Financial Analysis and Consolidated Financial Statements

At December 31, 2000 and 1999

(According to accounting principles generally accepted in the United States of America – US GAAP)

PETROBRAS

Financial Analysis

You should read the financial analysis together with the audited consolidated financial statements of PETROBRAS and its subsidiaries as of December 31, 2000 and 1999 and the accompanying notes thereto prepared in accordance with accounting principles generally accepted in the United States of America.

1 Financial Highlights

	US$ Million (Except earnings per share or unless other wise noted)	
	Years ended December 31	
	2000	1999
Income statement data		
Sales of products and services	35,496	23,467
Net operating revenues	26,955	16,358
Income from operations (1)	11,217	5,342
Financial expenses, net	(371)	(2,532)
Net income	5,342	727
Basic and diluted earnings per share (2):		
Preferred	4.92	0.67
Common	4.92	0.67
Balance sheet data		
Total assets	39,215	33,733
Total debt (3)	13,140	12,851
Net debt (4)	7,314	9,836
Shareholders' equity	14,705	10,722
Other data		
Gross margin (%) (5)	50.1	49.8
Operating margin (%) (6)	41.6	32.7
Net margin(%) (7)	19.8	4.4
Adjusted EBITDA (8)	10,170	5,702
Debt to equity ratio (9)	63%	68%

Notes:

(1) *Income from operations is calculated as net operating revenues (before elimination of intersegment revenues) less: cost of sales, depreciation, depletion and amortization and exploration, including dry holes, for the Exploration and Production (Brazil and Abroad), Refining, Transportation and Marketing, Distribution and Petrochemical and Fertilizer segments.*

(2) *On April 24, 2000, the Board of Directors of PETROBRAS authorized a 1 for 100 reverse stock split which was approved by the Company's shareholders on May 23, 2000. Earnings per share information has been adjusted retroactively to give effect to this reverse stock split.*

(3) *Total debt includes short-term debt, long-term debt, capital lease obligations and project financings.*

(4) *Net debt is calculated as total debt less cash and cash equivalents.*

(5) *Gross margin is calculated as net operating revenues less cost of sales divided by net operating revenues.*

(6) *Operating margin is calculated as income from operations divided by net operating revenues.*

(7) *Net margin is calculated as net income divided by net operating revenues.*

(8) *Adjusted EBITDA is calculated as income before income taxes and minority interest less: financial income, equity in results of affiliated companies, plus monetary and exchange variation on monetary assets and liabilities, net, financial expense and depreciation, depletion and amortization.*

(9) *Debt to equity ratio is calculated as current liabilities plus long term liabilities divided by the sum of total liabilities and total stockholders' equity.*

Net Income

PETROBRAS recorded net income of US$ 5,342 million in 2000. The main factors that contributed to this net income were:

- The increase in realization prices (average of US$ 34.61 per bbl in 2000 compared with an average of US$ 21.58 per bbl in 1999), consistent with the increase in international prices for oil products;
- The increase in the production of crude oil, NGLs and natural gas, generating an increase in the share of Brazilian oil processed by PETROBRAS' refineries (75% during 2000, as compared to 71% in 1999), resulting in a better cost-structure profile;
- Tax benefit (decrease in provision for income tax and social contribution) in the amount of US$ 315 million, due to the deductibility, as permitted by law, of the provision for stockholders' remuneration as interest on capital;
- The 8.51% devaluation of the Real against the US dollar in 2000, generating an expense with net exchange variations, mainly on financing, of US$ 575 million during the year;
- The write-off in respect of US$ 277 million of exploratory dry holes and uneconomical wells; and
- Reduction in the Petroleum and Alcohol Account resulting from the partial completion of the certification process by the Federal Government, through an Interministerial Working Group, which decreased net income for the year ended December 31, 2000 by US$ 106 million.

2 Financial analysis and results of operations

Price Regulation and Other Government Policies

PETROBRAS' financial condition and results of operations have been, and most likely will continue to be, substantially impacted by political and economic conditions in Brazil. PETROBRAS' financial condition and results of operations have reflected, and until price deregulation is fully implemented, will continue to reflect, the effects of governmental policies that the Federal Government has maintained, changed or implemented to address prevailing conditions in the Brazilian economy, including the level of inflation and the level of gross domestic product.

Although Law No. 9,478 adopted on August 6, 1997 (the Oil Law) contemplates the complete deregulation of prices in the oil and gas sector, PETROBRAS is still subject to extensive regulation by the Federal Government. Because the regulation of oil prices is one of the tools available to the Federal Government for the control of inflation, the Federal Government periodically changes the prices at which PETROBRAS can sell its products based upon political and economic conditions in Brazil. As a part of the continuing deregulation of the Brazilian oil and gas sector, effective July 29, 1998, the Federal Government changed its price regulation policies.

Under its current policies, the Federal Government continues to set PETROBRAS' sales prices on the basis of political and economic conditions in Brazil. Accordingly, the prices that PETROBRAS was allowed to charge distributors for oil products and fuel alcohol, which represented 92% of its sales of products and services in 1999, continued to be set by the Federal Government. The percentage of the Company's sales of products and services representing sales of price controlled oil products and fuel alcohol was approximately 90% from January 1, 2000 through August 9, 2000, when the government eliminated price controls for naphtha, reducing that percentage to approximately 80% for the remainder of 2000. PETROBRAS continues to record sales of products and services on the basis of actual quantities sold and actual sales prices.

During the process of deregulation, the Federal Government introduced a program to calculate a realization price (Preço de Realização), or PR, for oil products sold by PETROBRAS, which is the basis on which the Company is currently required to calculate its net operating revenues. The realization price for each of the Company's principal oil products is determined on the basis of a pricing formula established by the Federal Government that, with a lag of approximately one month, reflects changes in the Real/US dollar exchange rate and international market prices for the relevant benchmark products. The PR also reflects prevailing import tariff rates. Net operating revenues is the sum of the products obtained by multiplying the realization price for each oil product by the volume of each such oil product sold. The amount obtained from subtracting net operating revenues from sales of products and services (net of value added and other taxes on sales and services) is recorded as the Parcela de Preços Específica, or PPE, which is presented as an adjustment to sales of products and services. The amount of PPE for any period increases or decreases the balance of the Petroleum and Alcohol Account, and this process has the result of decreasing or increasing the net cash available to the Company.

The Federal Government, through PETROBRAS continues to reimburse certain fuel transportation and other eligible costs, to PETROBRAS and distributors (including BR), which are being gradually phased out. As of December 31, 2000, PETROBRAS continued to receive the right to reimbursement for coastal and pipeline transportation costs of fuel oil and LPG, and distributors (including BR) continued to receive reimbursement for transportation costs of aviation fuel, diesel, LPG and fuel oil to certain municipalities in the northern and midwestern regions of Brazil. The impact of PETROBRAS' role as administrator of these remaining subsidies is solely reflected in the Petroleum and Alcohol Account on the Company's balance sheet and in increases or decreases in that account on the Company's statement of cash flows. The funds PETROBRAS and BR are entitled to receive as reimbursement for transportation costs under these remaining subsidies reduce the amounts the Company records in selling, general and administrative expenses in respect of transportation costs, thus increasing the Petroleum and Alcohol Account.

On January 4, 2001, pursuant to Portaria Interministerial No. 2, the Ministry of Mines and Energy and the Ministry of Finance adopted a new methodology for establishing the prices the Company will be allowed to charge for diesel, gasoline and LPG during 2001. Under the new methodology, the prices for these oil products will be adjusted on April 5, July 5 and October 5, 2001 on the basis of a readjustment factor (índice de reajuste), or IR, calculated on the basis of a formula that reflects changes in the Real/US dollar exchange rate and the prevailing international price of Brent crude during the preceding quarter. However, if the IR is positive, the Federal Government will have discretion to grant a lower increase in the prices of any of these oil products. On the other hand, if the IR is negative, the Federal Government will only have the discretion to grant a lower price reduction for any of these oil products, if the average PPE for such oil product during the preceding quarter was negative.

On January 1, 2000 and January 16, 2001, the Federal Government reduced import tariffs, from 9% to 6% and from 6% to 0%, respectively, thus reducing the PR for imported oil products. No corresponding reduction occurred in the sales prices PETROBRAS was allowed charge for its oil products.

Results of Operations for the Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Revenues

As discussed above, consolidated sales of products and services and net operating revenues are influenced by the price regulation policies of the Federal Government.

Consolidated sales of products and services increased to US$ 35,496 million for the year ended December 31, 2000 as compared to US$ 23,467 million for the year ended December 31, 1999. This increase is primarily attributable to:

- increases granted by the Federal Government in the prices PETROBRAS was allowed to charge for its basic oil products in Brazil since December 31, 1999, including aggregate increases of 34.5% in the price of gasoline, 36.6% in the price of diesel, 83.6% in the price of aviation fuel, 38.9% in the price of fuel oil and 60.6% in the price of naphtha (the effects of which resulted in an increase of approximately US$ 7,454 million in sales of products and services);
- a 6% increase in domestic sales volume, the effect of which increased sales of products and services by approximately US$ 1,302 million. This resulted primarily from increases in the sales volumes of naphtha (2.5%), diesel (2%) and natural gas (26.5%);
- an increase in revenues from sales of oil and oil products outside of Brazil of approximately US$ 2,725 million, resulting primarily from the significant increase in prevailing international oil product prices during 2000; and

- the inclusion in consolidated sales of products and services during the year ended December 31, 2000 of US$ 598 million in respect of sales of oil products processed at the two refineries in Bolivia, which PETROBRAS acquired during the last quarter of 1999.

PETROBRAS' consolidated sales of products and services were reduced by US$ 8,541 million for the year ended December 31, 2000 compared with a reduction by US$ 7,109, (an increase of 20.1% when compared with the prior year), for the following amounts which PETROBRAS collected on behalf of the federal or state governments:

- value added and other taxes on sales and services, which include a value added tax that is collected on behalf of the state governments and social security contributions referred to as COFINS and PASEP. These taxes increased to US$ 8,829 million for the year ended December 31, 2000 as compared to US$ 5,453 million for the year ended December 31, 1999, primarily due to the increase in sales of products and services, combined with an increase in the applicable COFINS and PASEP rates. Until June 30, 2000 the applicable PASEP and COFINS rates were 0.65% and 3%, respectively. As from July 1, 2000, the PASEP and COFINS were assessed on a product by product basis using the following rates:

	Applicable Rate	
Product	**PASEP**	**COFINS**
Gasoline	2.70%	12.45%
Diesel	2.23%	10.29%
LPG	2.56%	11.84%
Fuel alcohol	1.46%	6.74%

These increases affected the Company's sales of products and services because they were included in PETROBRAS' sales prices.

- PPE amounted to a negative US$ 288 million for the year ended December 31, 2000, as compared to a positive amount of US$ 1,656 million for the year ended December 31, 1999. During 2000, net operating revenues exceeded the amount recorded in sales of products and services (net of value added and other taxes on sales and services) because the increase in international oil product prices was not fully reflected in the sales prices PETROBRAS was allowed to charge for its oil products in Brazil. Conversely, PPE was positive during 1999 due to relatively low international oil prices as compared to the sales prices PETROBRAS was allowed to charge for its oil products in Brazil from January through September 1999, resulting in a corresponding decrease in the balance of the Petroleum and Alcohol Account.

Net operating revenues increased to US$ 26,955 million for the year ended December 31, 2000, as compared to net operating revenues of US$ 16,358 million for the year ended December 31, 1999. This increase is primarily attributable to the significant increase in international oil product prices from March 31, 1999 through December 31, 2000, which is reflected in the PR.

Cost of sales

Cost of sales consist of the cost of:

- imported crude oil and oil products;
- operational costs relating to the production, transportation and refining of crude oil, such as consumable materials used in operations, personnel and third party services; and
- fuel alcohol purchases.

Cost of sales for the year ended December 31, 2000 increased to US$ 13,449 million, as compared to US$ 8,210 million for the year ended December 31, 1999. This increase was primarily due to:

- a significant rise in international oil prices, which increased from an average price of US$ 17.87 per barrel of Brent crude during 1999 to an average price of US$ 28.01 per barrel of Brent crude.
- during 2000, resulting in an increase of approximately US$ 4,326 million in cost of sales for the year ended December 31, 2000;

  This increase was partially offset by a reduction of approximately US$ 126 million in cost of sales for the year ended December 31, 2000 as a result of a decrease in the volume of imports, from 718,000 barrels per day during 1999 to 692,000 barrels per day during 2000.

- a US$ 916 million increase in government take (which means royalties, special government participation and rental of areas, amounting to US$ 1,692 million for the year ended December 31, 2000, as compared to US$ 776 million for the year ended December 31, 1999), resulting from an increase in royalties payable due to an increase in prevailing international oil prices, and a special participation in respect of highly productive fields (Marlim and Albacora), which the Federal Government began to charge during the first quarter of 2000;
- a 6% increase in the volume of sales in Brazil, resulting in an increase of approximately US$ 913 million in cost of sales for the year ended December 31, 2000; and
- the inclusion in cost of sales for the year ended December 31, 2000 of US$ 227 million for the two Bolivian refineries, which PETROBRAS acquired during the last quarter of 1999.

Depreciation, depletion and amortization

Depreciation, depletion and amortization expenses decreased to US$ 2,022 million for the year ended December 31, 2000, as compared to US$ 2,262 million for the year ended December 31, 1999. This reduction was due primarily to a reduction in the amortization of abandonment costs to US$ 204 million, for the year ended December 31, 2000 from US$ 554 million in the year ended December 31, 1999. Abandonment costs are primarily denominated in US dollars, and the effects of the devaluation of the Real against the US dollar, in 1999 as compared to 2000, increased the Company's prior year amortization charge.

Depreciation, depletion and amortization expenses relating to exploration and production assets are calculated on the basis of the units of production method. Depreciation, depletion and amortization expenses, excluding amortization of abandonment cost, was US$ 1,818 million for the year ended December 31, 2000 as compared to US$ 1,708 million for the year ended December 31, 1999. This increase was primarily attributable to a 15.3% increase in production primarily related to the Campos Basin.

Exploration, including exploratory dry holes

Exploration costs, including exploratory dry holes, amounted to US$ 440 million for the year ended December 31, 2000, as compared to US$ 295 million for the year ended December 31, 1999. This increase was primarily the result of the write-off (loss) for wells identified as dry or sub-commercial amounting to US$ 277 million for the year ended December 31, 2000 (including the results of an inventory of wells for each operating unit that the Company conduced during the third quarter of 2000), as compared to US$ 148 million for the year ended December 31, 1999).

Impairment of oil and gas properties

For the year ended December 31, 2000, the Company recorded impairment charges of US$ 37 million. The Company did not record an impairment charge in 1999. The impairment charge in 2000 was recorded on certain producing oil and gas properties in Brazil and Colombia. Of this impairment charge US$ 15 million related to producing properties in Brazil and was primarily recorded in the Company's Cidade Sebastião Ferreira field (US$ 5 million) in the Sergipe Alagoas basin. The remaining US$ 22 million was recorded in the international segment, primarily in the Company's Upia field (US$ 16 million) located in Colombia. These charges were recorded based upon the Company's annual assessment of the fields using prices consistent with those used in the Company's overall strategic plan discounted at a rate of 10%.

Research and development expenses

Research and development expenses increased 40.7% to US$ 152 million for the year ended December 31, 2000, as compared to US$ 108 million for the year ended December 31, 1999. This increase was due primarily to increased investments in programs for environmental safety (PEGASO), and deepwater and refining technologies.

Selling, general and administrative expenses

Selling, general and administrative expenses increased 13.1% to US$ 1,450 million for the year ended December 31, 2000, as compared to US$ 1,282 million for the year ended December 31, 1999.

Selling expenses increased 25.8% to US$ 805 million for the year ended December 31, 2000, as compared to US$ 640 million for the year ended December 31, 1999. This increase was primarily attributable to an increase in transportation costs, which amounted to US$ 245 million for the year ended December 31, 1999 as compared to US$ 352 million for the year ended December 31, 2000. In addition, approximately US$ 25 million was due to an increase in the allowance for doubtful accounts recorded by PETROBRAS' subsidiary BR.

General and administrative expenses include head office expenses, administrative costs in local, regional and foreign offices and general overhead. General and administrative expenses remained relatively constant, amounting to US$ 645 million for the year ended December 31, 2000, as compared to US$ 642 million for the year ended December 31, 1999.

Financial income

Financial income consists of interest income on cash balances, short-term investments and government securities. Financial income increased to US$ 1,113 million for the year ended December 31, 2000, as compared to US$ 928 million for the year ended December 31, 1999. The increase is primarily attributable to an increase in the interest income from short-term investments, which amounted to US$ 607 million for the year ended December 31, 2000, as compared to US$ 209 million for the year ended December 31, 1999, due to the increase in operating cash flows.

This increase was partially offset by:

- the decrease in the interest rates applicable to the National Treasury Bonds held by PETROBRAS, which decreased the Company's financial income as compared with the prior year by approximately US$ 93 million; and
- the reduction of approximately US$ 63 million in financial income related to the Petroleum and Alcohol Account, as a result of the decrease in the average balance of the Petroleum and Alcohol Account during the year ended December 31, 2000 as compared to the average balance during 1999, and the decrease of the interest rate applicable to the account from 5.7% during 1999 to 2.1% in 2000.

Financial expense

Financial expense for the year ended December 31, 2000, increased to US$ 909 million, as compared to US$ 715 million for the year ended December 31, 1999. This increase was due primarily to an increase of approximately US$ 203 million in interest expense attributable to an increase in the aggregate amount of the Company's outstanding indebtedness in the year ended December 31, 2000, as compared to 1999 and a decrease in the amount of interest capitalized from US$ 250 million in 1999 to US$ 223 million in 2000. The decrease in the amount of interest capitalized is attributable to a reduction in the amount of capitalized costs subject to interest capitalization.

Monetary and exchange variation on monetary assets and liabilities, net

Monetary and exchange variation on monetary assets and liabilities, net decreased to an expense of US$ 575 million for the year ended December 31, 2000, as compared to an expense of US$ 2,745 million for the year ended December 31, 1999. Approximately 90% of PETROBRAS' indebtedness was denominated in currencies other than the Real during the years of 1999 and 2000. Consequently, the differential is primarily attributable to an exceptionally high exchange variation during 1999 due to the effect of the 32.4% devaluation of the Real against the US dollar during such period, as compared to a devaluation of 8.51% for the year ended December 31, 2000.

Employee benefit expense

Employee benefit expense consists of financial costs relating to pension and other post-retirement benefits for inactive employees. Employee benefit expense amounted to US$ 370 million for the year ended December 31, 2000, as compared to US$ 319 million for the year ended December 31, 1999.

Other taxes

Other taxes increased to US$ 245 million for the year ended December 31, 2000, as compared to US$ 127 million for the year ended December 31, 1999. This increase was due primarily to an increase in the CPMF tax of US$ 64 million due to higher levels of financial activity during 2000, combined with the suspension of the CPMF tax from January 23, 1999 through June 17, 1999, and an increase in PASEP/COFINS expenses calculated on interest income on short-term investments in the amount of US$ 31 million.

Other expenses, net

Other expenses, net for the year ended December 31, 2000 amounted to US$ 642 million, as compared to an expense of US$ 316 million for the year ended December 31, 1999. Other expenses, net is primarily comprised of advertising and general marketing expenses (US$ 124 million for the year ended December 31, 2000 and US$ 77 million for the year ended December 31, 1999), and gains and losses recorded on sales of fixed assets and certain other nonrecurring charges. The increase in other expenses, net for the year ended December 31, 2000 is due primarily to:

- a loss of US$ 192 million recorded in respect of the transfer of PETROBRAS' ELET and SIBR government securities to PETROS, PETROBRAS' employee pension plan;
- a US$ 47 million increase in advertising and general marketing expenses;
- a US$ 105 million expense relating to the reduction in the balance of the Petroleum and Alcohol Account resulting from the partial completion of the certification of the balance of the account by the Federal Government; and
- a US$ 92 million expense, primarily, relating to costs incurred in connection with the oil spills in the Guanabara Bay (State of Rio de Janeiro) and in the Rivers Barigüi/Iguaçu (State of Paraná).

These increases were partially offset by the US$ 133 million PETROBRAS received during 2000 as consideration under five contracts PETROBRAS entered into with leading oil and gas companies for the exploration, development and production of three fields. Under these contracts, PETROBRAS sold a partial interest in each of the fields and recorded the proceeds received as a gain because PETROBRAS had no carrying costs in these fields.

Income tax (expense) benefit

PETROBRAS recorded an income tax expense of US$ 2,523 million for the year ended December 31, 2000, compared to an expense of US$ 249 million for the year ended December 31, 1999. This difference is primarily attributable to a significant increase in income before income taxes during the year ended December 31, 2000, as compared to the year ended December 31, 1999.

3 Business Segments

PETROBRAS currently operates its business in the following four segments for the purpose of collecting and analyzing information and making decisions:

- exploration, development and production of crude oil and natural gas;
- refining, transportation, and wholesale marketing of crude oil, natural gas and oil products;
- distribution of oil products, fuel alcohol and natural gas to end-users; and
- production, wholesale marketing and retail distribution of petrochemicals (through participation in entities managed by others) and fertilizers.

PETROBRAS also records some non-revenue information in a "corporate" segment.

As a vertically integrated enterprise, not all segments have significant third-party revenues. While the exploration, development and production segment accounts for a large part of the Company economic activity and capital expenditures, most of PETROBRAS' production of crude oil is sold to other PETROBRAS segments.

The Company's segment information was prepared based on the same accounting policies reflected in the consolidated financial statements. Intersegment net revenues related to transfers of crude oil are recorded at estimated market prices based upon an internal Company model which considers a netback pricing methodology based upon year end prices for Brent crude oil, giving effect to product quality and transportation considerations. Intersegment sales and transfers related to oil products are recorded at the prices established by the Federal Government.

The following table presents by segment the consolidated operating revenues, income from operations (net operating revenues before elimination of intersegment revenues less: cost of sales; depreciation, depletion and amortization; exploration, including dry holes; and impairment of oil and gas properties), and net income reflecting PETROBRAS' domestic and international activities for the years ended December 31, 2000 and 1999.

	US$ Million	
	Years ended December 31	
	2000	**1999** (*)
Exploration and Production		
Brazil		
Net revenues to third parties	891	369
Intersegment net revenues	11,248	7,026
Total net operating revenues	12,139	7,395
Income from operations	6,371	3,335
Net income	3,928	1,654
International		
Net revenues to third parties	451	312
Intersegment net revenues	0	0
Total net operating revenues	451	312
Income from operations	160	51
Net income	36	(13)
Combined Brazil and International		
Net revenues to third parties	1,342	681
Intersegment net revenues	11,248	7,026
Total net operating revenues	12,590	7,707
Income from operations	6,531	3,386
Net income	3,964	1,641
Refining, Transportation and Marketing		
Net revenues to third parties	18,830	9,995
Intersegment net revenues	5,605	4,544
Total net operating revenues	24,435	14,539
Income from operations	4,027	1,460
Net income	1,904	(625)
Distribution		
Net revenues to third parties	6,650	5,558
Intersegment net revenues	98	116
Total net operating revenues	6,748	5,674
Income from operations	675	465
Net income	139	(47)
Petrochemicals and Fertilizers		
Net revenues to third parties	133	124
Intersegment net revenues	0	0
Total net operating revenues	133	124
Income from operations	(16)	31
Net income	44	102

(*) *As mentioned in the consolidated financial statements, in 2000 the Company revised its segment classifications. The 1999 amounts have been restated to present the segment information on a comparable basis.*

Of consolidated net operating revenues for the year ended December 31, 2000, 70% were derived from PETROBRAS' refining, transportation and marketing segment, approximately 24% from its distribution segment, 5% from its exploration, development and production segment, and less than 1% from its petrochemicals and fertilizers segment. In the year ended December 31, 1999, 61% of consolidated net operating revenues were derived from the Company's refining, transportation and marketing segment, 34% from its distribution segment, 4% from the Company's exploration, development and production segment, and less than 1% from its petrochemicals and fertilizers segment.

Income from operations (net operating revenues before elimination of intersegment revenues less: cost of sales; depreciation, depletion and amortization; and exploration, including exploratory dry holes) amounted to US$ 11,217 million in the year ended December 31, 2000 and US$ 5,342 million for the year ended December 31, 1999. The increase for the year ended December 31, 2000 when compared to the year ended December 31, 1999 was largely due to the increase in net operating revenues discussed above and the higher recorded profitability from PETROBRAS' Brazilian exploration, development and production activities.

Exploration, development and production activities in the year ended December 31, 2000 contributed to income from operations in the amount of US$ 6,531 million (US$ 6,371 million from Brazilian operations and US$ 160 million from international operations). Refining, transportation and marketing operations contributed income from operations of US$ 4,027 million and PETROBRAS' distribution and petrochemical and fertilizers segments contributed income from operations of US$ 675 million and a loss of US$ 16 million, respectively. Exploration, development and production activities in the year ended December 31, 1999 contributed to income from operations in the amount of US$ 3,386 million (US$ 3,335 million from Brazilian operations and US$ 51 million from international operations). Refining, transportation and marketing activities contributed income from operations of US$ 1,460 million and distribution and petrochemicals and fertilizers segments contributed income from operations of US$ 465 million and US$ 31 million, respectively.

The higher recorded profitability in the Brazilian exploration, development and production segment was due to:

- the significant increase in prevailing international prices of crude oil during 2000, which resulted in higher intersegment net revenues for PETROBRAS' exploration, development and production segment because the transfer prices the Company uses to calculate the intersegment net revenues from its exploration, development and production activities in Brazil are based on the monthly average of international prices for Brent crude, adjusted for the oil quality and transportation costs; and
- a decrease in depreciation, depletion and amortization in 2000, as previously discussed.

Segment Assets

		US$ Million
	Years ended December 31	
Segment	**2000**	**1999**(3)
E & P – Brazil (1)	12,602	10,948
E & P – International	1,095	1,265
Refining, Transportation and Marketing	12,568	11,625
Petrochemical and fertilizers	820	800
Distribution	1,678	1,564
Corporate (2)	12,603	9,141
Eliminations	(2,151)	(1,610)
Total	39,215	33,733

(1) *The assets of the E&P are net of accrued abandonment costs of US$ 1,485 million for Brazil and US$ 55 million for the international segment.*

(2) The assets of the Corporate segment include, primarily, government securities held to maturity – NTN–P in the amount of US$ 3,542 million, the Petroleum and Alcohol Account in the amount of US $ 1,509 million and cash and cash equivalents in the amount of US$ 5,826 million.

(3) As mentioned in the consolidated financial statements, in 2000 the Company revised its segment classifications. The 1999 amounts have been restated to present the segment information on a comparable basis.

On October 23, 2000 PETROBRAS' board of directors approved a new organization structure. Under this new structure, the Company will begin to operate in the following segments:

- Exploration and production
- Downstream
- Gas and Energy
- Distribution
- International

PETROBRAS will continue to record some non-revenue information in a "corporate" segment.

4 The Petroleum and Alcohol Account

The Petroleum and Alcohol Account had a balance of US$ 1,509 million at December 31, 2000, an increase of US$ 157 million when compared to the balance at December 31, 1999 .

The cumulative impact on PETROBRAS of the Federal Government's price regulation policies and the fuel alcohol program is reflected in the Petroleum and Alcohol Account. Currently, the Petroleum and Alcohol Account is adjusted by the PPE and certain fuel transportation and other reimbursable costs that have not yet been phased out. If recorded net operating revenues for any period are less than the amount recorded in sales of products and services (net of value added and other taxes on sales and services) for such period, PPE is a positive amount and the balance of the Petroleum and Alcohol Account decreases. Conversely, if net operating revenues for any period exceed the amount recorded in sales of products and services (net of value added and other taxes on sales and services) for such period, the balance of the Petroleum and Alcohol Account increases.

In addition, the net impact of fuel alcohol commercialization activities is also recorded in the Petroleum and Alcohol Account.

Finally, the Company is required to fund the administrative expenses of ANP. These funding payments are made after determination from the Federal Government and are recorded as an increase in the Petroleum and Alcohol Account and do not impact the Company's income statement.

Settlement of the Petroleum and Alcohol Account with the Federal Government

Article 74 of the Oil Law requires settlement of the Petroleum and Alcohol Account by the Federal Government on or before full implementation of price deregulation under the Oil Law is completed, which is expected to occur by December 31, 2001, pursuant to Law No. 9,990 (effective July 21, 2000). On June 30, 1998, the Federal Government issued National Treasury Bonds - Series H in the name of PETROBRAS, which were placed with a federal depositary to support the balance of this account. The Series H bonds are cancelled from time to time by the depositary, after the Company authorizes it, as the balance of the Petroleum and Alcohol Account decreases. The Company has no other rights to use, withdraw or transfer the Series H bonds.

From the issuance of the Series H bonds until September 30, 1999, the balance of the Petroleum and Alcohol Account decreased by US$ 3,999 million as a result of the collection of the PPE, net of transportation subsidies, which was positive due to relatively low international oil product prices as compared to the sales prices established by the Federal Government for the Company's oil products. Accordingly, an approximately corresponding amount of Series H bonds was cancelled.

From October 1, 1999 until December 31, 2000, PETROBRAS' net operating revenues generally exceeded the amount recorded in sales of products and services, net of value added and other taxes on sales and services, due to high international prices for oil products that were not fully reflected in the sales prices PETROBRAS was allowed to charge for its oil products during such period. As a result, PPE was negative during this period and the balance of the Petroleum and Alcohol Account increased. During 2000, the balance of the Petroleum Alcohol Account increased by US$ 157 million, even though, the Federal Government granted an average increase of 45% in the sales prices PETROBRAS was allowed to charge for its oil products, and, as further discussed below, PETROBRAS agreed to reduce the balance of the Petroleum and Alcohol Account by US$ 106 million as a result of the partial completion of the certification of the balance of the account by the Federal Government. The value of the outstanding Series H bonds as of December 31, 2000 and December 31, 1999 was US$ 1,062 million and US$ 1,136 million, respectively, at which times the balance of the Petroleum and Alcohol Account was US$ 1,509 million and US$ 1,352 million, respectively. No Series H bonds were cancelled during 2000.

The Federal Government certified the balance of the Petroleum and Alcohol Account as of March 31, 1992. In September 1999, the Ministers of Finance, Agriculture, Internal Supply and Mines and Energy created a working group to certify the balance of the Petroleum and Alcohol Account for the period from April 1, 1992 to June 30, 1998. The results of this certification process, when finalized, will validate the balance of the Petroleum and Alcohol Account and will be the basis for the settlement of the balance of the Petroleum and Alcohol Account by the Federal Government as required by the Oil Law. On December 31, 2000, the working group concluded its certification process with respect to a portion of the activity for this period, and PETROBRAS agreed to reduce the balance of the Petroleum and Alcohol Account by US$ 106 million. The adjustment related primarily to differences in the calculation of the FUP/FUPA and the procedures used to determine the difference between our actual and regulated cost of imported oil and oil products, both of which are no longer part of the Federal Government's price regulation policies. PETROBRAS does not expect any material impact on its financial position or results of operations as a result of the completion of this process. The Federal Government is still developing a formal process, in cooperation with PETROBRAS, for the required settlement of the balance of the Petroleum and Alcohol Account upon full implementation of the Oil Law. In accordance with applicable law and regulations, and subject to PETROBRAS' approval, the settlement of the Petroleum and Alcohol Account may be in the form of:

- the transfer to PETROBRAS of an amount of Series H bonds equal to the balance of the Petroleum and Alcohol Account on the settlement date;
- the issuance of new instruments (the types and terms of which will be determined by the Federal Government at or before the time of settlement, subject to PETROBRAS' approval) in an amount equal to the balance of the Petroleum and Alcohol Account on the settlement date;
- the offset of the remaining balance of the Petroleum and Alcohol Account on the settlement date against other amounts owed by PETROBRAS to the Federal Government, such as federal taxes payable; or
- a combination of the foregoing.

The following summarizes the changes in the Petroleum and Alcohol Account for the years ended December 31, 2000 and 1999:

		US$ Million
	2000	**1999**
Beginning balance	1,352	3,340
Advances (Collections) of PPE:		
Diesel	451	(937)
Gasoline	(1,811)	(2,089)
Nafta	377	714
GLP	1,071	505
Kerosene	200	135
Fuel Oil		16
Total	288	(1,656)
Reimbursement to third parties	19	338
Reimbursement to PETROBRAS	62	275
Financial income and others	35	95
Results of audit – IWG*	(106)	
Translation loss	(141)	(1,040)
Ending balance	1,509	1,352

* *Interministerial Working Group*

5 Additional Information

National Privatization Program

During the 1990's, the Federal Government developed the National Privatization Program (PND) for the privatization of various government controlled entities. The Company, through its subsidiaries PETROQUISA and GASPETRO, had previously invested in several of the companies included in the PND. As these companies were sold, the Company initially received from the acquirers securities issued by the Federal Government.

The value of the National Treasury Bonds - P Series (NTN-P) and other securities received in connection with the PND, plus accrued interest, amounted to US$ 3,542 million at December 31, 2000 (US$ 3,573 million at December 31, 1999). Earnings from these securities (TR + 6% p.a.), net of taxes, led to recognition of financial income of US$ 292 million in 2000, lower than what was recorded in 1999 (US$ 385 million) due to lower variation of the TR in 2000.

Taxes and contributions on financial income generated by the NTN-P are being deferred, for purposes of payment, until the realization of the securities. At December 31, 2000, the deferred long-term tax liability amounted to US$ 835 million.

Inventories

Consolidated alcohol, raw material and oil products inventories were 42% higher than the prior year balances due to the increase in international oil and oil product prices during 2000.

	US$ Million	
	2000	**1999**
Raw materials and supplies	1,272	908
Oil products	1,190	647
Alcohol	202	321

Capital Expenditures

	US$ Million	
Activities	**2000**	**1999**
Domestic market		
Exploration and production	1,766	1,139
Refining/Transportation	611	1,380
Distribution	68	64
Others	78	29
	2,523	2,612
Project Financings		
Albacora	113	134
Espadarte/ Voador/ Marimbá – EVM	224	225
Barracuda/Caratinga		153
Cabiúnas	83	86
Companhia Petrolífera Marlim	316	378
Others	79	168
	815	1,144
Total domestic market	3,338	3,756
International Market		
Exploration and production	236	493
Refining	9	102
Total capital expenditures	3,583	4,351

Domestic Market

- In Brazil, PETROBRAS continues to invest primarily in the development of its oil production capacity through its own capital resources and funds received from project financings.
- Of the capital expenditures incurred during 2000, 72%, or US$ 1,345 million, were directed to exploration and production activities located primarily in the Campos Basin.
- The decrease in the Refining and Transportation capital expenditures reflect the completion of the Brazil-Bolivia pipeline. The northern section of the pipeline commenced operations in July 1999 and the southern section was inaugurated in March 2000.

Project Finance

- On June 23, 2000, the Company concluded negotiations for the EVM project with a group of international financial institutions to complete the development of the Espadarte, Voador and Marimbá oil and gas fields through the EVM Leasing Corporation, a special purpose company.
- The Company completed its project finance negotiations for Barracuda Caratinga with a group of international financial institutions to complete the development of the Barracuda and Caratinga oil and gas fields through the Barracuda Caratinga Leasing Company B.V. special purpose company.
- The Company finalized negotiations for two separate financing projects related to the Albacora Project. In the first contract, the Company signed an agreement with the Albacora Japan Petroleum Limited Company. In the second contract, PETROBRAS and Fundação PETROBRAS de Seguridade Social - PETROS, signed a contract for the development of the Albacora Phase I project.
- Project finance expenditures funded by special purpose companies totaled US$ 1,026 million for the year ended December 31, 2000.

Exploration and Development Agreements

- Consistent with its objective of increasing production, PETROBRAS has signed 51 joint venture contracts to develop areas where PETROBRAS has made commercial discoveries and to promote further exploration activities.

Taxes and contributions paid

The economic contribution of PETROBRAS through the payment of income taxes, social contribution and other taxes for the year ended December 31, 2000 increased 110% as compared with the year ended December 31, 1999.

			US$ Million
	2000	1999	△ %
ICMS	4,093	2,711	51
PASEP/COFINS	2,284	698	227
Income tax and social contribution	1,473	40	
Importation taxes	187	223	(16)
Other	208	253	(18)
Total	8,245	3,925	110

Government participation paid

As a result of the implementation of the Oil Law, the Company is required to pay the Federal Government the following:

- **Royalties:** Production costs based on monthly oil and natural gas production, assessed on a field by field basis with rates ranging from 5% to 10%. These rates are applied to reference prices for oil and natural gas, which are based upon the international market;
- **Special participation:** Additional production costs assessed on fields with high production volumes and/or profitability with rates ranging from 0% to 40%. The special participation is calculated on the net revenue of the field, which is determined based upon international prices for oil products and the U.S. dollar/Real exchange rate;
- **Rentals for the occupation or retention of land:** Financial compensation established annually by the bidding rules and the concession contract. It is calculated based on the number of kilometers of the block's surface;
- **Signature bonus:** Represents the amounts paid for the acquisition of a concession upon signing of the concession contract. Minimum amounts are established in the bidding rules published by the Brazilian National Petroleum Agency.

			US$ Million
	2000	1999	% △
Royalties	1,058	602	76
Special participation	568		
Signature bonus	92	8	
Retetion of land	36	16	125
Total	1,754	626	180

The increase in the amounts paid for royalties reflect the increase in domestic production and the increase in international oil prices.

The assessment of special participation is attributable to an increase in production for the Marlim and Albacora fields and the increase in the reference price for the oil extracted from these fields. The special participation has been assessed on these fields since the first quarter of 2000.

Indebtedness

Consolidated net debt of PETROBRAS as of December 31, 2000 decreased 26% as compared with December 31, 1999 primarily as a result of an increase in cash and cash equivalents on hand, and the substantial repayment of lines of credit and Commercial Paper issues.

At December 31, 2000, debt, which includes domestic and international debt, capital lease obligations and project financings, increased to US$ 13,140 million, and is presented as follows:

	US$ Million	
	2000	**1999**
Short-term	4,881	6,292
Long-term	8,259	6,559
Total debt	13,140	12,851
(-) Cash and cash equivalents	5,826	3,015
Net debt	7,314	9,836

Of the total capitalization of the Company, 37% (1999 - 32%) was derived from the Company's resources and 63% (1999 - 68%) was obtained from third party capital sources.

Stockholders' Equity and Dividends

(a) Paid in capital at December 31, 2000 in the amount of US$ 4,834 million, is represented by 634,168,418 common shares and 451,935,669 preferred shares with no par value.

(b) On August 10, 2000 the Federal Government, through the BNDES, sold 179,639,300 common shares on the domestic and international stock exchanges.

(c) The Company's American Depositary Shares – ADS program allows the common shares to be traded on the New York Stock Exchange. Each ADS represents 1 common share (symbol "PBR"), and the closing price on December 31, 2000 was US$ 25.25.

(d) On February 22, 2001, the Company registered with the Securities and Exchange Commission (SEC) an ADS Level II program for the Company's preferred shares to replace an ADS Level I program and the preferred share ADSs (symbol "PBRA") started to trade on the New York Stock Exchange. Each ADS represents 1 preferred share.

(e) At December 31, 2000 the consolidated stockholders' equity of PETROBRAS increased to US$ 14,705 million, or US$ 13.54 per share.

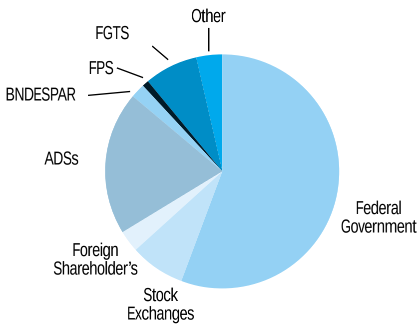
(f) Stockholder remuneration – Based upon the Company's by-laws the Board of Directors of the Company is proposing to the Ordinary General Assembly to be held on March 23, 2001 the distribution of dividends related to 2000 in the amount of US$ 1,316 million, which represents 26.52% of the base income for dividend purposes. This dividend includes US$ 928 million (US$ .85 per share) of interest on capital which was approved by the Board of Directors on December 15, 2000 subject to a withholding tax of 15%, except for stockholders with tax immunity or exemption. The dividend is equivalent to US$ 1.15 per share and represents a dividend yield of 4.6% and 4.9% (2.1% and 1.7% in 1999) for the common stock and preferred stock, respectively.

(g) Retention of income – The Company's 2001 capital budget is estimated to be US$ 4,907 million. As a significant portion of this amount will be funded by the Company, it is necessary to retain US$ 3,612 million, of which US$ 3,586 million will be retained from net income for the period. Therefore, the Board of Directors will propose the retention of US$ 3,612 to the Company's stockholders at the Ordinary General Assembly to be held on March 23, 2001.

(h) The Federal Government is the largest shareholder of PETROBRAS owning 55.7% of its voting stock. The total paid in capital represented by all of the common and preferred shares, on December 31, 2000 was as follows:

	Voting Stock	Non-Voting Stock	TOTAL
Principal Shareholders	**Common shares %**	**Preferred shares %**	**%**
Federal Government	55.7		32.5
BNDES		9.2	3.8
BNDESPAR	2.0	16.5	8.0
Social participation fund (FPS)	0.9	0.4	0.7
Stock exchanges	7.6	25.9	15.2
Foreign shareholders	3.0	20.2	10.2
ADSs	19.8	22.5	20.9
Privatization funds – FGTS	7.4		4.3
Other	3.6	5.3	4.4
Total	100.0	100.0	100.0
Total shares	634,168,418	451,935,669	1,086,104,087

Shareholder Participation in the Voting Capital of PETROBRAS



Shareholder Participation in the Total Capital of PETROBRAS