BRAZILIAN PETROLEUM CORP
Form 6-K
November 16, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

For the month of November, 2004

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65
20035-900 - 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 ___X___ Form 40-F _______

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

Yes _______ No___X____

PETROBRAS RELEASES THIRD QUARTER 2004 RESULTS (Rio de Janeiro November 12, 2004) PETRÓLEO BRASILEIRO S.A. PETROBRAS, today released its consolidated results expressed in millions of *reais*, according to Brazilian Generally Accepted Accounting Principles.

PETROBRAS reported consolidated net income of R$ 5.488 million in the third quarter of 2004 (3Q-2004), which was virtually stable in relation to the same quarter of the previous year (R$ 5.361 million). Consolidated net income rose 43% over 2Q-2004. Consolidated net operating revenues in 3Q-2004 were R$ 29.075 million and the Company s market value was R$ 109.152 million on September 30, 2004, 59% higher than market value in the same period of the prior year.

- Consolidated gross sales in 3Q-2004 were R$ 40.510 million, and net operating revenues were R$ 29.075 million. In 3Q-2003, gross sales and net sales were, respectively, R$ 32.857 million and R$ 23.798 million.

- In 3Q-2004, total production of gas, NGL and natural gas remained stable in comparison to the same period of the prior year, reaching an average in the quarter of 2,060 thousand barrels of oil equivalent per day. Production of oil and NGL in Brazil reached an average of 1,523 thousand barrels/day, with 81% of that coming from the Campos Basin (1,235 thousand barrels/day). Production of oil products in the country in 3Q-2004 remained nearly stable in relation to 3Q-2003, and a nominal utilization rate of 86% was reached in the refineries.

- The higher volumes of oil imports used to offset the reduction in domestic production reflected the greater share of imported oil in the mix of total refined processing in 3Q-2004 compared to 3Q-2003, which, combined with the increase in international prices resulted in higher unit sales costs in the period. The increase in the reference oil price over governmental participation also contributed to the higher cost of sales.

- The economic recovery in Brazil in recent months resulted in increased sales volumes of oil products in the domestic market which, combined with the price adjustment for oil products conceded on June 15, 2004 because of the continued high level of international prices, contributed to the 22% increase in net operating income in the period, partially offsetting the increased cost of sales previously cited, and resulting in a 1% reduction in gross margin.

- The 8% appreciation of the real to the U.S. dollar in 3Q-2004, compared to the same period in 2003 (depreciation of 2%), reflected the country s improved macroeconomic situation, and contributed to the improved net financial result. This offset the lower gross margin, resulting in net income remaining at the same level as in 3Q-2003.

- Net debt of the Petrobras Companies on September 30, 2003 was R$ 39.724 million, an 8% reduction from June 30, 2004. This drop was due to the 8% appreciation of the real to the U.S. dollar on consolidated debt, and was partially offset by the reduction of available cash in the period, resulting from acquisition of the company Sophia do Brasil (formerly Agip do Brasil S.A.). Lower cash generation in the quarter and the US$ 600 million raised on September 15, 2004 also had an effect.

- From January to September 2004, the Petrobras Companies invested R$ 15.074 million, principally in the development of its oil and natural gas production capacity (67% of direct investment in Brazil and 64% of total investments). It also increased investment in the distribution segment through acquisition of Sophia do Brasil (formerly Agip) for R$ 865 million. These amounts do not include investments via off-balance sheet SPCs, which totaled approximately R$ 591 million.

- The value added by the Petrobras Companies from January through September 2004 was R$ 69.569 million (R$ 62.431 million in the same period of 2003) due to net income in the period, which resulted in an economic contribution of R$ 43.869 million (R$ 40.073 million in the same period of 2003) to the country through generation of taxes, duties, social contributions and government participation. In addition, shareholder value of R$ 13.716 million was added (R$ 15.614 million in the same period of 2003), and the recognition of interest, the exchange rate effect, expenses for rent and freight, financial institutions and suppliers in the amount of R$ 7.549 million (R$ 3.334 million in the same period of 2003) had an effect.

- On September 30, 2004, the Company s market value was R$ 109.152 million, a 59% increase over September 30, 2003, and representing 176% of the Parent Company shareholders equity (R$ 61.969 million).

This document is separated into five topics:

PETROBRAS

Comments of the CEO, Mr. José Eduardo de Barros Dutra

Dear Shareholders,

I am pleased to present the results of the Petrobras Companies for the third quarter of 2004. During the period our consolidated net income was R$ 5.488 million, and it was R$ 13.295 million accumulated in the year.

This is one of the most significant results in the history of the Company, and it is due to the combination of actions and efforts both at the operational level as well as the administrative level by our employees and workforce.

During the period we continued to seek to fulfill the goals and objectives established in our strategic plan. In the accumulated results for the year we invested more than R$ 15 billion in our operating activities. Among the investments made, I would like to highlight the increase in our share in the companies CEG Rio and Gasmig, and acquisition of shareholder control of Eletrobolt and Sophia (formerly Agip do Brasil).

In the quarter we concluded our US$ 600 million placement of Global Notes in the capital market. This operation marked the Company s return to the international capital market from which we have been absent since December 2003. The wide bond placement, reaching different categories of investors in various geographical locations, reflected the recognition of Petrobras credit quality in the international capital market, confirmed by the elevation of Petrobras foreign currency debt rating from Ba2 to Ba1, just one level away from investment grade according to debt rating agency, Moody s Investor Services.

In recent months, the international petroleum market has experienced extreme price volatility with consequent pressure on the costs of services and materials consumed by companies in the sector. In this scenario, the Company, in its efforts to preserve its profitability, conducted price adjustments throughout the period, without compromising the loyalty of its clients or its market share.

The Board of Directors approved distribution of remuneration to shareholders in the form of interest on own capital. The approved amount is R$ 3.290 million, corresponding to gross value of R$ 3,00 per ordinary and preferred share. It will be provisioned in the September 30, 2004 financial statements and will be disbursed by February 15, 2005.

Right after the end of the quarter we began implementation of the Integrated Company Management System SAP/R3 which is an important tool to integrate and facilitate the Company s businesses, increasing its competitiveness and placing it on an even playing field with the largest international oil companies.

We also launched Platform P-43 into the ocean. It will operate in the Barracuda field in the Campos Basin, with production capacity of 150,000 barrels per day, and its contribution to achieving Brazil s oil production goals will be unparalleled.

All this effort translates into returns, not just for our shareholders - whose ordinary share valuation from January to September 2004 was 23.31%, compared to 4.54% for the Bovespa Index and 3.57% for the Dow Jones Index but also for our employees, suppliers, clients, and the communities in which Petrobras is present.

Net Income and Consolidated Economic Indicators

PETROBRAS, its subsidiaries and affiliates, reported consolidated net income of R$ 13.295 million from January to September 2004, a 10% reduction in comparison to the same period of 2003.

R$ Million							
	Third Quarter				Jan-Sep		
2Q-2004	2004	2003	Δ %		2004	2003	Δ %
37,602	40,510	32,857	23	**Gross Operating Revenue**	**110,766**	**98,789**	12
27,223	29,075	23,798	22	**Net Operating Revenue**	**79,510**	**71,791**	11
7,136	7,459	6,828	9	**Operating Income** (1)	**21,792**	**21,987**	(1)
(1,215)	(22)	(463)	(95)	**Financial Result**	**(1,967)**	**1,506**	(231)
3,835	5,488	5,361	2	**Net Income for the Period**	**13,295**	**14,774**	(10)
3.50	5.01	4.89	2	**Net Income per share**	**12.13**	**13.48**	(8)
90,094	109,152	69,803	56	**Market Value (Parent Company)**	**109,152**	**69,803**	56
41	41	42	(1)	**Gross Margin (%)**	**42**	**45**	(3)
26	26	29	(3)	**Operating Margin (%)**	**27**	**31**	(4)
14	19	23	(4)	**Net Margin (%)**	**17**	**21**	(4)
8,752	9,018	8,234	10	**EBITDA R$ million** (2)	**26,379**	**25,738**	2
				Financial and Economic Indicators			
35.36	41.54	28.41	46	**Brent (US$/bbl)**	**36.28**	**28.65**	27
3.0429	2.9773	2.9324	2	**US Dollar Average Price - Sale (R$)**	**2.9732**	**3.1334**	(5)
3.1075	2.8586	2.9234	(2)	**US Dollar Last Price - Sale (R$)**	**2.8586**	**2.9234**	(2)

(1) Income before financial revenues and expenses, shareholders equity and taxes.

(2) Operating income before financial result and shareholders equity + depreciation/amortization/well abandonment.

The main factors contributing to lower net income in the period from January through September 2004, in relation to the same period in 2003 were:

- Increased sales expenses (R$ 988 million), due to greater sales volumes in the period and higher ocean freight expenses.
- Increase in general and administrative expenses (R$ 425 million), a function of higher personnel expenses arising from the adjustment conceded in September 2003 in the 2004/2003 Collective Bargaining Agreement, the increased workforce at the Petrobras Companies, and the elevated expenses from the 2003 actuarial revision of the pension and health plans.
- Higher expenses related to oil prospecting and extraction (R$ 313 million), due to the write-off of the signature bonus for Block 34 in Angola, in addition to write offs for wells that were identified as being dry or sub-commercial, both in Brazil and abroad.
- Increased tax expenses (R$ 284 million), reflecting the higher PASEP/COFINS rate instituted by Law 10,865.
- Increased expenses for publicity and institutional advertising (R$ 218 million), and expenses with the Ecuador ship-or-pay contract (R$ 146 million). These increases were partially offset by recognition in 2003 of the adjustment to market value of the turbines initially intended for use in the thermoelectric plants of Canoas, Ibiritermo, Baixada Santista, Três Lagoas and Piratininga (R$ 330 million).
- Appreciation of the real from January to September 2004 (1.06%) was substantially less than the variation reported in the same period of 2003 (17.26%) because of the main currencies negotiated by Petrobras. As a result, net revenues from the exchange rate variation accumulated in 2004 totaled R$ 436 million, while it was R$ 2.468 million in the same period of 2003, reducing the net financial result by R$ 3.473 million (a negative R$ 1.967 million in 2004, and a positive R$ 1.506 million in 2003).
- The effects of the real appreciation were partially offset by the increased participation of subsidiaries abroad (effect of R$ 963 million), which were influenced by the appreciation of the real against the U.S. dollar in the period (1.06% from January to September

2004, and 17.26% from January to September 2003).

- The above factors were essentially neutralized by the R$ 1.198 million increase in gross income, which was caused by:

R$ Million	Net Revenues	Cost of Goods Sold	Gross Income
Increase in volumes sold in the domestic market	3,216	(1,598)	1,618
Effect of exchange rate on revenues and costs of controlled companies abroad	(199)	147	(52)
Increase of oil products prices in the domestic market in June	775	-	775
Increase in volumes sold of BR	430	-	430
Increase of exports:	416	(173)	243
- Reduction in volumes sold	(359)	180	(179)
- Price Increase	775	(353)	422
Increase in import costs, mainly oil	-	(3,099)	(3,099)
Reduction in the government participation in the country, with third parties in consortiums, and with structured projects	-	1,005	1,005

In 3Q-2004, the main factors that contributed to consolidated net income were:

- A R$ 935 million increase in gross income (as per analysis of consolidated gross margin on page 26).

- Increased sales expenses (R$ 468 million) due to more volumes sold in the period, and the increased expenses related to sea freight.

- Increase of expenses related to oil prospecting and extraction (R$ 398 million), a function of the write-off of the signing bonus for Block 34 in Angola and of wells that were identified as dry or sub-commercial.

- Appreciation of the real in the 3Q-2004 in relation to the U.S. dollar (8%), compared to the variation reported in 2Q-2004 (7% depreciation), caused by a gain in 3Q-2004 of R$ 1.000 million against an expense in 2Q-2004 of R$ 519 million.

- Reduction in tax expenses (R$ 307 million) due to the entry into effect of Decree 5,164/2004 in August 2004, which reduced to zero the PIS/PASEP and COFINS rates.

- Reduction of R$ 1.112 million in income tax and social contribution expenses, due essentially to the tax savings of R$ 1.119 million gained by provisioning for interest on own capital.

PETROBRAS COMPANIES **Operating Performance**

	Third Quarter				Jan - Sep		
2Q-2004	2004	2003	Δ %		2004	2003	Δ %
Exploration & Production - Thousand bpd							
1,630	**1,692**	**1,727**	**(2)**	**Oil and NGL Production**	**1,656**	**1,708**	**(3)**
1,461	1,523	1,562	(2)	Domestic	1,487	1,549	(4)
169	169	165	2	InternationaI	169	159	6
356	**368**	**341**	**8**	**Natural Gas Production** (1)	**360**	**332**	**8**
262	270	254	6	Domestic	265	248	7
94	98	87	13	International	95	84	13
1,986	**2,060**	**2,068**	**(0)**	**Total Production**	**2,016**	**2,040**	**(1)**

(1) Does not include liquid gas and includes reinjected gas

Average Sales Price - US$ por bbl / mcf

				Oil (US$/bbl)			
32.88	**36.13**	26.16	38	**Brazil** (2)	**32.94**	27.09	22
24.37	**28.03**	19.28	45	**International**	**26.01**	21.56	21
				Natural Gas (US$/mcf)			
1.90	**1.77**	1.87	(5)	**Brazil** (3)	**1.86**	1.75	6
1.15	**1.10**	1.12	(2)	**International**	**1.14**	1.14	(0)

(2) Average of the exports and the internal transfer prices from E&P to Supply.

(3) Internal transfer prices from E&P to Gas & Energy.

Refining, Transport and Supply - Thousands bpd

493	439	360	22	**Crude Oil Imports**	450	322	40
62	166	125	33	**Oil Products Imports**	101	121	(17)
128	137	91	51	**Import of Gas, Alcohol and Others**	123	86	43
189	208	242	(14)	**Crude Oil Exports**	196	223	(12)
266	258	201	28	**Oil Product Exports**	240	215	12
6	5	13	(62)	**Fertilizer and Other Exports**	5	9	(44)
222	**271**	**120**	126	**Net Imports**	233	82	184
1,766	1,763	1,770	(0)	**Output of Oil By-products**	1,785	1,743	2
1,670	1,659	1,674	(1)	**Brazil**	1,685	1,651	2
96	**104**	96	8	**International**	**100**	92	9

2,125	**2,125**	**2,085**	2	**Primary Processed Installed Capacity**	2,125	2,085	2
1,996	1,996	1,956	2	**Brazil**	1,996	1,956	2
129	**129**	129	-	**International**	**129**	**129**	**-**
				Utilizate rate (%) Installed Capacity			
84	86	84	**2**	**Brazil**	86	83	3
74	**79**	75	4	**International**	**76**	**73**	3
73	77	80	(3)	**Domestic Crude as % of Total Feedstock Processed**	76	81	(5)

Costs - US$/barrel

				Lifting Costs:			
				Brazil			
4.09	**4.03**	3.50	15	**without government participation**	4.11	3.16	30
10.02	**10.65**	8.58	24	**with government participation**	10.11	8.30	22
2.50	**2.53**	2.43	4	**International**	2.49	2.36	6
				Refining Cost			
1.21	**1.27**	1.07	19	**Brazil**	1.26	1.01	25
1.23	**1.22**	1.17	4	**International**	1.20	1.13	6
215	**237**	188	26	**Overhead in US$ million** [4]	656	474	38

(4) **In order to make the "Corporate Overhead" indicator more meaningful in its management model, the Company reviewed its components, and recalculated for previous periods.**

(2) Oil and NGL Production

	Third Quarter				**Jan - Sep**		
2Q-2004	**2004**	**2003**	**Δ %**		**2004**	**2003**	**Δ %**
Sales Volume - Thousands bpd							
1,566	1,676	1,542	9	Total Oil Products	1,577	1,500	5
26	38	39	(3)	Alcohol, Nitrogen and Others	31	32	(3)
203	218	194	12	Natural Gas	205	172	19
1,795	1,932	1,775	9	**Subtotal Domestic Market**	1,813	1,704	6
450	497	441	13	Distribution	459	427	7
(396)	(469)	(385)	22	Intercompany Sales	(417)	(382)	9
1,849	1,960	1,831	7	**Total Domestic Market**	1,855	1,749	6
461	471	469	0	**Exports**	441	455	(3)

460	417	340	23	**International Sales**	424	368	15
921	888	809	10	**Total International Market**	865	823	5
2,770	2,848	2,640	8	**Total**	2,720	2,572	6

Exploration and Production   Thou. Barrels/Day

In 3Q-2004, domestic oil and NGL production rose 4% over 2Q-2004 production, due to the entry into operation of four wells in the Marlim Sul field, and one well in the Bicudo field.

The production of domestic oil and NGL from January to September 2004 fell 4% in relation to the same period in 2003, due to the interruption in production at DP-Seillean in the Jubarte field for scheduled inspections, the closure of wells at the Marlim Sul and Voador fields, the partial production stoppage at P-40 (Marlim Sul) because of elevated water production and limited oil processing at the plant, the closure of some wells at Albacora for turbo-compressor maintenance, and the scheduled stoppage at the Linguado, Pampo and Enchova platforms.

International production of oil and gas in 3Q-2004, compared to 2Q-2004, grew 2% and 13% respectively, due to the entry into operation at the start of July of well C-3 at the Coulomb North field in the United States, increased natural gas production in Bolivia, a reflection of demand in the Brazilian market, and the initiation of the Bolivian gas sales contract to Argentina as of June 2004.

International production of oil and natural gas from January to September 2004 rose 6% and 13%, respectively, over the same period of the previous year, due to normalization of PESA s production in Venezuela, which was compromised by the strike in that country in January and February 2003, and the increased production of Bolivian gas, which reflected demand in the Brazilian market.

Refining, Transport and Supply   Thou. Barrels/Day

The load processed (primary processing) by refineries in Brazil rose 6% from January to September 2004 in comparison to the same period in 2003, because of modernization and expansion of the refining units at RLAM, REVAP, REGAP and REPLAN in 2003. This reflected better performance in 2004, and made it possible to replace the inventory of oil products used during the scheduled stoppages in the period, plus stocking adequate levels of oil products for future scheduled stoppages.

Costs

Lifting Cost (US$/Barrel)

The 1% decrease in the unit lifting cost in Brazil without governmental participation in 3Q-2004 as compared to 2Q-2004 is basically due to the increased production of oil and gas in the quarter. The reduction was partially offset by higher expenses for specialized technical services performed at the Marlim field, well restoration activities, undersea operations and inspections at ocean terminals.

The unit lifting cost in Brazil without governmental participation from January to September 2004 rose 30% in relation to the same period of the prior year. This was largely due to higher expenses for technical services for well restoration and maintenance, exploratory drilling rigs and special ships in the Campos Basin, whose prices are limited by the international oil price, mainly in UN-BC. The increase was also caused by maturation of the Campos Basin, materials for higher consumption of chemical products and maintenance services at ocean terminals, pipelines and facilities associated with the Company s environmental program, and with ocean and aerial transport in operational support for production. Other contributors were the higher personnel expenses linked to payment of the difference of overtime shift hours as set forth in the collective bargaining agreement, to the increased workforce and the revised actuarial calculation of health and future retirement benefits.

From January to September 2004, the unit lifting cost in Brazil with governmental participation grew 22% in comparison to the same period of 2003. This was a result of the mentioned increase in operating expenses, and the higher expenses with governmental participation due to the higher average reference price for domestic oil (21%). These increases were partially offset by the 5% appreciation of the *real* against the U.S. dollar in the period. In comparison to 2Q-2004, the lifting cost in Brazil in 3Q-2004, considering government participation, rose 6%, spurred by the higher reference price for domestic oil.

In 3Q-2004, the international unit lifting cost rose 1% over 2Q-2004, due to higher expenses for materials and well maintenance services in Argentina, expenses related to intervention in wells in Angola, and expenses with production fields in the United States. These expenses were partially offset by the 2% depreciation of the Argentine peso against the U.S. dollar, considering the average rates in those periods.

From January to September 2004, the international unit lifting cost increased 6% over the same period of the prior year, due to higher expenses related to personnel, materials and services contracted at Block 18 at PEPSA-Ecuador, and intervention in wells in Argentina. In addition, the 1% appreciation of the Argentine peso against the U.S. dollar had an effect, considering the average rates in those periods.

Refining Cost (US$/Barrel)

In comparison with 2Q-2004, the unit refining cost in Brazil in 3Q-2004 rose 5% due to higher expenses for corrective maintenance, mainly at REPLAN and RLAM, and the higher expenses for operational stoppages at REPAR.

The unit refining cost in Brazil from January to September 2004 rose 25% over the same period of the prior year, generated by growth in personnel expenses linked to the increased workforce, payment of the difference of overtime shift hours as set forth in the collective bargaining agreement, revision of the actuarial calculation of health and future retirement benefits, increased scheduled costs for future stoppages at the RPBC, REDUC, REPLAN and REPAR industrial facilities, with corrective maintenance at REPLAN and RLAM, and the unscheduled stoppages at REPAR and REVAP.

The average international refining cost in 3Q-2004 fell 1% in relation to 2Q-2004, due to the 2% depreciation of the Argentine peso against the U.S. dollar, considering the average rates during the period. This cost was offset mainly by the higher expenses for materials and third-party maintenance services at refineries in Argentina.

The average international unit refining cost from January to September 2004 rose 6% in relation to the same period of the prior year because of higher expenses for personnel, materials, maintenance and contracted services - mainly environmental and quality control consulting in Argentina - as well as the 1% appreciation of the Argentine peso to the U.S. dollar, considering the average rates in those periods.

Overhead (US$ million)

The 10% increase in Overhead during 3Q-2004 compared to 2Q-2004 is due, among other factors, to expenses for publicity and institutional advertising.

The 38% increase in Overhead expenses from January to September 2004, in comparison to the same period of 2003, was caused by higher expenses for contracted services related to publicity, institutional advertising and others, and expenses arising from the revision of the actuarial calculation for expenses provisioned in the Health Plan (AMS) for retirees and pensioners.

Sales Volume Thous. Barrels/Day

The sales volume of oil products rose 9% in the domestic market in 3Q-2004 in relation to 2Q-2004, a function of increased sales of diesel, oil gasoline and fuel oil.

The sales volume of oil products rose 6% in the domestic market from January to September 2004 in relation to the same period of the prior year. The highlight was the increase in sales of diesel oil, gasoline, QAV and GLP, which increases were partially offset by the reduced volume of fuel oil sales. The retraction in fuel oil consumption from January to September 2004 in relation to the same period in 2003 was caused by the expansion of substitute products such as imported coke, coal (domestic and imported), wood, biomass, and in greater proportion, natural gas.

Result by Segment Area R$ million [1]

	Third Quarter				Jan - Sep		
2Q-2004	**2004**	**2003**			**2004**	**2003**	**Δ %**
4,239	**5,728**	**3,230**	77	**EXPLORATION & PRODUCTION**	**13,577**	**12,099**	12
406	**273**	**1,526**	(82)	**SUPPLY**	**1,715**	**4,252**	(60)
(23)	**270**	**(91)**	397	**GAS & ENERGY**	**208**	**(549)**	138
141	**109**	**98**	11	**DISTRIBUTION**	**356**	**281**	27
105	**(34)**	**69**	149	**INTERNATIONAL [2]**	**228**	**796**	(71)

(940)	**(403)**	**404**	(200)	**CORPORATE**	**(2,364)**	**(1,500)**	(58)
(93)	**(455)**	**125**	(464)	**ELIMINATIONS AND ADJUSTMENTS**	**(425)**	**(605)**	30
3,835	**5,488**	**5,361**	**2**	**CONSOLIDATED NET INCOME**	**13,295**	**14,774**	**(10)**

(1) Financial statements by business area and their respective comments are presented starting on page 21.

(2) In the International business area, comparability between the periods was influenced by the exchange rate variation, considering that all operations are realized abroad in U.S. dollars or the currency of the country in which each company is located, and significant variations in reais can occur due to exchange rate impacts.

(3) The Equity Income Result for the period from January to September 2003 was reclassified between the International segment and the group of corporate entities, from an exchange rate gain or loss in conversion of Company investments abroad, to treatment exclusively as a corporate result.

(4) Net Operating Revenues and the COGS relative to the periods prior to 3Q-2004 were reclassified between the International segment and the Supply segment in relation to offshore operations that were being allocated to the International segment. Because the margins obtained in these operations are normally very low, there was no significant impact on the results reported for these segments.

Result by Business Area

Petrobras is a company that operates in an integrated manner, with the greater part of oil and gas production in the Exploration and Production areas transferred to other areas of the Company.

The main criteria used in determining results by business area are highlighted below:

a) Net operating revenues included revenues related to sales made to foreign clients, added to the sales/transfers among the business areas, and using the internal transfer prices defined among the areas as the reference.

b) Operating income includes the calculation of net operating revenues, the cost of products and services sold, which are reported by business area considering the internal transfer price, and the other operating costs of each area, as well as operating expenses, which include the expenses effectively incurred by each area.

c) Assets include the assets identified by each area.

E&P From January to September 2004, net income reported by the Exploration and Production business area was R$ 13.577 million, 12% greater than net income reported in the same period of the previous year (R$ 12.099 million). This result was due to the R$ 2.403 million increase in gross income reported on the sale/transfer of oil, which reflected the increase in international oil prices in spite of the 4% reduction in oil and NGL production, the 5% appreciation in the average rate of the *real* against the U.S. dollar, and the lower appreciation of heavy crude in the international market compared to lighter crude. The spread between the average price of domestic oil sold/transferred and the average Brent price rose from US$ 1.56/bbl from January to September 2003, to US$ 3.34 from January to September 2004.

In 3Q-2004, net income reported by the Exploration and Production business area was R$ 5.728 million, 35% higher than net income reported in the previous quarter (R$ 4.239 million), due to the R$ 1.977 million increase in gross income. This reflected the increase in international oil prices on sale/transfer prices for domestic oil and the 4% increase in oil and NGL production, despite the 2% appreciation in the average rate of the *real* against the U.S. dollar, and the lower appreciation of heavy crude in the international market in comparison with lighter crude. The spread between the average price of domestic oil sold/transferred and the average price of Brent increased from US$ 2.48/bbl in 2Q-2004 to US$ 5.41 in 3Q-2004.

SUPPLY From January to September 2004, net income reported by the Supply area was R$ 1.715 million, 60% lower than net income reported in the same period of the prior year (R$ 4.252 million), an effect of the R$ 3.204 million reduction in gross income. The following factors were influential:

Increase in the acquisition/transfer cost of oil and oil products, pressured by higher international prices, in spite of the 5% appreciation in the average rate of the *real* against the U.S. dollar;

Lower proportion of domestic oil in the processed load (76% from January to September 2004, and 81% from January to September 2003);

Increased sea freight costs;

Higher unit refining cost;

Increased depreciation costs due to investments in refining facilities;

Reduction in prices of fuel oil exports, which reflected the reduction of international prices for the product and the 5% appreciation in the average rate of the *real* against the U.S. dollar.

Another factor that contributed to the lower net income was the R$ 693 million increase in operating expenses, which occurred mainly because of the R$ 279 million increase in sales expenses arising from the greater number of volumes sold, more sea freight, the write off of R$ 94 million in tax credits, and the R$ 246 million increase in losses from hedge operations in the import and export of oil and oil products. This last factor was offset by operational gains (revenues/cost of sales).

These impacts were partially offset by the following:

Increase in volumes of oil products sold in the domestic and foreign markets of 5% and 8%, respectively;

Increase in the average realization value of oil products commercialized in the domestic market;

The increased spread between heavy and light crude;

Fewer oil product imports.

In 3Q-2004, net income reported by the Supply area was R$ 273 million, 33% lower than net income reported in the prior quarter (R$ 406 million), due to the R$ 1.001 million decrease in gross income, which was impacted by the following:

Higher oil and oil product acquisition/transfer costs, which reflected elevated international prices, despite the 2% appreciation in the average rate of the *real* against the U.S. dollar;

Growth in imports of oil products to meet internal market demand;

The reductions in gross income were partially offset by the following:

Higher average realization value of oil products in the domestic market, highlighting the increased sales prices for gasoline and diesel conceded on June 15, 2004;

Increase of 7% in the volume of oil-products sold in the domestic market;

Greater proportion of domestic oil in the load processed (77% in 3Q-2004 and 73% in 2Q-2004);

Increased spread between heavy and light crude;

Net financial revenues of R$ 156 million, mainly due to the 8% appreciation of the final rate of the *real* against the U.S. dollar. In the previous quarter, a net financial expense of R$ 118 million was reported, which was a result of the 7% devaluation of the *real* against the U.S. dollar;

Reduction of R$ 359 million in other operating expenses and revenues, which, in the period, were impacted mainly by the R$ 94 million write-off of tax credits and by R$ 114 million in expenses related to scheduled and non-scheduled stoppages at facilities and production equipment.

GAS AND ENERGY From January to September 2004, the Gas and Energy business area reported net income of R$ 208 million, compared to the R$ 549 million loss reported in the same period of the prior year.

The natural gas businesses generated net income of R$ 245 million from January to September 2004, 35% lower than the net income of R$ 376 million reported in the same period of the previous year, considering the following:

Net financial expense of R$ 47 million from January to September 2004, considering the financial charges on debt arising from construction of the Bolivia-to-Brazil gas pipeline. In the same period of the previous year, net financial revenues of R$ 222 million were reported, which was affected mainly by the 17% appreciation of the final rate of the *real* against the U.S. dollar;

Reduction in the average realization value of na