

BRAZILIAN PETROLEUM CORP  
Form 6-K  
March 21, 2006

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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 6-K**

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

**For the month of March, 2006**

**Commission File Number 1-15106**

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**PETRÓLEO BRASILEIRO S.A. - PETROBRAS**  
(Exact name of registrant as specified in its charter)

**Brazilian Petroleum Corporation - PETROBRAS**  
(Translation of Registrant's name into English)

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

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

Form 20-F  Form 40-F

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

Yes  No

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*Consolidated Financial  
Statements*

*Petróleo Brasileiro S.A. -  
PETROBRAS and subsidiaries*

*December 31, 2005, 2004 and 2003,  
together with Report of Independent  
Registered Public Accounting Firm*

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

CONSOLIDATED FINANCIAL STATEMENTS

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

1. We have audited the accompanying consolidated balance sheets of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows, for each of the three years in the period ended December 31, 2005. 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.
2. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and its subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

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

ERNST & YOUNG  
Auditores Independentes S/S

Paulo José Machado  
Partner

Rio de Janeiro, Brazil  
February 17, 2006

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

**CONSOLIDATED BALANCE SHEETS**

December 31, 2005 and 2004

Expressed in Millions of United States Dollars

	<b>As of December 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 5)	<b>9,871</b>	6,856
Marketable securities (Note 6)	<b>456</b>	388
Accounts receivable, net (Note 7)	<b>6,184</b>	4,285
Inventories (Note 8)	<b>5,305</b>	4,904
Deferred income tax (Note 4)	<b>473</b>	325
Recoverable taxes (Note 9)	<b>2,087</b>	1,475
Advances to suppliers	<b>652</b>	422
Other current assets	<b>750</b>	771
	<b>25,778</b>	19,426
<b>Property, plant and equipment, net (Note 10)</b>	<b>45,920</b>	37,020
<b>Investments in non-consolidated companies and other investments (Note 11)</b>	<b>1,810</b>	1,862
<b>Other assets</b>		
Accounts receivable, net (Note 7)	<b>607</b>	411
Advances to suppliers	<b>489</b>	580
Petroleum and alcohol account receivable from Federal Government (Note 12)	<b>329</b>	282
Government securities	<b>364</b>	326
Marketable securities (Note 6)	<b>129</b>	313
Restricted deposits for legal proceedings and guarantees (Note 21 (a))	<b>775</b>	699
Recoverable taxes (Note 9)	<b>639</b>	536
Goodwill (Note 20)	<b>237</b>	211
Prepaid expenses	<b>246</b>	271
Fair value asset of gas hedge (Note 23)	<b>547</b>	635
Other assets	<b>755</b>	510

		<b>5,117</b>	4,774
<b>Total assets</b>		<b>78,625</b>	63,082

	As of December 31,	
	2005	2004
<b>Liabilities and shareholders equity</b>		
<b>Current liabilities</b>		
Trade accounts payable	3,838	3,284
Income tax	211	271
Taxes payable, other than income taxes	3,212	2,298
Short-term debt (Note 13)	950	547
Current portion of long-term debt (Note 13)	1,428	1,199
Current portion of project financings (Note 15)	2,413	1,313
Current portion of capital lease obligations (Note 16)	239	266
Accrued interest	221	204
Dividends and interest on capital payable (Note 19)	3,068	1,900
Contingencies (Note 21)	72	131
Payroll and related charges	918	618
Advances from customers	609	290
Employees postretirement benefits obligation - pension (Note 18)	206	166
Other payables and accruals	770	841
	<b>18,155</b>	<b>13,328</b>
<b>Long-term liabilities</b>		
Long-term debt (Note 13)	11,503	12,145
Project financings (Note 15)	3,629	4,399
Employees postretirement benefits obligation - pension (Note 18)	3,627	2,915
Employees postretirement benefits obligation - health care (Note 18)	3,004	2,137
Capital lease obligations (Note 16)	1,015	1,069
Deferred income tax (Note 4)	2,159	1,558
Provision for abandonment (Note 3 (a))	842	403
Thermoelectric liabilities (Note 3 (b))	-	1,095
Contingencies (Note 21)	238	233
Deferred purchase incentive (Note 23)	144	153
Other liabilities	318	264
	<b>26,479</b>	<b>26,371</b>
<b>Minority interest</b>	<b>1,074</b>	<b>877</b>
<b>Shareholders equity</b>		
Shares authorized and issued (Note 19)		
Preferred share - 2005 and 2004 1,849,478,028 shares	4,772	4,772
Common share - 2005 and 2004 2,536,673,672 shares	6,929	6,929
Capital reserve (Note 19)	159	134
Retained earnings		

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Appropriated (Note 19)	<b>20,095</b>	11,526
Unappropriated	<b>11,968</b>	13,199
Accumulated other comprehensive income		
Cumulative translation adjustments	<b>(9,432)</b>	(12,539)
Amounts not recognized as net periodic pension cost, net of tax (Note 18)	<b>(1,930)</b>	(1,975)
Unrealized gains on available for sale securities, net of tax	<b>356</b>	460
	<b>32,917</b>	22,506
<b>Total liabilities and shareholders equity</b>	<b>78,625</b>	63,082

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

**CONSOLIDATED STATEMENTS OF INCOME**

December 31, 2005, 2004 and 2003

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Sales of products and services</b>	<b>74,065</b>	51,954	42,690
Less:			
Value-added and other taxes on sales and services	<b>(14,694)</b>	(10,906)	(9,527)
Contribution of intervention in the economic domain charge - CIDE	<b>(3,047)</b>	(2,620)	(2,249)
<b>Net operating revenues</b>	<b>56,324</b>	38,428	30,914
Cost of sales	<b>29,828</b>	21,279	15,533
Depreciation, depletion and amortization	<b>2,926</b>	2,481	1,785
Exploration, including exploratory dry holes	<b>1,009</b>	613	512
Selling, general and administrative expenses	<b>4,474</b>	2,901	2,091
Impairment (Note 10 (d))	<b>156</b>	65	70
Research and development expenses	<b>399</b>	248	201
Other operating expenses	<b>582</b>	259	326
<b>Total costs and expenses</b>	<b>39,374</b>	27,846	20,518
Equity in results of non-consolidated companies (Note 11)	<b>139</b>	172	141
Financial income (Note 14)	<b>710</b>	956	634
Financial expenses (Note 14)	<b>(1,189)</b>	(1,733)	(1,247)
Monetary and exchange variation on monetary assets and liabilities, net (Note 14)	<b>248</b>	450	509
Employee benefit expense for non-active participants (Note 18)	<b>(994)</b>	(650)	(595)
Other taxes	<b>(373)</b>	(440)	(333)
Other expenses, net	<b>(899)</b>	(402)	(732)
	<b>(2,358)</b>	(1,647)	(1,623)

**Income before income taxes, minority interest,  
extraordinary  
item and accounting change**

**14,592**

8,935

8,773

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Income tax expense (Note 4)</b>			
Current	(4,223)	(2,114)	(2,599)
Deferred	(218)	(117)	(64)
	<b>(4,441)</b>	(2,231)	(2,663)
Minority interest in results of consolidated subsidiaries	<b>35</b>	(514)	(248)
Income before extraordinary item and effect of change in accounting principle	<b>10,186</b>	6,190	5,862
Extraordinary gain net of tax (Note 11 (c))	<b>158</b>	-	-
Cumulative effect of change in accounting principle, net of taxes (Note 3 (a))	-	-	697
<b>Net income for the year</b>	<b>10,344</b>	6,190	6,559
<b>Net income applicable to each class of shares</b>			
Common	<b>5,982</b>	3,580	3,797
Preferred	<b>4,362</b>	2,610	2,762
<b>Net income for the year</b>	<b>10,344</b>	6,190	6,559
<b>Basic and diluted earnings per share (Note 19 (c))</b>			
<b>Common and preferred</b>			
Before effect of extraordinary item and change in accounting principle	<b>2.32</b>	1.41*	1.34*
After effect of extraordinary item and change in accounting principle	<b>2.36</b>	1.41*	1.50*
<b>Basic and diluted earnings per ADS</b>			
Before effect of extraordinary item and change in accounting principle	<b>9.28</b>	5.64*	5.36*
After effect of extraordinary item and change in accounting principle	<b>9.44</b>	5.64*	6.00*

**Weighted average number of shares outstanding**

Common	<b>2,536,673,672</b>	2,536,673,672*	2,536,673,672*
Preferred	<b>1,849,478,028</b>	<u>1,849,478,028*</u>	<u>1,849,478,028*</u>

\* Restated for the effect of the 4-1 stock split on September 1, 2005 (See Note 19).

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

December 31, 2005, 2004 and 2003

Expressed in Millions of United States Dollars

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities</b>			
Net income for the year	<b>10,344</b>	6,190	6,559
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, depletion and amortization	<b>2,926</b>	2,481	1,785
Dry hole costs	<b>597</b>	520	207
Loss on property, plant and equipment	<b>292</b>	231	119
Minority interest in results of consolidated subsidiaries	<b>(35)</b>	514	248
Amortization of deferred purchase incentive	<b>(8)</b>	(16)	-
Deferred income taxes	<b>218</b>	117	64
Foreign exchange and monetary loss (gain)	<b>140</b>	23	(138)
Accretion expense asset retirement obligation	<b>51</b>	33	43
Impairment of oil and gas properties	<b>156</b>	65	70
Provision for uncollectible accounts	<b>118</b>	164	36
Cumulative effect of change in accounting principle, net of taxes	<b>-</b>	-	(697)
Equity in the results of non-consolidated companies	<b>(139)</b>	(172)	(141)
Financial income on gas hedge operations	<b>170</b>	(466)	-
Others	<b>-</b>	39	21
<b>Decrease (increase) in assets</b>			
Accounts receivable	<b>(1,510)</b>	(1,027)	(488)
Petroleum and alcohol account	<b>(9)</b>	(20)	(15)
Interest receivable on government securities	<b>3</b>	(38)	(157)
Inventories	<b>38</b>	(1,527)	244
Advances to suppliers	<b>(167)</b>	3	562
Prepaid expenses	<b>38</b>	(70)	96
Recoverable taxes	<b>(540)</b>	(578)	(365)
Others	<b>82</b>	173	90
<b>Increase (decrease) in liabilities</b>			
Trade accounts payable	<b>275</b>	838	(156)
Payroll and related charges	<b>215</b>	(20)	222

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Taxes payable, other than income taxes	<b>566</b>	(65)	35
Income taxes payable	<b>(56)</b>	120	25
Employees postretirement benefits obligation - pension	<b>647</b>	353	268
Employees postretirement benefits obligation - health care	<b>557</b>	380	267
Accrued interest	<b>8</b>	18	62
Contingencies	<b>(65)</b>	81	(78)
Abandonment	<b>325</b>	(171)	(29)
Other liabilities	<b>(122)</b>	(18)	(190)
<b>Net cash provided by operating activities</b>	<b>15,115</b>	8,155	8,569

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	<b>(10,365)</b>	(7,718)	(6,551)
Investment in non-consolidated companies	<b>(71)</b>	(142)	(73)
Investment in marketable securities	<b>169</b>	678	(1,266)
Acquisition of Liquigás Distribuidora S.A.	<b>-</b>	(511)	-
Dividends received from non-consolidated companies	<b>60</b>	53	13
Restricted deposits for legal proceedings	<b>-</b>	(103)	(188)
Effect on cash from merger with PEPSA	<b>-</b>	-	231
Effect on cash of FIN 46 adoption	<b>-</b>	-	1,049
<b>Net cash used in investing activities</b>	<b>(10,207)</b>	(7,743)	(6,785)
<b>Cash flows from financing activities</b>			
Short-term debt, net issuances and repayments	<b>(1,058)</b>	(680)	321
Proceeds from issuance and draw-down of long-term debt	<b>1,697</b>	1,457	4,629
Principal payments of long-term debt	<b>(1,120)</b>	(1,160)	(1,315)
Proceeds from project financings	<b>1,492</b>	971	1,132
Payments of project financings	<b>(1,392)</b>	(652)	(1,340)
Payment of capital lease obligations	<b>(134)</b>	(331)	(108)
Dividends paid to shareholders	<b>(2,104)</b>	(1,785)	(941)
Dividends paid to minority interests	<b>(6)</b>	(24)	(2)
<b>Net cash provided by (used) in financing activities</b>	<b>(2,625)</b>	(2,204)	2,376
Increase (decrease) in cash and cash equivalents	<b>2,283</b>	(1,792)	4,160
Effect of exchange rate changes on cash and cash equivalents	<b>732</b>	304	883
Cash and cash equivalents at beginning of year	<b>6,856</b>	8,344	3,301
<b>Cash and cash equivalents at end of year</b>	<b>9,871</b>	6,856	8,344

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Supplemental cash flow information:</b>			
<b>Cash paid during the year for</b>			
Interest, net of amount capitalized	<b>1,083</b>	995	622
Income taxes	<b>3,843</b>	2,054	2,384

Withholding income tax on financial investments	29	69	47
<b>Non-cash investing and financing transactions during the year</b>			
Consolidation of merchant type thermoelectrics	-	-	1,142
Exchange of BR shares for PETROBRAS preferred shares	-	-	130
Recognition of asset retirement obligation SFAS 143	356	158	114
Consummation of gas hedge asset with deferred purchase incentive liability	-	169	-

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

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

December 31, 2005, 2004 and 2003

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

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Preferred shares</b>			
Balance at January 1,	4,772	2,973	2,459
Capital increase from issue of preferred shares	-	-	130
Capital increase from undistributed earnings reserve	-	1,799	384
<b>Balance at December 31,</b>	<b>4,772</b>	<b>4,772</b>	<b>2,973</b>
<b>Common shares</b>			
Balance at January 1,	6,929	4,289	3,761
Capital increase from undistributed earnings reserve	-	2,640	528
<b>Balance at December 31,</b>	<b>6,929</b>	<b>6,929</b>	<b>4,289</b>
<b>Capital reserve - fiscal incentive</b>			
Balance at January 1,	134	118	89
Transfer from unappropriated retained earnings	25	16	29
<b>Balance at December 31,</b>	<b>159</b>	<b>134</b>	<b>118</b>
<b>Accumulated other comprehensive income</b>			
<b>Cumulative translation adjustments</b>			
Balance at January 1,	(12,539)	(14,450)	(17,306)
Change in the year	3,107	1,911	2,856
Balance at December 31,	(9,432)	(12,539)	(14,450)
<b>Amounts not recognized as net periodic pension cost</b>			
Balance at January 1,	(1,975)	(1,588)	(1,361)

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Decrease (increase) in additional minimum liability	<b>68</b>	(586)	(344)
Tax effect on above	<b>(23)</b>	199	117
<b>Balance at December 31,</b>	<b>(1,930)</b>	(1,975)	(1,588)

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Unrecognized gains (losses) on securities</b>			
Balance at January 1,	<b>460</b>	157	(11)
Unrealized gains (losses)	<b>(158)</b>	459	254
Tax effect on above	<b>54</b>	(156)	(86)
<b>Balance at December 31,</b>	<b>356</b>	460	157
<b>Appropriated retained earnings</b>			
Legal reserve			
Balance at January 1,	<b>1,520</b>	1,089	643
Transfer from unappropriated retained earnings, net of gain or loss			
on translation	<b>705</b>	431	446
<b>Balance at December 31,</b>	<b>2,225</b>	1,520	1,089
<b>Undistributed earnings reserve</b>			
Balance at January 1,	<b>9,688</b>	9,372	4,778
Capital increase	<b>-</b>	(4,439)	(912)
Transfer from unappropriated retained earnings, net of gain or loss			
on translation	<b>7,751</b>	4,755	5,506
<b>Balance at December 31,</b>	<b>17,439</b>	9,688	9,372

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Statutory reserve</b>			
Balance at January 1,	<b>318</b>	235	164
Transfer from unappropriated retained earnings, net of gain or loss on translation	<b>113</b>	83	71
<b>Balance at December 31,</b>	<b>431</b>	318	235
<b>Total appropriated retained earnings</b>	<b>20,095</b>	11,526	10,696
<b>Unappropriated retained earnings</b>			
Balance at January 1,	<b>13,199</b>	14,141	16,085
Net income for the year	<b>10,344</b>	6,190	6,559
Dividends reclassification (Note 19 b)		-	(816)
Dividends (per share: 2005 - US\$ 0.68 to common and preferred shares; 2004 - US\$ 0.42 to common and preferred shares; 2003 - US\$ 0.37 to common and preferred shares)	<b>(2,982)</b>	(1,847)	(1,635)
Appropriation to fiscal incentive reserve	<b>(24)</b>	(16)	(29)
Appropriation to reserves	<b>(8,569)</b>	(5,269)	(6,023)
<b>Balance at December 31,</b>	<b>11,968</b>	13,199	14,141
<b>Total shareholders' equity</b>	<b>32,917</b>	22,506	16,336
<b>Comprehensive income (loss) is comprised as follows:</b>			
Net income for the year	<b>10,344</b>	6,190	6,559
Cumulative translation adjustments	<b>3,107</b>	1,911	2,856
Amounts not recognized as net periodic pension cost	<b>45</b>	(387)	(227)
Unrealized gain (loss) on available-for-sale securities	<b>(104)</b>	303	168
<b>Total comprehensive income</b>	<b>13,392</b>	8,017	9,356

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

Expressed in Millions of United States Dollars

(except when specifically indicated)

**1. The Company and its operations**

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

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

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

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

## **2. Summary of significant accounting policies**

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

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

### **(a) Basis of financial statements preparation**

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

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

**2. Summary of significant accounting policies (Continued)****(a) Basis of financial statements preparation (Continued)**

The Company has translated all assets and liabilities into U.S. dollars at the current exchange rate (R\$ 2.3407 and R\$ 2.6544 to US\$ 1.00 at December 31, 2005 and 2004, respectively), and all accounts in the statements of income and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the year. The net translation gain/(loss) in the amount of US\$ 3,107 in 2005 (2004 - US\$ 1,911 and 2003 - US\$ 2,856) resulting from this remeasurement process was excluded from income and presented as a cumulative translation adjustment ("CTA") within Accumulated Other Comprehensive Income in the consolidated statements of changes in shareholders' equity.

**(b) Basis of consolidation**

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

**2. Summary of significant accounting policies** (Continued)**(b) Basis of consolidation** (Continued)

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

<b>Subsidiary companies</b>	<b>Activity</b>
Petrobras Química S.A. PETROQUISA	Petrochemical
Petrobras Distribuidora S.A. BR	Distribution
BRASPETRO Oil Services Company - BRASOIL	International operations
BRASPETRO Oil Company BOC	International operations
PIB BV - Petrobras International - BRASPETRO (1)	International operations
Petrobras Comercializadora de Energia Ltda. PCEL (2)	Energy
Petrobras Negócios Eletrônicos S.A.	Corporate
Petrobras Gás S.A. - GASPETRO	Gas transportation
Petrobras International Finance Company - PIFCo	Financing
Petrobras Transporte S.A. - TRANSPETRO	Transportation
Downstream Participações S.A.	Refining and distribution
Petrobras Netherlands BV	Exploration and Production
UTE Nova Piratininga Ltda.	Energy
FAFEN Energia S.A.	Energy
5283 Participações S.A.	Corporate
Baixada Santista Energia Ltda.	Energy