BRAZILIAN PETROLEUM CORP
Form 6-K
March 19, 2003

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 March 2003

PETRÓLEO BRASILEIRO S.A. PETROBRAS

(BRAZILIAN PETROLEUM CORPORATION PETROBRAS)

(Translation of Registrant s Name Into English)

Brazil

(Jurisdiction of incorporation or organization)

Av. República do Chile, 65

20035-900 Rio de Janeiro, RJ, 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.)

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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

PETROBRAS ANNOUNCES FISCAL YEAR OF 2002 RESULTS

(Rio de Janeiro March 19, 2003) PETRÓLEO BRASILEIRO S.A.

PETROBRAS today announced its consolidated results stated in U.S. Dollars, prepared in accordance with U.S. GAAP.

Consolidated sales of products and services totaled U.S.$32,987 million for the year ended December 31, 2002, a 3.4% decrease from consolidated sales of products of U.S.$34,145 million for the year ended December 31, 2001. Net operating revenues totaled U.S.$22,612 million for the year ended December 31, 2002, a 7.9% decrease from net operating revenues of U.S.$24,549 million for the year ended December 31, 2001. The decreases in consolidated sales of products and services and net operating revenues were primarily a result of a 52.3% devaluation of the Real against the U.S. dollar during the year ended December 31, 2002, as compared to a devaluation of 18.7% for the year ended December 31, 2001, as prices for oil products in the domestic market did not increase sufficiently to offset the effect of the devaluation. The decreases in consolidated sales of our products and services and net operating revenues were partially offset by an increase of 104% in sales volumes outside Brazil during the year ended December 31, 2002.

Consolidated net income for the year ended December 31, 2002 decreased 33.8% to U.S.$2,311 million, as compared to consolidated net income of U.S.$3,491 million for the year ended December 31, 2001, primarily due to a 7.9% decrease in net operating revenues.

Net income decreased from U.S.$752 million in the third quarter of 2002 to U.S.$73 million in the fourth quarter of 2002, primarily due to: an increase in costs of sales of 37.6% from U.S.$2,455 in the third quarter of 2002 to U.S.$3,375 in the fourth quarter of 2002, principally as a result of increased charges imposed by the government (government take) as a result of increased production of crude oil.

In the year ended December 31, 2002, we recorded a net expense with respect to monetary and exchange variation on monetary assets and liabilities of U.S. $2,068 million due to the devaluation of the Real against the U.S. dollar. In the year ended December 31, 2001, we recorded a net expense with respect to monetary and exchange variation on monetary assets and liabilities of U.S. $915 million.

Earnings per share for the year ended December 31, 2002 decreased to U.S.$2.13 per share, as compared to earnings per share of U.S.$3.21 for the year ended December 31, 2001.

In the year ended December 31, 2002, production of crude oil, natural gas liquids (NGL) and natural gas increased approximately 12% when compared to the year ended December 31, 2001, reaching an average of 1,500 thousand barrels of oil equivalent per day. In August 2002, we posted a new record in the monthly output of crude oil and NGL in Brazil, producing an average of 1,551 thousand barrels per day, with 77% of such production coming from the Campos Basin.

Our proved reserves in Brazil, estimated by management in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (the SEC), increased by 14% to 8.8 billion barrels of oil equivalent for the year ended December 31, 2002, as compared to 7.7 billion barrels of oil equivalent for the year ended December 31, 2001. Total production reached 530 million barrels of oil equivalent for the year ended December 31, 2002, as compared to 471 million barrels of oil equivalent for the year ended December 31, 2001. As of December 31, 2002, our proved reserves to production ratio was 16.6 years.

In accordance with our strategy to expand our international operations through acquisitions, on October 17, 2002, we acquired 58.6% of the capital stock of Perez Companc S.A., the second largest Argentine energy company, for a total of approximately U.S.$1.03 billion, consisting of U.S.$689 million in cash and U.S.$338 million in debt securities issued by our subsidiary, Petrobras International Finance Company (PIFCo), which will pay a 4.75% annual coupon and mature on October 4, 2007.

We also acquired 39.7% of the capital stock of Petrolera Perez Companc S.A., a company engaged in hydrocarbons production in Argentina s Neuquén basin, for U.S.$50 million in cash. The Perez Companc and Petrolera Perez Companc acquisitions are still subject to the receipt of certain necessary Argentine regulatory approvals. These companies are not included in our consolidated financial statement as of December 31, 2002.

On October 24, 2002, we further expanded our international exploration and production activities through the acquisition of Petrolera Santa Fe, an Argentine oil company and subsidiary of Devon Energy Corporation, for U.S.$90 million.

Based on our financial results and cash available for distribution, our Board of Directors proposed a distribution of dividends of approximately U.S.$781 million (U.S.$0.72 per share). This distribution is expected to be approved at the General Shareholders Meeting to be held on March 27, 2003. The U.S.$307 million already distributed to shareholders on January 13, 2003 in the form of interest on capital will be deducted from this amount. The proposed dividend includes an additional U.S.$310 million of interest on capital. All dividends that comprise interest on capital are subject to a 15% withholding tax, except with respect to shareholders eligible for certain tax exemptions.

President s Comments, Mr. José Eduardo de Barros Dutra

This is the first time I am addressing shareholders and investors to discuss our consolidated financial and operational results. Before discussing these results, I would like to share with you my satisfaction and pride in being entrusted by our Board of Directors with the task of leading Petrobras.

In 2002, we implemented certain of the goals outlined in our Strategic Plan, including:

- the expansion of our international activities through the acquisition of a controlling interest in Perez Companc S.A.;
- an increase in our crude oil production; and
- new discoveries in Brazil.

Operational Highlights

Average Brazilian production of crude oil and NGL for the year ended December 31, 2002 increased 12% relative to 2001, reaching 1.5 million barrels per day, 0.7% above our goal of 1.49 million barrels per day set forth in our Strategic Plan.

This increase in production was primarily due to the interconnection of new wells to the production platforms located in the Marlim Sul, Marlim, Albacora and Espadarte fields, and the initiation of production in the Seillean unit located in the Jubarte field, off the coast of the state of Espírito Santo.

Another factor contributing to our increase in production was the resumption of production from the Roncador field as a result of bringing the new FPSO Brazil platform online.

During the year, 79 exploratory wells were drilled and completed, of which 18 were producing wells, resulting in an exploration success rate of 23%. We also made 12 new discoveries of reserves, 2 onshore and 10 offshore. These new discoveries contributed to a 14% increase in proved reserves compared to 2001. Consequently, our estimates of proved crude oil, condensate and natural gas reserves in Brazil reached 8.8 billion barrels of oil equivalent, translating into a proved reserves to production ratio of 16.6 years.

Average daily production of oil products in refineries in Brazil and abroad reached 1,701 thousand barrels per day, in line with 2001 levels. The portion of the total volume processed in Brazilian refineries that represented domestic crude oil increased from 76% to 79%, as a result of continued investments and improvements in the performance of our refineries.

For the year ended December 31, 2002, our average lifting costs in Brazil, excluding charges imposed by the Brazilian government, were U.S.$3.04 per barrel, a 5.6% decrease from our average lifting costs of U.S.$3.22 for the year ended December 31, 2001.

For the year ended December 31, 2002, our average refining costs (consisting of variable costs and excluding depreciation and amortization) were U.S.$0.91 per barrel in Brazil, a decrease of 4.2% relative to the year ended December 31, 2001. This reduction is partly explained by the fact that a significant portion of our costs are denominated in Reais and such costs decrease when converted into U.S. dollars at a lower exchange rate.

Principally as a result of our increased domestic crude oil production, net imports of crude oil and oil products amounted to only 103 thousand barrels per day, representing a 71% decrease compared to the year ended December 31, 2001.

Financial and Corporate Highlights

In the year ended December 31, 2002, total capital expenditures in Brazil reached U.S.$4,911 million, a 15.4% increase compared to the year ended December 31, 2001. This increase is primarily due to increases in capital expenditures incurred in order to meet the production targets established in our Strategic Plan.

In February 2002, through our subsidiary Petrobras International Finance Company (PIFCo), and as part of our strategy to extend our debt maturity profile and raise funds at lower costs, we issued in the international markets a third series of senior notes in an aggregate principal amount of U.S.$500 million (the previous two series of senior notes were issued in 2001).

During 2002, we also issued two series of ordinary non-convertible debentures in the local markets. On August 29, 2002, we issued 750,000 ordinary debentures with a 10-year term in an aggregate principal amount of U.S.$240 million. On October 23, 2002, we issued 775,000 ordinary non-convertible debentures with an 8-year term in an aggregate principal amount of U.S.$200 million.

In April 2002, PIFCo renewed its U.S. commercial paper program in the amount of U.S.$335 million.

To further support our operations, we obtained bank guarantees throughout the year, amounting to approximately U.S.$507 million.

In 2002, we (both directly and indirectly) through our subsidiaries, PIFCo and Brasoil, contracted U.S.$619 million in credit lines, of which U.S.$197 million were scheduled to mature in the long term (maximum 10-year term) and the remainder in up to 360 days.

In November 2002, we completed the financing of production platforms P-8, P-15 and P-32. We obtained financing for this transaction, which was structured as a sale-leaseback, in the aggregate principal amount of U.S.$485 million, of which U.S.$300 million has already been disbursed. The term of this financing is 8.5 years.

On July 5, 2002, Petrobras and PIFCo filed a U.S.$8 billion shelf registration statement with the SEC, which was declared effective by the SEC on August 16, 2002. The shelf registration statement permits us and PIFCo to issue in the United States, debt and equity in an aggregate principal amount of up to U.S.$8 billion over a period of two years following the declaration of effectiveness.

In July 2002, trading in our preferred and ordinary shares commenced in Latibex (the Spanish trading market for Latin American securities) through the Depositary Receipts Program. In December 2002, the Board of Directors approved the listing of preferred and ordinary shares in the Commercial Stock Exchange of Buenos Aires.

Events Subsequent to Closing of the Fiscal Year

On January 13, 2003, we distributed to shareholders U.S.$307 million in the form of interest on capital (U.S.$0.28 per ordinary and preferred share). These amounts will be deducted from the dividends proposed to be paid in respect of the 2002 fiscal year.

On November 7, 2002, our Board of Directors, in order to consolidate our operations, approved the purchase of all of the outstanding publically traded shares of Petrobras Distribuidora S.A BR by means of a share swap for our preferred shares and in order to delist BR. On January 29, 2003, a public auction was held where the conditions for delisting of BR were confirmed. On February 5, 2003, the *Comissão de Valores Mobiliários* (Brazilian Securities Commission, or CVM) terminated BR s listing.

On February 11, 2003, we announced the postponement of the bid requests for construction of platforms P-51 and P-52 and will reassess the conditions for the participation of national companies in the construction of these two platforms. In connection with this reassessment, we will establish new bidding criteria.

FINANCIAL DATA

Financial Highlights

	Fourth quarter			U.S. $ million (except earnings per share or unless otherwise noted) For the year ended December 31,	
3Q-2002	**2002**	**2001**	**Income statement data**	**2002**	**2001**
8,388	8,294	8,092	Sales of products and services	32,987	34,145
5,939	5,930	5,624	Net operating revenues	22,612	24,549
2,574	2,034	2,085	Income from operations (1)	9,193	9,685
(733)	(578)	529	Financial income (expense), net	(1,700)	(348)
752	73	143	Net income	2,311	3,491
0.69	0.07	0.13	Basic and diluted earnings per common and preferred share	2.13	3.21
			Other data		
55.0	43.1	43.0	Gross margin (%) (2)	49.1	47.8
43.3	34.3	37.1	Operating margin (%) (3)	40.7	39.4
12.7	1.2	2.5	Net margin (%) (4)	10.2	14.2
2,286	1,167	22	Adjusted EBITDA (5)	7,040	6,877
52	55	33	Net debt (6)/(Net debt + Stockholders equity) (%)	55	33
70	71	64	Debt to equity ratio (%)(7)	71	64

(1) Income from operations is calculated as net operating revenues (before elimination of inter-segment revenues) less: cost of sales, depreciation, depletion and amortization, exploration, including dry holes, and impairment of oil and gas properties.
(2) Gross margin is calculated as net operating revenues less cost of sales divided by net operating revenues.
(3) Operating margin is calculated as income from operations divided by net operating revenues.
(4) Net margin is calculated as net income divided by net operating revenues.
(5) Adjusted EBITDA is calculated as income before income taxes and minority interest less: financial income, equity in results of non-consolidated companies, monetary and exchange variation on monetary assets and liabilities, net, plus financial expense and depreciation, depletion and amortization.
(6) Net debt is calculated as total debt less cash and cash equivalents. At December 31, 2001 and at December 31, 2002, this item excludes Junior Notes issued in connection with our accounts receivable asset securitization program in the amount of U.S.$150 million.
(7) Debt to equity ratio is calculated as current liabilities plus long-term liabilities divided by the sum of total liabilities and total stockholders equity.

	U.S. $ million (except earnings per share or unless otherwise noted)		
Balance sheet data	**12.31.2002**	**Δ%**	**12.31.2001**
Total assets	32,018	-13.1	36,864

Total debt [1]	14,679	4.8	14,010
Current	1,985	-34.2	3,019
Long-term	12,694	15.5	10,991
Net debts[2]	11,228	72.7	6,500
Stockholders equity[3]	9,301	-29.8	13,247
Total capitalization [3][4]	23,980	-12.0	27,257

(1) Total debt includes short-term debt, long-term debt, capital lease obligations and project financings.
(2) Net debt is calculated as total debt less cash and cash equivalents. At December 31, 2001 and at December 31, 2002, this item excludes Junior Notes in the amount of U.S.$150 million.
(3) Stockholders equity includes a loss in the amount of U.S.$1,361 million for the year ended December 2002 and U.S.$1,867 million for the year ended December 31, 2001, in each case related to an Amount not recognized as net periodic pension cost .
(4) Total capitalization means stockholders equity plus total debt.

As of December 31, 2002, net debt totaled U.S.$11,228, a 72.7% increase in net debt compared with December 31, 2001, largely due to the reduction in our cash position as a result of the devaluation of the Real against the U.S. dollar, and U.S.$829 million of financing incurred in connection with our acquisitions of Perez Companc, Petrolera Perez Companc and Petrolera Santa Fe.

We have been improving our debt maturity profile by borrowing at longer terms while paying down shorter-term liabilities. Our debt to equity ratio was 71% on December 31, 2002, as compared to 64% at December 31, 2001.

OPERATING PERFORMANCE

	Fourth Quarter			For the year ended December 31,	
3Q-2002	**2002**	**2001**		**2002**	**2001**
			Average daily crude oil and gas production		
1,560	1,491	1,397	Crude oil and NGLs ***(Mbpd)*** [(1)]	1,535	1,379
1,526	1,455	1,359	Brazil	1,500	1,336
34	36	38	International	35	43
273	263	262	Natural gas ***(Mmcfpd)***	275	257
249	236	240	Brazil	252	232
24	27	22	International	23	25
			Crude oil and NGL average sales price *(U.S. dollars per bbl)*		
24.78	22.79	14.58	Brazil	22.30	19.89
25.65	23.62	19.30	International	23.00	22.32
			Natural gas average sales price *(U.S. dollars per Mcf)*		
1.14	1.06	1.34	Brazil	1.22	1.39
1.17	1.55	1.83	International	1.34	2.35
			Lifting costs *(U.S. dollars per boe)*		
			Crude oil and natural gas Brazil		
6.99	7.50	5.77	Including government take [(2)]	7.04	6.51
2.78	3.06	2.91	Excluding government take [(2)]	3.04	3.22
1.81	2.48	3.60	Crude oil and natural gas International	2.08	2.58
			Refining costs *(U.S. dollars per boe)*		
0.84	0.81	0.73	Brazil	0.91	0.95
0.87	0.92	1.07	International	0.98	1.15
			Refining and marketing operations *(Mbpd)*		
			Brazil		
1,931	1,931	1,931	Installed capacity	1,931	1,931
1,650	1,647	1,620	Primary throughput	1,641	1,647
85%	82%	83%	Utilization	84%	85%
			International		
91	91	90	Installed capacity	91	90
59	60	31	Primary throughput	60	30
79%	65%	65%	Utilization	62%	63%
80	77	75	**Domestic crude oil as % of total feedstock processed**	79	76
			Imports *(Mbpd)*		
364	298	268	Crude oil imports	326	397
225	213	234	Oil product imports	216	326
273	212	103	Crude oil exports	233	98
218	178	180	Oil product exports	206	203

98	121	219	Net imports	103	422

(1) Includes production from shale oil reserves.
(2) Government take includes royalties, special government participation and rental of areas.

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Price Regulation and Other Government Policies

Our financial condition and results of operations have been, and most likely will continue to be, substantially impacted by international and Brazilian political and economic conditions.

Pre-January 2, 2002

Until January 2, 2002, when price deregulation was fully implemented, our financial condition and results of operations reflected the effects of governmental policies that the Federal Government maintained, changed or implemented to address prevailing conditions in the Brazilian economy, including the level of inflation and the level of gross domestic product.

Because the regulation of crude oil and oil products prices was one of the tools available to the Federal Government for the control of inflation, the Federal Government periodically changed the prices at which we could sell our products based upon political and economic conditions in Brazil.

As part of the deregulation of the Brazilian oil and gas sector, effective July 29, 1998, the Federal Government changed its price regulation policies. Under these policies, the Federal Government continued to establish our sales prices until January 2, 2002, at which time all such price controls ended, in accordance with Law 9,990.

Post-January 2, 2002 regulations

Pursuant to the Oil Law and subsequent legislation, the crude oil and oil products markets in Brazil were completely deregulated beginning January 2, 2002. As part of this action:

- the Federal Government deregulated fuel sales prices and fuel realization prices, and as a consequence, the PPE Specific Parcel Price was eliminated; and

- a special charge called the *Contribuição de Intervenção no Domínio Econômico* (Contribution of Intervention in the Economic Domain CIDE) on the importation and sale of fuels was established by Law 10,336 dated December 19, 2001. The CIDE is a per-transaction payment to the Brazilian Government required to be made by producers, blenders and importers upon sales and purchases of specified oil and fuel products at a set amount for different products based on the unit of measurement typically used for such products.

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Pension Plan

The determination of expenses and liabilities for pensions and other post-retirement obligations requires Petrobras to make certain assumptions regarding discount rates, rates of increase in compensation levels and the expected long-term rate of return on assets. Each of these assumptions reflects estimates that are highly uncertain for a number of reasons, including uncertainty regarding long-term economic conditions in Brazil. Notwithstanding changes in inflation, interest rates and other economic variables, Petrobras has not changed the assumptions, because the uncertainty concerning long-term developments in the Brazilian economy makes it difficult to apply the principles set forth in U.S. GAAP and to agree on specific assumptions. It may change these assumptions in the future, and any such changes could have a material effect on reported liabilities and, to a lesser extent, on reported earnings. In particular, Petrobras believes that the weighted average discount rate that it applies to determine the present value of its future obligations for pensions and other post-retirement obligations may be subject to revision to reflect changes in the Brazilian financial markets.

U.S. GAAP require that the discount rate reflect the price at which the pension benefits could be effectively settled, and encourage the use of rates of return on high-quality fixed-income investments currently available and expected to be available in the market. In recent years, the Brazilian government has issued long-term inflation-indexed securities that are traded in an increasingly liquid market. Petrobras believes that the high rates of return on these securities suggest that it would be appropriate to increase the discount rate assumption, but there are interpretive problems under U.S. GAAP with this view and with increasing the spread between the discount rate assumption and the assumed rate of future increase in compensation. Petrobras is currently discussing these issues with its auditors, and these discussions could result in a change in assumptions in the near future. Such a change could have a significant effect on the amount of Petrobras pension liability and expense.

Results of Operations for the year ended December 31, 2002 compared to the Year ended December 31, 2001

The comparison between our results of operations has been significantly impacted by the Real s devaluation against the U.S. dollar, due to the fact that the average exchange rate for the year ended December 31, 2002 was 24.2% higher than the average exchange rate for the year ended December 31, 2001.

Revenues

Net operating revenues decreased 7.9% to U.S.$22,612 million for the year ended December 31, 2002, as compared to net operating revenues of U.S.$24,549 million for the year ended December 31, 2001. This decrease is primarily attributable to the devaluation of the Real against the U.S. dollar, as prices for oil products in the domestic market did not increase sufficiently to offset the effect of the devaluation, and to a 3.0% decrease in the domestic sales volumes, and was partially offset by an increase of 104% in sales volumes outside Brazil during the year ended December 31, 2002.

Included in sales of products and services are the following amounts which 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 decreased to U.S.$5,241 million for the year ended December 31, 2002, as compared to U.S.$8,627 million for the year ended December 31, 2001, primarily due to the decrease in sales of products and services and to the reduction in value-added taxes collected on behalf of the state government from distributors (PASEP/COFINS) during the year ended December 31, 2002, since the amounts paid as CIDE are permitted to be deducted from the amount over which the PASEP and COFINS are calculated;

CIDE, the newly instituted per-transaction tax due to the Federal Government, which amounted to U.S.$5,134 million for the year ended December 31, 2002; and

PPE, which represented the Specific Parcel Price or difference between the mandated price for an oil product by the government and the realization price allowed by the government, amounted to an expense of U.S.$969 million for the year ended December 31, 2001 and which was eliminated at the end of 2001.

Cost of sales

Cost of sales for the year ended December 31, 2002 decreased 10.2% to U.S$11,506 million, as compared to U.S.$12,807 million for the year ended December 31, 2001. This decrease was principally a result of:

- a decrease in imports primarily as a result of the elimination of our legal obligation to import naphtha, which resulted in a decrease to cost of sales of approximately U.S.$1,078 million;
- the effect of the devaluation of the Real against the U.S. dollar on our cost of sales as expressed in U.S. dollars, which resulted in a decrease to cost of sales of approximately U.S.$604 million (since approximately 37.1% of our cost of sales is denominated in Reais);
- a decrease of approximately U.S.$297 million related to the 3% reduction in domestic sales volumes.

These decreases were partially offset by:

- a net increase in cost of sales outside Brazil of approximately U.S.$635 million, attributable to an increase in our sales volume outside Brazil, which includes both international sales and exports; and
- an increase in taxes and charges imposed by the Brazilian government, which amounted to U.S.$2,014 million for the year ended December 31, 2002, as compared to U.S.$1,809 million for the year ended December 31, 2001. These taxes and charges increased approximately U.S.$205

  million and included the special participation tax payable (an extraordinary charge payable in the event of high production and/or profitability from our fields), which increased to U.S.$917 million for the year ended December 31, 2002, as compared to U.S.$753 million for the year ended December 31, 2001, attributable primarily to an increase in production of crude oil and oil products and increases in the applicable tax rates.

Depreciation, depletion and amortization

Depreciation, depletion and amortization relating to exploration and production assets are calculated on the basis of the units of production method. Depreciation, depletion and amortization expenses increased 11.6% to U.S.$1,930 million for the year ended December 31, 2002, as compared to U.S.$1,729 million for the year ended December 31, 2001. This increase was primarily attributable to a 12% increase in production of crude oil, NGL and natural gas primarily in the Campos Basin and an increase in abandonment costs as a result of increased production and a revision in our estimates of abandonment costs. These increases were partially offset by the effect of the devaluation of the Real against the U.S. dollar.

Exploration, including exploratory dry holes

Exploration costs, including exploratory dry holes increased 7.7% to U.S.$435 million for the year ended December 31, 2002, as compared to U.S.$404 million for the year ended December 31, 2001.

This increase was primarily attributable to an increase of approximately U.S.$38 million in dry holes expenses and U.S.$58 million in geological and geophysical expenses, and was partially offset by the effect of the devaluation of the Real against the U.S. dollar.

Impairment of oil and gas properties

For the year ended December 31, 2002, we recorded an impairment charge of U.S.$75 million, as compared to an impairment charge of U.S.$145 million for the year ended December 31, 2001. In 2002, the impairment charge was related to certain of our producing oil and gas properties in Brazil and Angola. In 2001, the impairment charge was related to certain of our producing oil and gas properties in Brazil, Colombia and the United States. These charges were recorded based upon our annual assessment of our fields using prices consistent with those used in our overall strategic plan and discounted at a rate of 10%.

Income from Operations

Our income from operations decreased 5.1% to U.S.$9,193 million in the year ended December 31, 2002 from U.S.$9,685 million for the year ended December 31, 2001. This decrease was largely due to the decrease in our net operating revenues, which resulted primarily from the devaluation of the Real against the U.S. dollar and a 3.0% decrease in domestic sales volume.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased 0.6% to U.S.$1,741 million for the year ended December 31, 2002, as compared to U.S.$1,751 million for the year ended December 31, 2001.

Selling expenses increased 0.5% to U.S.$966 million for the year ended December 31, 2002, as compared to U.S.$961 million for the year ended December 31, 2001. Although largely offset by the effect of the devaluation of the Real on these expenses when expressed in U.S. dollars, this increase was primarily attributable to the following:

- a U.S.$74 million charge for doubtful accounts and gas station improvements;
- U.S.$11 million in expenses in 2002 of Eg3, an oil product marketing subsidiary operating in Argentina;and
- an increase of U.S.$76 million in expenses related to technical consulting services in connection with our increased outsourcing of selected non-core activities.

General and administrative expenses decreased 1.9% to U.S.$775 million for the year ended December 31, 2002, as compared to U.S.$790 million for the year ended December 31, 2001. This decrease was primarily attributable to the effect of the devaluation of the Real against the

U.S. dollar, and was partially offset by an increase of U.S.$62 million in expenses related to technical consulting services in connection with our increased outsourcing of selected non-core general and administrative activities.

Research and development expenses

Research and development expenses increased 11.4% to U.S.$147 million for the year ended December 31, 2002, as compared to U.S.$132 million for the year ended December 31, 2001. This increase was primarily related to our additional investments in programs for environmental safety and deepwater and refining technologies of approximately U.S.$41 million, and was partially offset by the effect of the devaluation of the Real against the U.S. dollar.

Equity in results of non-consolidated companies

Equity in results of non-consolidated companies decreased to a loss of U.S.$178 million for the year ended December 31, 2002, as compared to a loss of U.S.$8 million for the year ended December 31, 2001. This decrease was mainly attributable to:

- a loss of U.S.$95 million in 2002 related to the effect of the devaluation of the Argentine Peso against the U.S. dollar, as compared to a loss of U.S.$44 million in 2001, which impacted the result of our equity investments in Compañia Mega, an Argentine company which is engaged in natural gas activities;
- a loss of U.S.$94 million in the year ended December 31, 2002, related to our investments in thermoelectric power plants; and
- a decrease of U.S.$17 million in income from our investments in petrochemical companies in the year ended December 31, 2002, as compared to the year ended December 31, 2001.

Financial income

We derive financial income from several sources, including:

- Interest on cash and cash equivalents. The bulk of our cash equivalents are short term Brazilian government securities, including securities indexed to the U.S. dollar. We also hold substantial balances in U.S. dollar deposits;
- Long-term government securities that we acquired as a result of the privatization of our petrochemical assets; and
- Government receivables, primarily the Petroleum and Alcohol Account.

Financial income decreased 16.9% to U.S.$1,142 million for the year ended December 31, 2002, as compared to U.S.$1,375 million for the year ended December 31, 2001. This decrease was primarily attributable to:

a reduction in financial interest income from short-term investments, which declined 10.5% to U.S.$793 million for the year ended December 31, 2002, as compared to U.S.$886 million for the year ended December 31, 2001, primarily due to the fact that the average exchange rate for the year ended December 31, 2002 was 24.2% higher than the average exchange rate for the year ended December 31, 2001 and the reduction in our cash position as a result of the acquisitions of Perez Companc, Petrolera Perez Companc and

Petrolera Santa Fé and the devaluation of the Real against the U.S. dollar; and

a reduction in financial interest income from Government securities (National Treasury Bonds), which were transferred last year to PETROS, our pension plan for employees, to reduce our pension liability, which decreased 83.5% to U.S.$40 million for the year ended December 31, 2002, as compared to U.S.$243 million for the year ended December 31, 2001.

Financial expense

Financial expense decreased 4.2% to U.S.$774 million for the year ended December 31, 2002, as compared to U.S.$808 million for the year ended December 31, 2001. This decrease was primarily attributable to the replacement of a portion of our short-term debt obligations with newly contracted long-term obligations at lower interest rates.

Monetary and exchange variation on monetary assets and liabilities, net

Monetary and exchange variation on monetary assets and liabilities, net increased 126% to an expense of U.S.$2,068 million for the year ended December 31, 2002, as compared to an expense of U.S.$915 million for the year ended December 31, 2001. Approximately 87% of our indebtedness was denominated in foreign currencies during the years ended December 31, 2002 and 2001. The expense increase is therefore primarily related to the effect of a 52.3% devaluation of the Real against the U.S. dollar during the year ended December 31, 2002 when compared to a 18.7% devaluation of the Real against the U.S. dollar during the year ended December 31, 2001.

Employee benefit expense

Employee benefits expenses consist of financial costs relating to pension and other post-retirement benefits. Employee benefits expense decreased 24.2% to U.S.$451 million for the year ended December 31, 2002, as compared to U.S.$594 million for the year ended December 31, 2001.

This decrease was primarily attributable to a decrease in the provision of U.S.$78 million due to the annual actuarial calculation of the pension plan liability and by the effect of the devaluation of the Real against the U.S. dollar.

The decreases were partially offset by an expense of U.S.$34 million related to the migration process to our new pension plan and administrative fees in the amount of U.S.$16 million charged by PETROS in respect of the transfer of Series B Bonds to PETROS.

Other taxes

Other taxes, consisting of miscellaneous value-added, transaction and sales taxes, increased 22% to U.S.$360 million for the year ended December 31, 2002, as compared to U.S.$295 million for the year ended December 31, 2001. This increase is primarily attributable to an increase of U.S.$79 million in the PASEP/COFINS taxes payable in respect of foreign exchange gains on assets, resulting from transactions with affiliates with assets denominated in foreign currencies, and was partially offset by the effect of the devaluation of the Real against the U.S. dollar.

Other expenses, net

Other expenses, which are primarily comprised of gains and losses recorded on sales of fixed assets, general advertising and marketing expenses and certain other non-recurring charges. Other expenses, net for the year ended December 31, 2002 increased 92.6% to U.S.$857 million, as compared to an expense of U.S.$445 million for the year ended December 31, 2001. The most significant non-recurring charges for the year ended December 31, 2002 were:

a U.S.$258 million charge for non-reimbursable contractual contingency payments incurred during the year related to our investments in thermoelectric power plants resulting from decreased demand for energy and lower prices;

a U.S.$201 million provision for losses related to our commitments to supply natural gas for the production of energy to certain thermoelectric power plants (despite decreased demand and low energy prices, we have contractual obligations with certain power plants to cover losses when demand for power and electricity prices are low);

a U.S.$96 million expense for general advertising and marketing expenses unrelated to direct revenues;

a U.S.$105 provision for notifications of tax assessments received from the *Instituto Nacional de Seguridade Social* (National Social Security Institute, or INSS), as further described below in Notifications from the INSS Joint liability ;

a U.S.$111 million expense for unscheduled stoppages of plant and equipment;

a U.S.$29 million expense for Petroleum and Alcohol Account regularization. See the Petroleum and Alcohol Account below.

The most significant non-recurring charges for the year ended December 31, 2001 were:

a U.S.$155 million loss, net of insurance proceeds, recorded in respect of the sinking of Platform P-36;

a U.S.$405 million expense relating to the reduction in the balance of the Petroleum and Alcohol Account resulting from the completion of the certification of the balance of the account by the Federal Government for the period from April 1, 1992 to June 30, 1998;

a U.S.$394 million provision for losses on uncollectable accounts in connection with the construction/conversion of platforms P-36, P-37, P-38 and P-40; and

a U.S.$137 million expense for general advertising and marketing expenses unrelated to direct revenues.

The losses for the year ending December 31, 2001 were partially offset by:

- a U.S.$89 million gain related to the sale of PETROBRAS U.K; and

- a U.S.$500 million gain related to the assets which we sold in our business combination with Repsol-YPF.

Income tax (expense) benefit

Income before income taxes and minority interest decreased 32.6% to U.S.$3,232 million for the year ended December 31, 2002, as compared to U.S.$4,792 million for the year ended December 31, 2001. As a result, we recorded an income tax expense of U.S.$1,153 million for the year ended December 31, 2002, a 17.0% decrease from an expense of U.S.$1,389 million recorded for the year ended December 31, 2001. The most significant factors that influenced this decrease were:

- a U.S.$111 million gain recorded in 2001 related to the reversal of a tax provision established in previous years in connection with the privatization of our PETROQUISA subsidiary; and

- a U.S.$204 million valuation allowance as of December 31, 2002, as compared to a valuation allowance of U.S.$38 million as of December 31, 2001.

The reconciliation between the tax calculated based upon statutory tax rates to income tax expense and effective rates is shown in Note 3 to our audited Consolidated Financial Statements as of December 31, 2002.

THE PETROLEUM AND ALCOHOL ACCOUNT

The Petroleum and Alcohol Account Receivable from the Federal Government has been used to reflect the impact on us of the Federal Government s regulatory policies for the Brazilian oil and gas industry.

According to legislation applicable to the Petroleum and Alcohol Account until December 31, 2002, we had the right to offset amounts owed to the Federal Government relating to the regulatory policies of the Brazilian oil and gas industry against the receivable that increased and decreased the Petroleum and Alcohol Account.

On June 30, 1998, the Federal Government issued National Treasury Bonds Series H in our name, which were placed with a federal depositary to support the balance of this account. The value of the outstanding Series H bonds as of December 31, 2002 was U.S.$46 million.

The Federal Government certified the balance of the Petroleum and Alcohol Account as of June 30, 1998. The changes in the Petroleum and Alcohol Account in the period from July 1, 1998 to December 20, 2002 are subject to audits by the ANP, and during November 2002, ANP recommended, and we agreed, to reduce the balance of the Petroleum and Alcohol Account by U.S.$29 million for the period from July 1, 1998 to December 20, 2002. The results of the audit will be the basis for the settlement of the account with the Federal Government.

After completion of the audit, the amount of the notes used to guarantee the debit balance in existence on June 30, 2003, or of the securitized credits, will be adjusted to the new amount calculated, as established in Provisional Measure nº 2181-45 of August 24, 2001.

Because we have already implemented all recommendations with respect to the Petroleum and Alcohol Account made by the interministerial working group established to certify the balance of the Petroleum and Alcohol Account for the period from April 1, 1992 to June 30, 1998, we do not expect significant adjustments from the ANP audit for that period.

As a result of the deregulation of the market and applicable legislation, effective January 2, 2002, PPE was eliminated and the Petroleum and Alcohol Account will no longer be used to reimburse expenses related to the supply of oil products and alcohol to us and third parties.

The balance of the Petroleum and Alcohol Account at December 31, 2002 represents a credit to us against the Federal Government in the amount of U.S.$182 million, an increase of 125% or U.S.$101 million when compared with December 31, 2001. This increase is primarily attributable to the receipt of credits and settlement of debits, authorized by the ANP, in the amount of U.S.$259 million, and made in accordance with Article 7 of Law No. 10,453, of May 13, 2002, (the Sugar Cane Cost Equalization Program for the Northeast Region).

The following summarizes the changes in the Petroleum and Alcohol Account for the year ended December 31, 2002:

	U.S. $ million
	December 31, 2002
Beginning balance	81
Adjustments of PPE	(6)
Reimbursements to third parties	259
Reimbursements to PETROBRAS	(6)
Financial Income	2
Results of audits conducted by the Federal Government	(29)
Translation Loss	(119)
Ending balance	**182**

BUSINESS SEGMENTS

Segment Information

The following segment information has been prepared in accordance with SFAS 131 Disclosure about Segments of an Enterprise and Related information (SFAS 131). We operate under the following business segments, which are described as follows:

Exploration and Production This segment includes our exploration, development and production activities in Brazil, and our sales of crude oil and natural gas in the domestic and foreign markets.

Supply This segment includes our refining, logistic, transportation and commercialization activities for crude oil, oil products and fuel alcohol. Additionally, this segment includes our investments in various domestic petrochemical companies and our two domestic fertilizer plants.

Distribution This segment represents our oil product and fuel alcohol distribution activities in Brazil, conducted by Petrobras Distribuidora S.A.-BR.

Gas and Energy This segment encompasses the commercialization and transportation of natural gas produced in or imported into Brazil. Additionally, this segment includes our domestic electric energy commercialization activities as well as investments in domestic natural gas transportation companies, state-owned natural gas distributors, thermoelectric companies and fiber optic companies.

- International This segment represents our international activities conducted in 10 countries, which include exploration and production, supply, distribution and gas and energy.

The functions that cannot be attributed to these business segments are allocated to our corporate segment, especially those linked with corporate financial management, overhead related to central administration and other expenses, including actuarial expenses related to the pension and health-care plans.

In preparing the financial information by business segment, we attributed to each business segment only those functions over which the particular business segment has effective control.

The main criteria used to record the results and assets by business segments are summarized as follows:

- Net operating revenue are the revenues from sales to third parties plus inter-segment revenues, based on the internal transfer prices established by the business segments;

- Operating income includes net operating revenue, the costs of products and services sold, calculated per business segment, based on the internal transfer price and the other operating costs of each segment, as well as operating expenses, based on the expenses actually incurred in each segment; and

- Assets are the assets allocated to each business segment.

Revenue and net income information for the gas and energy segment were combined with the revenue and net income information of the exploration and production segment prior to January 1, 2001 because the changes in our accounting systems implemented to accommodate our new business segment reporting did not permit the practicable separation of revenue and cost information for these segments in those prior periods. We do not believe this classification of the gas and energy revenue and net income information materially changes the overall segment presentation.

The following table sets forth by segment the consolidated operating revenues and income from operations (net operating revenues before elimination of inter-segment revenues less: cost of sales; depreciation, depletion and amortization; and exploration, including dry holes), reflecting our domestic and international activities for the years ended December 31, 2002 and December 31, 2001.

Income from operations	U.S. $ million For the Year Ended December 31,	
	2002	2001
Exploration and Production	6,390	4,647
Supply	1,742	4,146
Distribution	677	598
Gas and Energy	278	174
International	106	120
	9,193	9,685

Our income from operations decreased 5.1% to U.S.$9,193 million for the year ended December 31, 2002, as compared to U.S.$9,685 million for the year ended December 31, 2001. As discussed above, this decrease was largely due to a decrease in sale prices of oil and oil products.

RESULTS BY BUSINESS SEGMENTS	U.S. $ million For the Year Ended December 31,	
	2002	2001
Exploration and Production	3,413	2,439
Supply	711	2,538
Gas and Energy	(190)	(54)
Distribution	91	78
International	(114)	24
Corporate	(1,280)	(1,410)
Eliminations	(320)	(124)
Net income	2,311	3,491

The comparison between our results of operations has been significantly impacted by the Real s devaluation against the U.S. dollar, due to the fact that the average exchange rate for the year ended December 31, 2002 was 24.2% higher than the average exchange rate for the year ended December 31, 2001.

Exploration and Production Consolidated net income for our exploration and production segment increased 39.9% to US$3,413 million for the year ended December 31, 2002, as compared to US$2,439 million for the year ended December 31, 2001. This increase was primarily attributable to a U.S.$2,942 million increase in net operating revenues as a result of the increase in international oil prices and a 12% increase in production of crude oil, natural gas and NGL, and was partially offset by:

a US$1,063 million increase in cost of sales, primarily composed of:

- a US$468 million increase in volumes of crude oil, natural gas and NGL sold or transferred to other business segments;
- a U.S.$206 million increase in taxes and charges imposed by the Brazilian government; and
- an increase in materials and services expenses of U.S.$75 million.

a U.S.$150 million increase in depreciation expense, primarily attributable to a 12% increase in production of crude oil, natural gas and NGL (primarily in the Campos Basin) and a 241% increase in abandonment costs resulting from increased production and revisions to our estimates of abandonment costs;

a U.S.$571 million increase in financial expenses net, mainly due to the effect of a 52.3% devaluation of the Real against the U.S. dollar during the year ended December 31, 2002 when compared to a 18.7% devaluation of the Real against the U.S. dollar during the year ended December 31, 2001.

During 2001, consolidated net income for our exploration and production segment was affected by a loss of U.S.$155 million related to the sinking of platform P-36, a US$394 million provision for losses in accounts receivable from the third parties contracted to construct platforms P-36, P-37, P-38 and P-40 and a gain of U.S.$140 million from our sale of assets in connection with our business combination with Repsol-YPF.

Supply Consolidated net income for our supply segment decreased 72.0% to US$711 million for the year ended December 31, 2002, as compared to US$2,538 million for the year ended December 31, 2001.

This decrease was primarily attributable to a U.S.$4,384 million decrease in net operating revenues as a result of the devaluation of the Real against the U.S. dollar and a 3.0% reduction in domestic sales volumes, and was partially offset by:

a U.S.$1,958 million reduction in cost of sales attributable to this segment, due to a decrease in imports primarily as a result of the elimination of our legal obligation to import naphtha, the effect of the devaluation of the Real against the U.S. dollar on our cost of sales (as a portion of our cost of sales is denominated in Reais), and a 3% reduction in domestic sales volumes.

During 2001, consolidated net income for our supply segment was affected by a gain of U.S.$305 million from our sale of assets in connection with our business combination with Repsol-YPF.

Gas and Energy This segment registered a net loss of U.S $190 million for the year ended December 31, 2002, a 252% increase from a net loss of US$54 million for the year ended December 31, 2001.

This increase in net loss was primarily attributable to:

a U.S.$258 million charge for non-reimbursable contractual contingency payments incurred during the year related to our investments in thermoelectric power plants; and

a U.S.$201 million provision for losses related to our commitments to supply natural gas for the production of energy to certain thermoelectric power plants.

The increase in net loss was partially offset by:

a U.S.$224 million increase in financial income, primarily due to an increase in financial income from loans to affiliated thermoelectric companies and an increase in financial income on advances to suppliers of thermoelectric turbines.

Distribution Consolidated net income increased 16.7% to U.S.$91 million for the year ended December 31, 2002, as compared to consolidated net income of U.S.$78 million for the year ended December 31, 2001.

This increase was primarily attributable to a U.S.$449 million reduction in cost of sales due to the effect of the devaluation of the Real against the U.S. dollar (as a portion of our cost of sales is denominated in Reais) and was partially offset by:

a U.S.$374 million decrease in net operating revenues, primarily as a result of the devaluation of the Real against the U.S. dollar; and

a U.S.$ 59 million charge for doubtful accounts and gas station improvements.

In the year ended December 31, 2002, our subsidiary, BR, sold 162 million barrels of oil products and had a market share of 33% in the Brazilian distribution market, essentially the same volume distributed and market share achieved in the year ended December 31, 2001.

During 2001, consolidated net income for our distribution segment was affected by a gain of U.S.$56 million from our sale of assets in connection with our business combination with Repsol-YPF.

International This segment registered a net loss of U.S.$114 million for the year ended December 31, 2002, a 375% increase from net loss of U.S.$24 million for the year ended December 31, 2001.

This increase in net loss was primarily attributable to:

- a U.S.$271 million increase in cost of sales, primarily attributable to costs associated with Eg3 during 2002;
- a U.S.$95 million loss from our investments in MEGA, an Argentine company engaged in natural gas activities, which was adversely effected by the economic crisis in Argentina.

This increase in net loss was partially offset by a U.S.$237 million increase in net operating revenues, primarily attributable to net revenues of Eg3 during 2002.

During 2001, consolidated net income for our distribution segment was affected by a gain of U.S.$ 89 million related to the sale of PETROBRAS U.K.

Corporate The units that make up our corporate segment generated a net loss of U.S.$1,280 million during the year ended December 31, 2002, a 9.2% decrease from a net loss of U.S.$1,410 million registered for the year ended December 31, 2001.

This decrease in net loss was primarily attributable to:

- a U.S.$1,099 million loss recognized in 2001 related to adjustments to fair value of government securities, (NTN-B Bonds), which we transferred to PETROS in order to decrease a corresponding contingent liability; and
- a reduction in the balance of the Petroleum and Alcohol Account of U.S.$29 million, as compared to a reduction of U.S.$ 405 million during the year ended December 31, 2001;

The impact of the foregoing factors on net loss was partially offset by:

an increase in financial expenses, to U.S.$762 million for the year ended December 31, 2002, as compared to financial income of U.S.$364 million for the year ended December 31, 2001. Approximately 87% of our indebtedness was denominated in foreign currencies during the years ended December 31, 2002 and

2001. The increase in financial expenses is therefore primarily related to the effect of a 52.3% devaluation of the Real against the U.S. dollar during the year ended December 31, 2002, as compared to a 18.7% devaluation of the Real against the U.S. dollar during the year ended December 31, 2001.

CAPITAL EXPENDITURES

In accordance with the objectives established in the Strategic Plan for 2001 2005, we continue to prioritize capital expenditures in the development of crude oil and natural gas production. In the year ended December 31, 2002, total capital expenditures were U.S.$4,911 million, representing an increase of 15.4% over capital expenditures made in the year ended December 31, 2001.

Activities

	U.S.$ million	
	Year ended December 31,	
	2002	2001
Exploration and Production	3,156	2,866
Supply	945	642
Distribution	139	86
Gas and Energy	268	192
International	241	326
Corporate	162	142
Total capital expenditures	**4,911**	**4,254**

Many of our capital expenditures for 2002 and 2001 were made in connection with exploration and development projects in the Campos Basin, a number of which are being financed through project financings. Below are our material project finance expenditures by project for the years ended December 31, 2002 and December 31, 2001.

Activities

	U.S.$ million	
	Year ended December 31,	
	2002	2001
Project Financings		
Field		
Albacora	45	64
Espadarte / Voador / Marimbá EVM	103	158
Cabiúnas	26	45

Pargo / Carapeba / Garoupa / Cherne	PCGC	49	
Nova Marlim		106	
Companhia Petrolífera Marlim		2	239
Others			80
		331	**586**

Of the capital expenditures incurred during the year ended December 31, 2002, U.S.$3,156 million (64%) were directed to domestic exploration and production activities, which includes our exploration and production segment and our project financings.

In line with our objective of increasing production, we have signed 47 agreements to invest in exploration and production development areas where we have already made commercial discoveries. Our capital expenditure budget for 2003 provided in our Annual Business Plan 2003, including project finance, is U.S.$7,146 million

INTERNATIONAL INVESTMENTS

Acquisition of control of Petrolera Santa Fe

On October 24, 2002, we (through our subsidiary, Braspetro Oil Company), concluded the acquisition of 100% of Petrolera Santa Fe Southern Cone, Inc., a holding company incorporated in the British Virgin Islands, which controls 100% of Petrolera Santa Fe S.R.L, a company incorporated in Argentina, at a cash purchase price of approximately U.S.$90 million disbursed on that date. Petrolera Santa Fe is involved in crude oil and natural gas exploration, development and production in Argentina.

Acquisition of control of Perez Companc S.A.

On October 17, 2002, we agreed to acquire 58.6% of the capital stock of Perez Companc S.A., the second largest Argentine energy company, from the Perez Companc Family and the Perez Companc Foundation. We paid the Perez Companc Family and the Perez Companc Foundation a total of approximately U.S.$1.03 billion, consisting of U.S.$689 million in cash and U.S.$338 million in debt securities issued by PIFCo, and which will pay a 4.75% annual coupon and mature on October 4, 2007. We also agreed to acquire from the Perez Companc Family 39.7% of the capital stock of Petrolera Perez Companc S.A., a company engaged in hydrocarbons production in Argentina s Neuquén basin, for U.S.$50 million in cash.

The completion of the Perez Companc S.A. and Petrolera Perez Companc S.A. acquisitions remain contingent upon antitrust approval from the Argentine government s *Comisión Nacional de Defensa de la Competencia* (the National Council for the Defense of Competition, or the CNDC). Under the Perez Companc stock purchase agreement, we have the right to decide not to complete the transaction if the CNDC does not approve the transaction by October 17, 2003 or if the CNDC demands that we dispose of assets that we consider fundamental to our operations.

As a result of the possible contractual reversal of the transaction, and in accordance with SFAS 141 Business Combinations, the financial statements of PECOM and Petrolera Perez Companc S.A. have not been consolidated as of December 31, 2002. After approval of the transaction by the CNDC and elimination of the contractual possibility of reversal of the transaction, the financial statements of PECOM and Petrolera Perez Companc S.A. will be accounted for using the purchase method of accounting and included in our consolidated financial statements.

Selected Balance Sheet Data

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

	As of December 31, 2002	As of December 31, 2001
Assets		
Current assets		
Cash and cash equivalents	3,301	7,360
Accounts receivable, net	2,267	2,759
Inventories	2,540	2,399
Other current assets	2,089	1,808
Total current assets	10,197	14,326
Property, plant and equipment, net	18,224	19,179
Investments in non-consolidated companies and other investments	334	499
Other assets		
Petroleum and Alcohol Account Receivable from Federal Government	182	81
Government securities	176	665
Unrecognized pension obligation	61	187
Advances to suppliers	450	403
Share Interest	1,073	
Others	1,321	1,524
Total other assets	3,263	2,860
Total assets	32,018	36,864
Liabilities and stockholders equity		
Current liabilities		
Trade accounts payable	1,702	1,783
Short-term debt	671	1,101
Current portion of long-term debt	727	940
Project financings	239	680
Capital lease obligations	349	298
Other current liabilities	3,257	3,242
Total current liabilities	6,945	8,044
Long-term liabilities		
Employees post retirement benefits benefits	2,423	3,380
Project financings	3,800	3,153
Long-term debt	6,987	5,908
Capital lease obligations obligations	1,907	1,930

Other liabilities	791	1,123
Total long-term liabilities	15,908	15,494
Minority interest	(136)	79
Stockholders equity		
Shares authorized and issued:		
Preferred stock 451,935,669	2,459	1,882
Common stock 634,168,418	3,761	2,952
Reserves and other	3,081	8,413
Total stockholders equity	9,301	13,247
Total liabilities and stockholders equity	32,018	36,864

Income Statement

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

	Fourth quarter			**Year ended December 31,**	
3Q-2002	**2002**	**2001**		**2002**	**2001**
8,388	8,294	8,092	Sales of products and services	32,987	34,145
			Less:		
(1,291)	(1,354)	(2,017)	Value-added and other taxes on sales and services	(5,241)	(8,627)
		(451)	Specific parcel price PPE		(969)
(1,158)	(1,010)		CIDE	(5,134)	
5,939)	5,930	5,624	Net operating revenues	22,612	24,549
(2,455)	(3,375)	(3,207)	Cost of sales	(11,506)	(12,807)
(687)	(402)	(279)	Depreciation, depletion and amortization	(1,930)	(1,729)
(92)	(134)	(122)	Exploration, including exploratory dry holes	(435)	(404)
	(75)	(145)	Impairment	(75)	(145)
(433)	(365)	(424)	Selling, general and administrative expenses	(1,741)	(1,751)
(32)	(44)	(39)	Research and development expenses	(147)	(132)
(3,699)	(4,395)	(4,216)	Total costs and expenses	(15,834)	(16,968)
33	(169)	(31)	Equity in results of non-consolidated Companies	(178)	(8)
240	228	109	Financial income	1,142	1,375
(295)	(252)	(224)	Financial expense	(774)	(808)
(898)	(554)	644	Monetary and exchange variation on monetary assets and liabilities, net	(2,068)	(915)
(83)	(106)	(351)	Employee benefit expense	(451)	(594)
(139)	(43)	(69)	Other taxes	(360)	(295)
		(1,099)	Loss on Government securities		(1,099)
(199)	(621)	(146)	Other expenses, net	(857)	(445)
(1,341)	(1,517)	(1,167)		(3,546)	(2,789)
899	18	241	Income before income taxes and minority Interests	3,232	4,792
			Income tax expense:		
(354)	(130)	(244)	Current	(1,269)	(1,196)
(73)	327	268	Deferred	116	(193)
(427)	197	24	Total income tax expense	(1,153)	(1,389)
280	(142)	(122)	Minority interest in (income) loss of consolidated subsidiaries	232	88

752	73	143	Net income	2,311	3,491
			Weighted average number of shares outstanding		
634,168,418	634,168,418	634,168,418	Common/ADS	634,168,418	634,168,418
451,935,669	451,935,669	451,935,669	Preferred/ADS	451,935,669	451,935,669
			Basic and diluted earnings per share		
0.69	0.07	0.13	Common/ADS and Preferred/ADS	2.13	3.21

Statement of Cash Flows Data

(in millions of U.S. dollars)

	Fourth quarter			Year ended December 31	
3Q-2002	**2002**	**2001**		**2002**	**2001**
			Cash flows from operating activities		
752	73	143	Net income for the year	2,311	3,491
			Adjustments to reconcile net income to net cash provided by operating activities		
602	327	375	Depreciation, depletion and amortization	1,951	1,731
58	107	157	Loss on property, plant and equipment, including dry holes	297	1,005
		1.099	Loss on government securities		1,099
1,045	869	(618)	Foreign exchange and monetary loss	2,714	807
(267)	149	(49)	Others	(37)	86
			Decrease (increase) in assets		
41	111	(122)	Accounts receivable, net	(541)	(102)
(32)	(68)	608	Petroleum and Alcohol Account Receivable from Federal Government	(157)	1,173
(688)	209	699	Inventories	(1,139)	232
	(16)	(52)	Interest receivable on government securities	(10)	(243)
(536)	22		Advances to suppliers	(797)	(240)
(291)	212	(90)	Others	(487)	(675)
			Increase (decrease) in liabilities		
325	180	(304)	Trade accounts payable	669	(64)
(136)	267	(114)	Taxes payable, other than income taxes	441	212
461	200	(367)	Other liabilities	1,072	231
1,334	**2,642**	**1,365**	**Net cash provided by operating activities**	**6,287**	**8,743**
			Cash flows from investing activities		
(1,195)	(1,337)	(1,382)	Additions to property, plant and equipment	(4,911)	(4,254)
	(1,073)		Share Interest	(1,073)	
	(447)		Investments in thermoelectric plants	(447)	
(58)	(31)	(81)	Others	(225)	(338)
(1,253)	**(2,888)**	**(1,463)**	**Net cash used in investing activities**	**(6,656)**	**(4,592)**
529	**(279)**	**1,639**	**Cash flows from financing activities**	**(1,614)**	**(1,754)**
610	**(525)**	**1,541**	**Increase (decrease) in cash and cash equivalents**	**(1,983)**	**2,397**
(1,304)	214	742	Effect of exchange rate changes on cash and cash equivalents	(2,076)	(863)
4,306	**3,612**	5,077	**Cash and cash equivalents at beginning of period**	**7,360**	5,826
3,612	**3,301**	**7,360**	**Cash and cash equivalents at the end of period**	**3,301**	**7,360**

Income Statement by Segment

	Year ended December 31, 2002							
	U.S.$ million							
	E&P	**SUPPLY**	**GAS & ENERGY**	**INTERN.**	**DISTR.**	**CORPOR.**	**ELIMIN.**	**TOTAL**
Net operating revenues to third parties	2,346	12,073	747	986	6,460			22,612
Intersegment net operating revenues	10,700	5,269	170	99	102		(16,340)	
Net operating revenues	13,046	17,342	917	1,085	6,562		(16,340)	22,612
Cost of sales	(4,829)	(15,242)	(594)	(812)	(5,861)		15,832	(11,506)
Depreciation, depletion and amortization	(1,378)	(358)	(45)	(106)	(24)	(19)		(1,930)
Exploration, including exploratory dry holes and impairment	(449)			(61)				(510)
Selling, general and administrative expenses	(177)	(584)	(54)	(90)	(442)	(394)		(1,741)
Research and development expenses	(74)	(37)	(5)			(31)		(147)
Costs and expenses	(6,907)	(16,221)	(698)	(1,069)	(6,327)	(444)	15,832	(15,834)
Results of non-consolidated companies		11	(94)	(95)				(178)
Financial income (expenses), net	(943)	(13)	(18)	31	5	(762)		(1,700)
Employee benefit expense		(2)			(14)	(435)		(451)
Other expenses, net	(160)	(13)	(504)	2	(46)	(516)	20	(1,217)
Income before income taxes and minority interest	5,036	1,104	(397)	(46)	180	(2,157)	(488)	3,232
Income tax benefits (expense)	(1,623)	(386)	(104)	(64)	(58)	914	168	(1,153)
Minority interest		(7)	311	(4)	(31)	(37)		232
Net income (loss)	3,413	711	(190)	(114)	91	(1,280)	(320)	2,311

Income Statement by Segment

	Year ended December 31, 2001 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Net operating revenues to third parties	308	15,969	659	777	6,836			24,549
Intersegment net operating revenues	9,796	5,757	177	71	100		(15,901)	
Net operating revenues	10,104	21,726	836	848	6,936		(15,901)	24,549
Cost of sales	(3,766)	(17,279)	(600)	(541)	(6,310)		15,689	(12,807)
Depreciation, depletion and amortization	(1,228)	(301)	(62)	(101)	(28)	(9)		(1,729)
Exploration, including exploratory dry holes and impairment	(463)			(86)				(549)
Selling, general and administrative expenses	(128)	(745)	(46)	(57)	(414)	(361)		(1,751)
Research and development expenses	(63)	(40)	(3)			(26)		(132)
Costs and expenses	(5,648)	(18,365)	(711)	(785)	(6,752)	(396)	15,689	(16,968)
Results of non-consolidated companies		28	8	(44)				(8)
Financial income (expenses), net	(372)	(112)	(242)	12	(1)	364	3	(348)
Employee benefit expense						(594)		(594)
Other expenses, net	(458)	319	(29)	88	24	(1,783)		(1,839)
Income before income taxes and minority interest	3,626	3,596	(138)	119	207	(2,409)	(209)	4,792
Income tax benefits (expense)	(1,187)	(1,058)	(38)	(91)	(101)	1,001	85	(1,389)
Minority interest			122	(4)	(28)	(2)		88
Net income (loss)	2,439	2,538	(54)	24	78	(1,410)	(124)	3,491

Other Expenses, Net By Segment

	Year ended December 31, 2002 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Contractual Contingencies with Thermoplants			(258)					(258)
Provision for Losses Financial Exposure to Thermoplants			(201)					(201)
Institution Relations and Culture Projects						(96)		(96)
Unscheduled stoppages plant and equipment	(86)	(25)						(111)
Dividends		7						7
The Listing of P-34	(13)							(13)
Losses as a result of Legal Proceedings	(22)	(10)				(26)		(58)
Petroleum & Alcohol Account Regularization						(29)		(29)
INSS Joint Liability Contingencies	(37)	(29)				(39)		(105)
Other taxes		(18)	(9)	(12)	(36)	(285)		(360)
Others	(2)	62	(36)	14	(10)	(41)	20	7
	(160)	(13)	(504)	2	(46)	(516)	20	(1,217)

	Year ended December 31, 2001 U.S.$ million							
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Gain with business combination EG3	140	305			55			500
Gain with sale of Petrobras UK				89				89
Institution Relations and Culture Projects						(137)		(137)
Unscheduled stoppages plant and equipment	(1)	(21)						(22)
The sinking of P-36	(155)							(155)
Dividends		30						30
Loss on government securities						(1,099)		(1,099)
Losses as a result of Legal Proceedings	(9)	(7)				(6)		(22)
Petroleum & Alcohol Account Regularization						(405)		(405)

Provision for uncollectible accounts of P-36/37/38/40	(394)							(394)
Other taxes		(14)	(3)	(1)	(35)	(242)		(295)
Others	(39)	26	(26)		4	106		71
	(458)	319	(29)	88	24	(1,783)		(1,839)

Selected Data by Segment

Year ended December 31, 2002

U.S.$ million

	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Current assets	1,181	4,323	819	736	973	3,124	(959)	10,197
Cash and cash equivalents	1	509	16	211	59	2,505		3,301
Other current assets	1,180	3,814	803	525	914	619	(959)	6,896
Investments in non-consolidated companies and other investments	7	168	70	11	16	62		334
Property, plant and equipment, net	11,611	3,186	1,881	1,024	296	226		18,224
Non current assets	385	211	556	1,092	141	1,932	(1,054)	3,263
Petroleum and Alcohol Account						182		182
Government securities		2				206		208
Other assets	385	209	556	1,092	141	1,544	(1,054)	2,873
Total assets	13,184	7,888	3,326	2,863	1,426	5,344	(2,013)	32,018

Year ended December 31, 2001

U.S.$ million

	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
Current assets	1,529	4,125	604	566	1,002	7,425	(925)	14,326
Cash and cash equivalents		553	60	145	30	6,572		7,360
Other current assets	1,529	3,572	544	421	972	853	(925)	6,966
	5	281	52	36	22	103		499

Investments in non-consolidated companies and other investments								
Property, plant and equipment, net	12,133	4,026	1,373	1,080	309	258		19,179
Non current assets	325	250	637	33	192	2,099	(676)	2,860
Petroleum and Alcohol Account						81		81
Government securities		3				209		212
Other assets	325	247	637	33	192	1,809	(676)	2,567
Total assets	13,992	8,682	2,666	1,715	1,525	9,885	(1,601)	36,864

Selected Data for International Segment

Year ended December 31, 2002

U.S.$ million

	INTERNATIONAL						
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
INTERNATIONAL							
ASSETS	**1,638**	**349**	**39**	**160**	**1,479**	**(802)**	**2,863**
STATEMENT OF INCOME							
Net Operating Revenues	**284**	**918**	**36**	**377**	**4**	**(534)**	**1,085**
Net operating revenues to third parties	96	473	36	377	4		986
Intersegment net operating revenues	188	445				(534)	99
Net income	**(5)**	**32**		**(41)**	**(100)**		**(114)**

Year ended December 31, 2001

U.S.$ million

	INTERNATIONAL						
	E&P	SUPPLY	GAS & ENERGY	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
INTERNATIONAL							
ASSETS	**997**	**423**	**13**	**228**	**87**	**(33)**	**1,715**
STATEMENT OF INCOME							
Net Operating Revenues	**395**	**629**		**90**	**1**	**(267)**	**848**
Net operating revenues to third parties	217	469		90	1		777

Intersegment net operating revenues	178	160				(267)	71
Net income	**105**	**3**		**(24)**	**(55)**	**(5)**	**24**

Stockholders equity and dividends

Our capital stock at December 31, 2002 was U.S.$6,220 million, represented by 634,168,418 common shares and 451,935,669 preferred shares with no par value.

Our American Depositary Shares (ADS), representing our common stock, trade on the New York Stock Exchange under the symbol PBR . Each PBR ADS represents 1 common share, and the closing price on such shares on December 31, 2002 was U.S.$14.94.

Our American Depositary Shares, representing our preferred stock, trade on the New York Stock Exchange under the symbol PBRA . Each PBRA ADS represents 1 preferred share, and the closing price on such shares on December 31, 2002 was U.S.$13.40.

At December 31, 2002 our consolidated stockholders equity decreased to U.S.$9,301 million, or U.S.$8.53 per share, and the closing price of common stock traded on the *Bolsa de Valores de São Paulo* (Bovespa) on December 31, 2002 was U.S.$14.78, while the price of preferred stock traded on BOVESPA on December 31, 2002 was U.S.$13.27 per share.

Stockholder remuneration In accordance with our by-laws, holders of preferred and common shares are entitled to a mandatory dividend of 25% of annual net income as adjusted under Brazilian Corporate Law. In addition, the preferred stockholders have priority in the receipt of an annual dividend of at least 3% of the book value of the shares or 5% of the paid-in capital in respect of the preferred shares as stated in the statutory accounting records.

Our Board of Directors proposed a distribution of dividends of approximately U.S.$781 million (U.S.$0.72 per share). We expect that this distribution will be approved at the General Shareholders Meeting to be held on March 27, 2003. The U.S.$307 million (U.S.$0.28 per share) already distributed to shareholders on January 13, 2003 in the form of interest on capital will be deducted from this amount. The proposed dividend includes U.S.$310 million of interest on capital which is subject to a 15% withholding tax, except with respect to shareholders eligible for certain tax exemptions.

The proposed U.S.$781 million dividend is equivalent to U.S.$0.72 per share and represents a dividend yield of 4.8% for the common stock and 5.5% for the preferred stock, as compared to a dividend yield of 6.3% for the common stock and 6.5% for the preferred stock for the year ended December 31, 2001.

In addition, our Board of Directors is proposing to the Extraordinary Shareholders Meeting to be held together with the General Shareholders Meeting on March 27, 2003, an increase in our capital by, as permitted by Brazilian law, capitalizing revenue reserves accrued during previous financial years, in the amount of U.S.$878 million without issuing new shares, in accordance with Art. 169, paragraph 1 of Law No. 6404/76

Undistributed earnings reserve is established in accordance with Article 196 of Law No. 6.404/76 to fund our investment program and must be approved at the General Shareholders Meeting. Our management is proposing retention of earnings for the year ended December 31, 2002 in the amount of U.S.$1,834 million in order to fund our capital expenditure budget for 2003. For the year ended December 31, 2001, we retained U.S.$2,238 million from that year s earnings to fund our capital expenditure budget for 2002.

The Federal Government is our principal shareholder, owning 55.7% of our voting stock. The following table sets forth information with respect to the ownership of our common shares and preferred shares as of December 31, 2002:

	Voting Stock Common shares %	Non-Voting Stock Preferred shares %	TOTAL %
Principal Shareholders			
Federal Government	55.7		32.5
BNDESPAR	2.0	16.4	7.9
Social Participation Fund FPS	0.8	0.4	0.6
Custody held by stock exchanges	4.7	25.4	13.8
Foreign investors	3.4	18.8	9.8
ADSs	22.7	34.0	27.4
Privatization funds	7.4		4.3
Other	3.3	5.1	3.7
Total	100.0	100.0	100.0
Total number of shares	634,168,418	451,935,669	1,086,104,087

BR Distribuidora S/A.

On November 7, 2002, our Board of Directors approved a public tender offer for all of the outstanding shares of Petrobras Distribuidora S.A. BR through a swap of preferred shares to be issued by us. The share swap was conducted in order to incorporate BR as a wholly-owned subsidiary and to effect the delisting of BR s publicly-traded shares which were publicly traded in Brazil.

The public tender offer was consistent with our strategy to increase shareholder value by aligning the strategic interests of the two companies and increasing synergies.

Our Board of Directors approved an appraisal by an independent third party

that determined the fair value of BR stock to be R$45.40 (U.S.$11.66) for each 1,000 share lot of BR stock. A similar independent appraisal established the fair value of our preferred shares to be issued at R$64.90 (U.S.$16.68) per share. The exchange ratio was 0.7 shares of our preferred stock for every share of BR stock, augmented by a cash premium paid to BR shareholders as an incentive to accept the public offer.

A public tender auction was held on January 29, 2003 and the Board of Directors of PETROBRAS, approved the issue of 9.866.828 preferred preferred shares of PETROBRAS in connections with the public offer by the Company to acquire publicly traded shares of BR, at an issue price of US$ 12.76 per share, under the terms of the capital increase approved during the meeting of the Board of Directors of PETROBRAS held on November 7, 2002. As result the capital of PETROBRAS increased by US$ 126. After verifying that all of the conditions for delisting BR s shares were met, on February 5, 2003, CVM effected the delisting of BR shares.

Notifications from the INSS Joint liability

We received various tax assessments from the Brazilian National Security Institute (INSS) alleging irregular presentation of documentation by construction companies and other service providers under contract with us with regard to their INSS contributions. The INSS seeks to hold us jointly liable for contributions not made by these providers, in accordance with paragraphs 5 and 6 of Article 219 and paragraphs 2 and 3 of Article 220 of Decree 3048/99.

We are analyzing each of the INSS s assessments in order to recover payments we have made to the INSS. We have established, however, a U.S.$105 million provision for this contingency, as it is unlikely that we will successfully obtain a reversal of the INSS s decision through the agency s administrative procedures.

In response to the INSS s assessments, we have revised our internal procedures to improve the inspection of contracts and to ensure that contractors are presenting proper documents evidencing the payment of INSS contributions, in accordance with applicable legislation.

Recently issued accounting pronouncements

The Financial Accounting Standards Board (FASB) has recently issued the following Statements of Financial Accounting Standards (SFAS):

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations (SFAS 143); and

SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost should be allocated to expense using a systematic and rational method. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. We estimate that the preliminary impact of the adoption of SFAS Nº 143 will result in a after tax income of approximately U.S.$700 million.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement addresses how to report gains or losses resulting from the early extinguishment of debt. Under current accounting rules, any gains or losses are reported on early extinguishment of debt as extraordinary items. If SFAS No. 145 is adopted, a company would be required to evaluate whether the debt extinguishment is truly extraordinary in nature. If the debt is routinely extinguished early, the gain or loss would be included in income from continuing operations. This statement would be effective for 2003 year-end reporting.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement requires recognition of costs associated with exit or disposal activities when they are incurred rather than when an exit or disposal plan occurs. Examples of costs covered by this guidance include lease termination costs, employee severance costs that are associated with a restructuring discontinued operations, plant closings or other exit or disposal activities. The provisions of this statement are effective for fiscal years beginning after December 31, 2002 and will impact any exit or disposal activities initiated after January 1, 2003.

We are beginning to assess the impact of SFAS No. 145 and No. 146 and therefore, at this time cannot reasonably estimate the effect of these statements on our financial condition, result of operations and cash flows.

Liquidity and Capital Resources

Capital expenditures

Total consolidated capital expenditures were U.S.$4,911 million in 2002, U.S.$4,254 million in 2001 and U.S.$3,583 million in 2000, reflecting increases of 15.4% in 2002 as compared to 2001 and of 18.7% in 2001 as compared to 2000. This increase in capital expenditures in 2002 was primarily a result of increased expenditures on our exploration and production activities and improvements in our refinery facilities. Of the capital expenditures incurred during the year ended December 31, 2002, U.S.$3,156 million (64%) were directed to domestic exploration and production activities, which includes our exploration and production segment and our project financings.

The following table sets forth our consolidated capital expenditures (including project financings) for each of our business segments for the years ended December 31, 2002, 2001 and 2000:

	For the Year Ended December 31,		
	2002	**2001**	**2000**
	(in millions of U.S. dollars)		
Exploration and Production	$ 3,156	$ 2,866	$ 2,581
Supply	945	642	569
Distribution	139	86	68
Gas and Energy	268	192	50
International	241	326	245
Corporate	162	142	70
Total	$ 4,911	$ 4,254	$ 3,583

Our capital expenditures in the years ended December 31, 2002, 2001 and 2000 were primarily directed towards increasing our production capabilities in the Campos Basin, modernizing our refineries, expanding our pipeline transportation and distribution systems and investing in energy and gas related activities, such as thermoelectric power plants.

Our capital expenditure budget for 2003 provided in our Annual Business Plan for 2003, including project finance, is U.S.$7,146 million. We expect that our capital expenditure budget will be allocated among the segments of our business as follows: (i) Exploration and Production: U.S.$2,876 million; (ii) Supply: U.S.$1,549 million; (iii) Gas and Energy: U.S.$1,055 million; (iv) International: U.S.$1,282 million; (v) Distribution: U.S.$280 million; and Corporate U.S.$104 million.

Financing

Short-Term Debt

We fund our investments and working capital with internally generated funds, short-term debt, long-term debt, project financings, sale and lease back agreements and bonds issued in the capital markets. 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. During the last three years, we have succeeded in reducing short-term debt to U.S.$671 million as of

December 31, 2002, as compared to U.S.$1,101 million as of December 31, 2001 and U.S.$3,128 million as of December 31, 2000. Our short-term debt is denominated principally in U.S. dollars.

Long-Term Debt

Our total outstanding consolidated long-term debt consists primarily of issuance of notes in the capital markets and amounts outstanding under facilities guaranteed by export credit agencies and multilateral agencies, as well as financing from the Banco Nacional de Desenvolvimento Econômico e Social (the National Bank for Economic and Social Development, or BNDES). Outstanding long-term debt, plus the current portion of our long-term debt, totaled U.S.$7,714 million as of December 31, 2002, as compared to U.S.$6,848 million as of December 31, 2001. Included in these figures as of December 31, 2002 are the following international debt issues:

Notes	**Principal Amount**
4.10% Notes due 2003(1)	¥30,000 million
9.00% Notes due 2004(2)	EUR 91 million
10.00% Notes due 2006	U.S.$250 million
Step Down Notes due 2007(2)	EUR 134 million
9.125% Notes due 2007(3)	U.S.$500 million
9.875% Notes due 2008(3)	U.S.$450 million
6.750% Senior Trust Certificates due 2010(4)	U.S.$95 million
Floating Rate Senior Trust Certificates due 2010(4)	U.S.$55 million
9.750% Notes due 2011(3)	U.S.$600 million
6.600% Senior Trust Certificates due 2011(4)	U.S.$300 million
Floating Rate Senior Trust Certificates due 2013(4)	U.S.$300 million
4.750% Senior Exchangeable Notes due 2007(5)	U.S.$338 million

(1) Japanese yen; U.S.$1.00 = ¥118.87 at December 31, 2002.
(2) Euro; U.S.$1.00 = EUR 1.0475 at December 31, 2002.
(3) Issued by PIFCo to finance oil trading activities, with support from us through a standby purchase agreement.
(4) Represents an asset securitization by Petrobras Finance Limited.
(5) Issued by PIFCo in connection with our acquisition of Perez Companc.

If we had consolidated the financial statements of Perez Companc S.A. and Petrolera Perez Companc in our consolidated financial statements as of December 31, 2002, our total consolidated debt would have increased by U.S.$2,455 (18.6%).

Project Finance and Off-Balance Sheet Arrangements

Project Finance

Since 1997, we have utilized project financings to provide capital for our continued financing of our large exploration and production and related projects. Our arrangements with respect to these projects are accounted for as capital leases. Under the contracts, 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 leased or transferred assets from the special purpose company.

We continue to reflect the assets related to the projects on our balance sheets as a component of property, plant and equipment and the related debt obligations are on-balance sheet and accounted for under the line item Project Financings.

Many of our capital expenditures for 2002, 2001 and 2000 were made in connection with exploration and development projects in the Campos Basin, a number of which are being financed through project financings. Below are our material project finance expenditures by project for the years ended December 31, 2002 and December 31, 2001, as well as amounts representing future commitments under our contract obligations:

	For the Year Ended December 31,			
	2002	**2002**	**2001**	**2000**
Field	**Future Commitments**	**Capital Expenditures**	**Capital Expenditures**	**Capital Expenditures**
	U.S.$ in millions			
Albacora	$ 25	$ 45	$ 64	$ 113
Cabiúnas	298	26	45	83
Espadarte/Voador/Marimbá	11	103	158	224
Pargo / Carapeba / Garoupa Cherne PCGC		49		
Nova Marlim		106		
Marlim		2	239	316
Barracuda/Caratinga	1,084			
Others			80	79
Total	$ 1,148	$ 331	$ 586	$ 815

Of the projected amount of expenditures for project financings in 2003, we expect that approximately U.S.$**93** million will be used by our Exploration and Production segment and U.S.$**644** million by our Gas and Energy segment.

Off Balance Sheet Arrangements

As of December 31, 2002, we did not have any material off-balance sheet arrangements.

Total Indebtedness

Our total debt (including short-term debt, long-term debt, project finance and sale and leaseback, including current portions) increased to U.S.$14,680 million as of December 31, 2002, from U.S.$14,010 as of December 31, 2001. During that same period, our short-term debt (including current portions of long-term debt obligations) declined from U.S.$3,019 million as of December 31, 2001 to U.S.$1,986 million as of December 31, 2002.

Net cash provided by operating activities was U.S.$7,714 million for the year ended December 31, 2002, as compared to U.S.$8,743 million for the year ended December 31, 2001. This increase was due primarily to a 7.9% decrease in net operating revenues.

Net cash used in financing activities amounted to U.S.$2,047 million for the year ended December 31, 2002, as compared to U.S.$1,754 million for the year ended December 31, 2001. This increase was due primarily to an increase in payments related to project financings, which was partially offset by a reduction in dividends paid and net issuances and repayments of short-term debt.

The total amount of long-term debt that we are allowed to incur is controlled by the Brazilian government through the annual budget approval process and on a case by case basis. The level of our new long-term borrowing is also subject to an annual maximum amount, exclusive of certain permitted commercial obligations, based on stockholders equity, debt service expense and other factors as of the prior year and subject to certain ongoing quarterly adjustments. For 2003, the maximum level has been set at U.S.$932 million. The maximum level was set at U.S.$824 million for 2002, U.S.$1,211 million for 2001 and U.S.$1,072 million for 2000. Medium and long-term borrowings included in our annual budget also require the prior approval of the National Treasury, and registration with the Central Bank for foreign debt to the extent that such debt is converted into Reais, unless such issuances are not conducted through our international subsidiaries. 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.

Financing Strategy

Our financing strategy is to pursue a wider and more sophisticated range of medium and long-term financial instruments aimed at increasing the average life of our debt portfolio and reducing the cost of capital and to consider a range of financing options, including supplier financing, project financing, bank financing, securitizations and the issuances of debt and equity securities.

Contractual obligations

In the table below we set forth our outstanding contractual obligations as of December 31, 2002, consisting of long-term debt including financial leases and operating leases, and the period in which the contractual obligations come due.

	Payments Due					
	Total	**2003**	**2004**	**2005**	**2006**	**2007 and thereafter**
			(millions of U.S. Dollars)			
Contractual obligations as of December 31, 2002:						
Long-term debt including financial leases	14,009	1,315	1,631	1,690	1,900	7,473

We have certain operating leases related to computers and other equipment, but the total value of such leases is not material.

PETRÓLEO BRASILEIRO

S.A. - PETROBRAS and Subsidiaries

Consolidated Financial Statements

at December 31, 2002 and 2001

and Report of Independent Accountants

Report of Independent Accountants

To the Board of Directors and Stockholders

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of stockholders equity, present fairly, in all material respects, the financial position of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. 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. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

As described in Notes 2(j) and 10, PETROBRAS has been subject to significant Brazilian Federal Government regulation and new regulations were implemented in July 1998 that significantly changed the regulation of the Brazilian oil and gas market.

PricewaterhouseCoopers

Auditores Independentes

Rio de Janeiro, Brazil

February 13, 2003.

COPY OF THE ORIGINAL

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Balance Sheets

(Expressed in Millions of United States Dollars

	As of December 31	
	2002	**2001**
Assets		
Current assets		
Cash and cash equivalents	3,301	7,360
Accounts receivable, net	2,267	2,759
Inventories	2,540	2,399
Deferred income tax	135	149
Recoverable taxes	672	664
Advances to suppliers	794	483
Other current assets	488	512
	10,197	14,326
Property, plant and equipment, net	18,224	19,179
Investments in non-consolidated companies and other investments	334	499
Other assets		
Accounts receivable, net	188	212
Advances to suppliers	450	403
Petroleum and Alcohol Account - Receivable from		
Federal Government	182	81
Government securities	176	665
Marketable securities	208	212
Unrecognized pension obligation	61	187
Restricted deposits for legal proceedings and guarantees	290	337
Receivables from non-consolidated companies	181	264
Recoverable taxes	128	164
Investment in Perez Companc S.A. (Note 16 (c))	1,077	
Other assets	322	335
	3,263	2,860
Total assets	32,018	36,864

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Balance Sheets

Expressed in Millions of United States Dollars, except number of shares **(continued)**

	As of December 31	
	2002	**2001**
Liabilities and stockholders equity		
Current liabilities		
Trade accounts payable	1,702	1,783
Income taxes	119	1,695
Taxes payable, other than income tax	1,682	450
Short-term debt	671	1,101
Current portion of long-term debt	727	940
Current portion of project financings	239	680
Capital lease obligations	349	298
Employee postretirement benefits	89	117
Payroll and related charges	283	333
Dividends payable	307	93
Accrued interest	120	104
Other payables and accruals	657	450
	6,945	8,044
Long-term liabilities		
Employees postretirement benefits	2,423	3,380
Project financings	3,800	3,153
Long-term debt	6,987	5,908
Capital lease obligations	1,907	1,930
Deferred income taxes	123	717
Contingencies	368	100
Other liabilities	300	306
	15,908	15,494
Minority interest	(136)	79
Commitments and contingencies (Note 18)		
Stockholders equity		
Shares authorized and issued (Note 15(ii))		
Preferred stock - 2002 and 2001 - 451,935,669 shares	2,459	1,882
Common stock - 2002 and 2001 - 634,168,418 shares	3,761	2,952
Capital reserve	89	128
Accumulated other comprehensive income		
Cumulative translation adjustments	(17,306)	(11,854)
Amounts not recognized as net periodic pension cost	(1,361)	(1,867)
Unrealized gains (losses) on available-for-sale securities	(11)	13
Retained earnings		

Appropriated	5,585	6,869
Unappropriated	16,085	15,124
	9,301	13,247
Total liabilities and stockholders equity	32,018	36,864

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

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Statements of Income

Expressed in millions of United States dollars, except number of shares and per-share amounts

	Years ended December 31		
	2002	**2001**	**2000**
Sales of products and services	32,987	34,145	35,496
Less:			
Value-added and other taxes on sales and services	(5,241)	(8,627)	(8,829)
Contribution for the Intervention in an Economic Domain CIDE (note 10 (a))	(5,134)		
Specific parcel price - PPE (Note 2(j))		(969)	288
Net operating revenues	22,612	24,549	26,955
Cost of sales (net of impact of government regulation of US$ (68) and US$ 19 in 2001 and 2000, respectively (Note 2(j)))	11,506	12,807	13,449
Depreciation, depletion and amortization	1,930	1,729	2,022
Exploration, including exploratory dry holes	435	404	440
Impairment of oil and gas properties	75	145	37
Selling, general and administrative expenses (net of impact of government regulation of US$ (45) and US$ (81) In 2001 and 2000, respectively (Note 2(j)))	1,741	1,751	1,450
Research and development expenses	147	132	152
Total costs and expenses	15,834	16,968	17,550

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Statements of Income

Expressed in millions of United States dollars, except number of shares and per-share amounts **(continued)**

	Years ended December 31		
	2002	**2001**	**2000**
Equity in results of non-consolidated companies	(178)	(8)	26
Financial income (including financial income on the Petroleum and Alcohol Account of Financial income (including financial income on the Petroleum and Alcohol Account of US$ 2, US$ 16 and US$ 35 in 2002, 2001 and 2000 respectively (Note 2 (j)))	1,142	1,375	1,113
Financial expense	(774)	(808)	(909)
Monetary and exchange variation on monetary assets and liabilities, net	(2,068)	(915)	(575)
Employee benefit expense	(451)	(594)	(370)
Other taxes	(360)	(295)	(245)
Loss on government securities (Note 5)		(1,099)	(192)
Other expenses, net	(857)	(445)	(450)
	(3,546)	(2,789)	(1,602)
Income before income taxes and minority interest	3,232	4,792	7,803
Income tax expense			
Current	(1,269)	(1,196)	(1,574)
Deferred	116	(193)	(949)
	(1,153)	(1,389)	(2,523)
Minority interests in net losses of consolidated subsidiaries	232	88	62
Net income for the year	2,311	3,491	5,342
Net income applicable to each class of shares			
Common/ADS	1,349	2,038	3,119
Preferred/ADS	962	1,453	2,223
	2,311	3,491	5,342
Basic and diluted earnings per share (Note 15 (ii))			
Common/ADS and Preferred/ADS	2.13	3.21	4.92
Weighted average number of shares outstanding (Note 15 (ii)) (ii))			

Common/ADS	634,168,418	634,168,418	634,168,418
Preferred/ADS	451,935,669	451,935,669	451,935,669

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

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Balance Sheets

(Expressed in Millions of United States Dollars

	Years ended December 31		
	2002	**2001**	**2000**
Cash flows from operating activities			
Net income for the year	2,311	3,491	5,342
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, depletion and amortization	1,951	1,731	2,043
Dry hole costs	198	194	277
Loss on property, plant and equipment	99	811	7
Loss on government securities		1,099	192
Deferred income taxes	(116)	193	949
Equity in results of non-consolidated companies	178	8	(26)
Impairment of oil and gas properties	75	145	37
Provision for uncollectible accounts	56	421	33
Minority interest in losses of consolidated subsidiaries	(232)	(88)	(62)
Foreign exchange and monetary loss	2,714	807	432
Gain on exchange of businesses with Repsol-YPF		(500)	
Others	2	(93)	
Decrease (increase) in assets			
Accounts receivable, net	(541)	(102)	(1,067)
Petroleum and Alcohol Account	(157)	1,173	(286)
Interest receivable on government securities	(10)	(243)	(280)
Inventories	(1,139)	232	(1,048)
Advances to suppliers	(797)	(240)	(212)
Prepaid expenses	(31)	(206)	(39)
Recoverable taxes	(190)	(422)	(149
Others	(266)	(47)	(43)
Increase (decrease) in liabilities			
Trade accounts payable	669	(64)	865
Payroll and related charges	95	84	(10)
Taxes payable, other than income taxes	441	212	542
Employee post-retirement benefits, net of unrecognized pension obligation	177	(61)	253
Hedge activities	68	123	24
Accrued interest	158	58	(13)
Contingencies	365	37	(23)
Other liabilities	209	(10)	(24)
Net cash provided by operating activities	6,287	8,743	7,714

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Statements of Cash Flows

Expressed in Millions of United States Dollars **(continued)**

	Years ended December 31		
	2002	**2001**	**2000**
Cash flows from investing activities			
Additions to property, plant and equipment	(4,911)	(4,254)	(3,583)
Investment in Perez Companc S.A.	(1,073)		
Investments in thermoelectric plants	(447)	(15)	(21)
Investment in non-consolidated companies	(153)	(207)	(53)
Dividends received from non-consolidated companies	11	24	8
Restricted deposits for legal proceedings	(84)	(140)	(95)
Other	1		93
Net cash used in investing activities	(6,656)	(4,592)	(3,651)
Cash flows from financing activities			
Short-term debt, net issuances and repayments	(367)	(1,648)	(962)
Proceeds from issuance of long-term debt	1,937	2,347	1,535
Principal payments on long-term debt	(1,173)	(1,023)	(1,325)
Project financings	(746)	760	608
Payment of lease obligations	(247)	(465)	(154)
Dividends paid to stockholders	(999)	(1,702)	(512)
Dividends paid to minority interests	(19)	(23)	
Net cash used in financing activities	(1,614)	(1,754)	(810)
Increase (decrease) in cash and cash equivalents	(1,983)	2,397	3,253
Effect of exchange rate changes on cash and cash equivalents	(2,076)	(863)	(442)
Cash and cash equivalents at beginning of year	7,360	5,826	3,015
Cash and cash equivalents at end of year	3,301	7,360	5,826

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

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Statements of Cash Flows

Expressed in Millions of United States Dollars **(continued)**

	Years ended December 31		
	2002	**2001**	**2000**
Cash paid during the period for			
Interest	200	393	622
Income taxes	812	951	1,473
Withholding income tax on financial investments	120	178	116
Non-cash investing and financing transactions during the period			
Capital lease obligations	144	406	293
Project finance expenditures funded by special purpose companies	946	1,121	1,026
Net assets acquired in purchased business combination with Repsol - YPF		424	
Transfer of Government securities to PETROS	313	2,140	216

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

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity

Expressed in Millions of United States Dollars, Except number of shares and per-share amounts

	Years ended December 31		
	2002	**2001**	**2000**
Preferred stock			
Balance January 1	1,882	1,882	1,882
Capital increase with undistributed earnings reserve	577		
Balance December 31	2,459	1,882	1,882
Common stock			
Balance January 1	2,952	2,952	2,952
Capital increase with undistributed earnings reserve	809		
Balance December 31	3,761	2,952	2,952
Capital reserves			
Balance January 1	128	37	33
Transfer from (to) unappropriated retained earnings	(39)	91	4
Balance December 31	89	128	37
Accumulated other comprehensive income			
Cumulative translation adjustments			
Balance January 1	(11,854)	(9,159)	(7,980)
Change in the period	(5,452)	(2,695)	(1,179)
Balance December 31	(17,306)	(11,854)	(9,159)
Amounts not recognized as net periodic pension cost			
Balance January 1	(1,867)	(1,516)	(1,704)
Decrease (increase) in additional minimum Liability	724	(524)	281
Tax effect on above	(218)	173	(93)
Balance December 31	(1,361)	(1,867)	(1,516)

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity

Expressed in Millions of United States Dollars, Except number of shares and per-share amounts

(continued)

	Years ended December 31		
	2002	**2001**	**2000**
Unrealized gains (losses) on available-for-sale securities			
Balance January 1	13	65	(79)
Unrealized gains (losses)	(36)	(77)	39
Realization of previously unrecognized losses on ELET/SIBR investments (Note 5(a))			175
Tax effect on above	12	25	(70)
Balance December 31	(11)	13	65
Appropriated retained earnings			
Legal reserve			
Balance at January 1	768	648	424
Transfer from (to) unappropriated retained earnings	(125)	120	224
Balance at December 31	643	768	648
Unrealized income reserve			
Balance at January 1		1,471	1,630
Transfer to unappropriated retained earnings		(1,471)	(159)
Balance at December 31			1,471
Undistributed earnings reserve			
Balance at January 1	5,886	3,648	39
Capital increase	(1,386)		
Transfer from (to) unappropriated retained earnings	278	2,238	3,609
Balance at December 31	4,778	5,886	3,648
Statutory reserve			
Balance at January 1	215	221	206
Transfer from (to) unappropriated retained earnings	(51)	(6)	15
Balance at December 31	164	215	221

Total appropriated retained earnings	5,585	6,869	5,988

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity

Expressed in Millions of United States Dollars, Except number of shares and per-share amounts

(continued)

	Years ended December 31		
	2002	**2001**	**2000**
Unappropriated retained earnings			
Balance at January 1	15,124	14,456	13,319
Net income for the year	2,311	3,491	5,342
Cash dividends (per share: 2002 US$ 1.19, 2001 US$ 1.62 and 2000 US$ .45 to common and preferred shares)	(1,287)	(1,851)	(512)
Appropriation (to) from reserves	(63)	(972)	(3,693)
Balance at December 31	16,085	15,124	14,456
Total stockholders equity	9,301	13,247	14,705
Comprehensive income is comprised as follows:			
Net income for the year	2,311	3,491	5,342
Translation adjustments for the year	(5,452)	(2,695)	(1,179)
Amounts not recognized as net periodic pension cost	506	(351)	188
Unrealized gains (losses) on available-for-sale securities	(24)	(52)	27
Total comprehensive income (loss)	(2,659)	393	4,378

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

PETRÓLEO BRASILEIRO S.A. -

PETROBRAS and Subsidiaries

Notes to the Consolidated Financial Statements

(Expressed in millions of United States dollars,

unless otherwise stated)

1 The Company and its Operations