

BRAZILIAN PETROLEUM CORP

Form 20-F

June 30, 2004

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

for the fiscal year ended December 31, 2003

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

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

The Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Avenida República do Chile, 65

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 20-F

20035-900 - Rio de Janeiro - RJ

Brazil

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Shares, without par value* American Depositary Shares (as evidenced by American Depositary Receipts), each representing 1 Common Share	New York Stock Exchange
Preferred Shares, without par value* American Depositary Shares (as evidenced by American Depositary Receipts), each representing 1 Preferred Share	New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock

as of the close of the period covered by this Annual Report:

At December 31, 2003, there were outstanding:

634,168,418 Common Shares, without par value

462,369,507 Preferred Shares, without par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

Table of Contents**TABLE OF CONTENTS**

	Page
<u>FORWARD-LOOKING STATEMENTS</u>	1
<u>CERTAIN TERMS AND CONVENTIONS</u>	1
<u>PRESENTATION OF FINANCIAL INFORMATION</u>	1
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	3
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	3
ITEM 3. <u>KEY INFORMATION</u>	3
<u>Selected Financial Data</u>	3
<u>Exchange Rates</u>	5
<u>Risk Factors</u>	6
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	16
<u>History and Development of the Company</u>	16
<u>Our Competitive Strengths</u>	17
<u>Our Business Strategy</u>	19
<u>Overview by Business Segment</u>	22
<u>Exploration, Development and Production</u>	22
<u>Refining, Transportation and Marketing</u>	32
<u>Distribution</u>	40
<u>Natural Gas and Power</u>	42
<u>International</u>	48
<u>Organizational Structure</u>	51
<u>Property, Plants and Equipment</u>	52
<u>Health, Safety and Environmental Matters</u>	52
<u>Environmental Liabilities</u>	53
<u>Regulation of the Oil and Gas Industry in Brazil</u>	55
<u>Competition</u>	60
<u>Insurance</u>	60
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	61
<u>Overview</u>	61
<u>Sales Volumes and Prices</u>	62
<u>Effect of Taxes on our Income</u>	63
<u>Financial Income and Expense</u>	64
<u>Inflation and Exchange Rate Variation</u>	64
<u>Results of Operations</u>	66
<u>Business Segments</u>	74
<u>Liquidity and Capital Resources</u>	74
<u>Critical Accounting Policies and Estimates</u>	79
<u>Impact of New Accounting Standards</u>	81
<u>Research and Development</u>	82
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	82
<u>Directors and Senior Management</u>	82
<u>Compensation</u>	86
<u>Indemnification of Officers and Directors</u>	86
<u>Share Ownership</u>	86
<u>Fiscal Council</u>	86
<u>Advisory Committees</u>	87
<u>Employees and Labor Relations</u>	87
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	89
<u>Major Shareholders</u>	89
<u>Related Party Transactions</u>	89
ITEM 8. <u>FINANCIAL INFORMATION</u>	90
<u>Consolidated Statements and Other Financial Information</u>	90

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 20-F

	<u>Legal Proceedings</u>	90
	<u>Dividend Distribution</u>	92
ITEM 9.	<u>THE OFFER AND LISTING</u>	92
	<u>Trading Markets</u>	92
	<u>Price Information</u>	92
ITEM 10.	<u>ADDITIONAL INFORMATION</u>	96
	<u>Memorandum and Articles of Incorporation</u>	96
	<u>Restrictions on Non-Brazilian Holders</u>	102
	<u>Transfer of Control</u>	102

Table of Contents

<u>Disclosure of Shareholder Ownership</u>	102
<u>Material Contracts</u>	102
<u>Exchange Controls</u>	103
<u>Taxation</u>	104
<u>Brazilian Tax Considerations</u>	104
<u>Registered Capital</u>	107
<u>U.S. Federal Income Tax Considerations</u>	107
<u>Documents on Display</u>	109
ITEM 11. <u>QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK</u>	110
<u>General</u>	110
<u>Risk Management</u>	110
<u>Commodity Price Risk</u>	110
<u>Interest Rate and Exchange Rate Risk</u>	111
<u>Inflation</u>	113
ITEM 12. <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	113
ITEM 13. <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	113
ITEM 14. <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	113
ITEM 15. <u>CONTROLS AND PROCEDURES</u>	113
ITEM 16A. <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	113
ITEM 16B. <u>CODE OF ETHICS</u>	114
ITEM 16C. <u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	114
ITEM 17. <u>FINANCIAL STATEMENTS</u>	114
ITEM 18. <u>FINANCIAL STATEMENTS</u>	114
ITEM 19. <u>EXHIBITS</u>	115
<u>GLOSSARY OF PETROLEUM INDUSTRY TERMS</u>	116
<u>ABBREVIATIONS</u>	117
<u>CONVERSION TABLE</u>	117

Table of Contents

FORWARD-LOOKING STATEMENTS

Many statements made in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are not based on historical facts and are not assurances of future results. Many of the forward-looking statements contained in this annual report may be identified by the use of forward-looking words, such as believe, expect, anticipate, should, planned, estimate and potential, among others. We have made forward-looking statements to address, among other things, our:

regional marketing and expansion strategy;

drilling and other exploration activities;

import and export activities;

projected and targeted capital expenditures and other costs, commitments and revenues;

liquidity; and

development of additional revenue sources.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These factors include:

general economic and business conditions, including crude oil and other commodity prices, refining margins and prevailing exchange rates;

international and Brazilian political, economic and social developments;

our ability to obtain financing;

competition;

technical difficulties in the operation of our equipment and the provision of our services;

changes in, or failure to comply with, governmental regulations;

receipt of governmental approvals and licenses;

Edgar Filing: BRAZILIAN PETROLEUM CORP - Form 20-F

business abilities and judgment of personnel;

military operations, terrorists acts, wars or embargoes;

the cost and availability of adequate insurance coverage; and

other factors discussed below under Risk Factors.

All forward-looking statements are expressly qualified in their entirety by this cautionary statement, and you should not place reliance on any forward-looking statement contained in this annual report.

The crude oil and natural gas reserve data presented or described in this annual report are only estimates and our actual production, revenues and expenditures with respect to our reserves may materially differ from these estimates.

Unless the context otherwise requires, the terms Petrobras, we, us, and our refer to Petróleo Brasileiro S.A.-Petrobras and its consolidated subsidiaries.

CERTAIN TERMS AND CONVENTIONS

A glossary of petroleum industry terms, a table of abbreviations and a conversion table are presented beginning on page 116.

PRESENTATION OF FINANCIAL INFORMATION

In this annual report, references to Real, Reais or R\$ are to Brazilian Reais and references to U.S. dollars or U.S.\$ are to United States dollars.

Table of Contents

The audited consolidated financial statements of Petrobras and our consolidated subsidiaries as of December 31, 2003 and 2002, and for each of the three years in the period ended December 31, 2003, and the accompanying notes, contained in this annual report have been presented in U.S. dollars and prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). See Item 5 Operating and Financial Review and Prospects and Note 2(a) to our audited consolidated financial statements. We also publish financial statements in Brazil in Reais in accordance with the accounting principles required by Brazilian Corporation Law and the regulations promulgated by the *Comissão de Valores Mobiliários* (Brazilian Securities Commission, or the CVM) Brazilian GAAP, which differs in significant respects from U.S. GAAP.

We are required by Brazilian Corporation Law to change auditors every five years and to select auditors through a bidding process. Since June 2003, Ernst & Young Auditores Independentes S/S has served as our independent auditors and audited our financial statements for the year ending December 31, 2003. PricewaterhouseCoopers Auditores Independentes audited our financial statements for each of the years ending December 31, 2002, 2001, 2000 and 1999.

Our functional currency is the Brazilian Real. As described more fully in Note 2(a) to our audited consolidated financial statements, the U.S. dollar amounts as of the dates and for the periods presented in our audited consolidated financial statements have been remeasured or translated from the Real amounts in accordance with the criteria set forth in Statement of Financial Accounting Standards No. 52 of the U.S. Financial Accounting Standards Board, or SFAS 52. U.S. dollar amounts presented in this annual report have been translated from Reais at the period-end exchange rate for balance sheet items and the average exchange rate prevailing during the period for income statement and cash flow items.

Unless the context otherwise indicates,

historical data contained in this annual report that were not derived from the consolidated financial statements have been translated from Reais on a similar basis;

forward-looking amounts, including estimated future capital expenditures, have been projected on a constant basis and have been translated from Reais in 2004 at an estimated average exchange rate of R\$3.0147 to U.S.\$1.00, and future calculations involving an assumed price of crude oil have been calculated using a Brent crude oil price of U.S.\$28.00 for 2004 and U.S.\$23.00 thereafter, adjusted for our quality and locational differences, unless otherwise stated; and

estimated future capital expenditures are based on the most recently budgeted amounts, which may not have been adjusted to reflect all factors that could affect such amounts.

Certain figures included in this annual report have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

Table of Contents

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The following table sets forth our selected consolidated financial data, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data for each of the five years in the period ended December 31, 2003 have been derived from our audited consolidated financial statements, which were audited by Ernst & Young Auditores Independentes S/S for the year ended December 31, 2003 and by PricewaterhouseCoopers Auditores Independentes for each of the years ending December 31, 2002, 2001, 2000 and 1999. The information below should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements and the accompanying notes and Item 5 Operating and Financial Review and Prospects.

Table of Contents**BALANCE SHEET DATA**

	As of December 31,				
	2003	2002	2001	2000	1999
	(in millions of U.S. dollars)				
Assets					
Current assets:					
Cash and cash equivalents	\$ 9,610	\$ 3,301	\$ 7,360	\$ 5,826	\$ 3,015
Accounts receivable, net	2,905	2,267	2,759	2,211	1,575
Inventories	2,947	2,540	2,399	3,087	2,270
Recoverable taxes	917	672	664	463	335
Advances to suppliers	504	794	483	268	109
Other current assets	1,017	748	661	671	863
Total current assets	17,900	10,322	14,326	12,526	8,167
Property, plant and equipment, net	30,805	18,224	19,179	19,237	18,426
Investments in non-consolidated companies and other investments	1,173	334	499	530	438
Other assets:					
Accounts receivables, net	528	369	476	359	88
Advances to suppliers	416	450	403	496	502
Petroleum and Alcohol Account-Receivable from Federal Government	239	182	81	1,509	1,352
Government securities	283	176	665	3,542	3,573
Unrecognized pension obligation		61	187	333	486
Restricted deposits for legal proceedings and guarantees	543	290	337	230	156
Recoverable taxes	467	156	164		
Investments PEPSA and PELSA		1,073			
Goodwill in PEPSA and PELSA	183				
Prepaid expenses	190	100	78	42	
Marketable securities	340	208	212	30	
Others	545	209	257	302	545
Total other assets	3,734	3,274	2,860	6,843	6,702
Total assets	\$ 53,612	\$ 32,154	\$ 36,864	\$ 39,136	\$ 33,733
Liabilities and Shareholders equity					
Current liabilities:					
Trade accounts payable	\$ 2,261	\$ 1,702	\$ 1,783	\$ 2,011	\$ 1,314
Taxes payable	2,305	1,801	2,145	1,616	1,208
Short-term debt	1,329	671	1,101	3,128	4,629
Current portion of long-term debt	1,145	727	940	952	1,136
Current portion of project financings	842	239	680	565	359
Current portion of capital lease obligations	378	349	298	236	168
Dividends and interest on capital payable	1,139	307	93	6	
Payroll and related charges	581	283	333	289	326
Advances from customers	258	119	26	55	
Employee benefits obligations Pension	160	89	117	454	245
Other current liabilities	823	976	528	328	426
Total current liabilities	11,221	7,263	8,044	9,640	9,811
Long-term liabilities:					

Long-term debt	11,888	6,987	5,908
----------------	--------	-------	-------