468) |
| Other taxes | (6) | (20) | (20) | (26) | (38) | (235) | - | (345) |
| Other expenses, net | (40) | (25) | (49) | 7 | (42) | (177) | - | (326) |
| Income (loss) before income taxes and minority interest | 6,856 | 965 | (280) | 206 | 157 | (1,563) | (153) | 6,188 |
| Income tax benefits (expense) | (2,449) | (288) | 107 | - | (54) | 1,027 | 53 | (1,604) |
| Minority interest | (5) | (28) | (4) | (64) | - | - | - | (101) |
| Net income (loss) | 4,402 | 649 | (177) | 142 | 103 | (536) | (100) | 4,483 |

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14. Segment Information (Continued)

Nine-month period ended September 30, 2004

International

| | Exploration and Production | Supply | Gas and Energy | Distribution | Corporate | Eliminations | Total |
|---|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| Net operating revenues to third parties | 521 | 767 | 300 | 633 | 16 | - | 2,237 |
| Inter-segment net operating revenues | 834 | 789 | 20 | 5 | - | (1,242) | 406 |
| Net operating revenues | 1,355 | 1,556 | 320 | 638 | 16 | (1,242) | 2,643 |
| Cost of sales | (342) | (1,309) | (249) | (661) | (15) | 1,227 | (1,349) |
| Depreciation, depletion and amortization | (250) | (46) | (9) | (6) | (8) | - | (319) |
| Exploration, including exploratory dry holes | (145) | - | - | - | - | - | (145) |
| Selling, general and administrative expenses | (77) | (38) | (5) | (46) | (63) | - | (229) |
| Research and development expenses | - | - | - | - | (1) | - | (1) |
| Other operating expenses | (41) | - | 4 | - | (14) | - | (51) |
| Costs and expenses | (855) | (1,393) | (259) | (713) | (101) | 1,227 | (2,094) |
| Equity in results of non-consolidated companies | 5 | 15 | 4 | - | 43 | - | 67 |
| Financial income (expenses), net | (301) | (6) | - | - | (84) | - | (391) |
| Other taxes | (4) | (5) | - | (5) | (12) | - | (26) |
| Other expenses, net | - | 3 | 4 | - | - | - | 7 |

| | | | | | | | |
|---|------|------|------|------|-------|------|------|
| Income (loss) before income taxes and minority interest | 200 | 170 | 69 | (80) | (138) | (15) | 206 |
| Income tax benefits (expense) | (77) | (47) | (14) | 28 | 110 | - | - |
| Minority interest | 5 | (3) | (2) | (3) | (61) | - | (64) |
| Net income (loss) | 128 | 120 | 53 | (55) | (89) | (15) | 142 |

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14. Segment Information (Continued)

Capital expenditures incurred by segment for the nine-month periods ended September 30, 2005 and 2004 are as follows:

| | Nine-month period ended September 30, | |
|----------------------------|--|--------------|
| | 2005 | 2004 |
| Exploration and Production | 4,093 | 3,050 |
| Supply | 1,231 | 924 |
| Gas and Energy | 405 | 154 |
| International | | |
| Exploration and Production | 620 | 383 |
| Supply | 45 | 34 |
| Distribution | 9 | 13 |
| Gas and Energy | 12 | 3 |
| Distribution | 149 | 77 |
| Corporate | 247 | 127 |
| | 6,811 | 4,765 |

15. Accounting for Suspended Exploratory Wells

The Company's accounting for exploratory drilling costs is governed by Statement of Financial Accounting Standards No. 19, Financial Accounting and Reporting by Oil and Gas Producing Companies (SFAS No. 19). On April 4, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP FAS 19-1) that amended SFAS No. 19 with respect to the deferral of exploratory drilling costs. The Company adopted FASB Staff Position FAS 19-1 Accounting for Suspended Wells Costs effective from January 1, 2005. There was no material impact at adoption.

Costs the Company has incurred to drill exploratory wells that find commercial quantities of oil and gas are carried as assets on its balance sheet under the classification unproved oil and gas properties. Each year, the Company writes off the costs of these wells that have not found sufficient proved reserves to justify completion as a producing well unless (1) the well is in an area requiring major capital expenditure before production can begin and (2) additional

exploratory drilling is under way or firmly planned to determine whether the capital expenditure is justified.

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15. Accounting for Suspended Exploratory Wells (Continued)

As of September 30, 2005, the total amount of unproved oil and gas properties was US\$ 2,177, and of that amount US\$ 941 (US\$ 730 of which related to projects in Brazil) represented costs that had been capitalized for more than one year, which generally are a result of (1) extended exploratory activities associated with offshore production and (2) the transitory effects of deregulation in the Brazilian oil and gas industry, as described below.

In 1998, the Company's government-granted monopoly ended and the Company signed concession contracts with the Agência Nacional de Petróleo (National Petroleum Agency, or ANP) for all of the areas the Company had been exploring and developing prior to 1998, which consisted of 397 concession blocks. Since 1998, the ANP has conducted competitive bidding rounds for exploration rights, which has allowed the Company to acquire additional concession blocks. After a concession block is found to contain a successful exploratory well, we must submit an Evaluation Plan to the ANP for approval. This Evaluation Plan details the drilling plans for additional exploratory wells. An Evaluation Plan is only submitted for those concession areas where technical and economic feasibility analyses on existing exploration wells evidence justification for completion of such wells. Until the ANP approves the Evaluation Plan, the drilling of additional exploratory wells cannot commence. If companies do not find commercial quantities of oil and gas within a specific time period, generally 4-6 years depending on the characteristics of the exploration area, then the concession block must be relinquished and returned to the ANP. Because the Company was required to assess a large volume of concession blocks in a limited time frame even when an exploratory well has found sufficient reserves to justify completion and additional wells are firmly planned, finite resources and expiring time frames in other concession blocks have dictated the timing of the planned additional drilling.

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15. Accounting for Suspended Exploratory Wells (Continued)

The following table shows the net changes in capitalized exploratory drilling costs during the nine-month period ended September 30, 2005 and the year ended December 31, 2004:

Unproved Oil and Gas Properties (*)

| | Nine-Month period ended September 30, 2005 | Year ended December 31, 2004 |
|--|---|---|
| Beginning balance at January 1 | 1,684 | 1,903 |
| Additions to capitalized costs pending determination of proved reserves | 852 | 736 |
| Capitalized exploratory costs charged to expense | (201) | (490) |
| Transfers to property, plant and equipment based on the determination of the proved reserves | (386) | (551) |
| Cumulative Translation Adjustment | 228 | 86 |
| Ending balance | 2,177 | 1,684 |

(*) Amounts capitalized and subsequently expensed in the same period have been excluded from the above table.

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of the drilling:

Aging of Capitalized Exploratory Well Costs

| | At September 30, 2005 | At December 31, 2004 |
|--|----------------------------------|---------------------------------|
| Capitalized exploratory well costs that have been capitalized for a period of one year or less | 1,236 | 844 |
| Capitalized exploratory well costs that have been capitalized for a period greater than one year | 941 | 840 |

| | | |
|---|--------------|-------|
| Ending balance | 2,177 | 1,684 |
| Number of projects that have exploratory well costs that have been capitalized for a period greater than one year | 48 | 40 |

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15. Accounting for Suspended Exploratory Wells (Continued)

Of the US\$ 941 for 48 projects that include wells suspended for more than one year since the completion of drilling, approximately US\$ 655 are related to wells in areas for which drilling was under way or firmly planned for the near future and that we have submitted an Evaluation Plan to the ANP for approval. The US\$ 286 balance was composed of approximately US\$ 138 incurred in costs for activities necessary to assess the reserves and their potential development (eight projects) and US\$ 68 represents two projects that are in active agreement negotiations with governments.

The US\$ 941 of suspended well cost capitalized for a period greater than one year as of September 30, 2005 represents 83 exploratory wells in 48 projects and the table below contains the aging of these costs on a well basis:

Aging based on drilling completion date of individual wells:

| | Million of Dollars | Number of Wells |
|------------------------------------|---------------------------|----------------------------|
| 2004 through third quarter of 2005 | 276 | 30 |
| 2003 | 404 | 23 |
| 2002 | 170 | 11 |
| 2001 | 26 | 12 |
| 2000 | 65 | 7 |
| | 941 | 83 |

SIGNATURE

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

Date: November 23, 2005

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By: */s/ José Sergio Gabrielli de
Azevedo*

**José Sergio Gabrielli de
Azevedo
Chief Financial Officer and
Investor Relations Director**

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.
