

BOISE CASCADE CORP
Form DEF 14A
March 06, 2001

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant //

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Check the appropriate box:

- // Preliminary Proxy Statement
- // Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- /x/ Definitive Proxy Statement
- // Definitive Additional Materials
- // Soliciting Material Pursuant to §240.14a-12

Boise Cascade Corporation

(Name of Registrant as Specified In Its Charter)

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**Annual Meeting
of Shareholders**

**Boise, Idaho
April 19, 2001**



**Notice and Proxy
Statement**

NOTICE OF ANNUAL MEETING

Thursday, April 19, 2001
12 noon, Mountain Daylight Time

Powerhouse Event Center
621 South 17th Street
Boise, Idaho

March 6, 2001

Dear Shareholder:

You are cordially invited to attend the 2001 Boise Cascade Corporation annual meeting of shareholders to:

elect five directors to serve three-year terms;

approve appointment of Arthur Andersen LLP as independent auditors for 2001;

approve an amendment to the 1984 Key Executive Stock Option Plan to increase the number of shares of common stock available for issuance;

approve the Key Executive Performance Unit Plan;

consider and act upon two shareholder proposals; and

conduct other business properly brought before the meeting.

Shareholders who owned stock at the close of business on February 26, 2001, can vote at the meeting.

Your vote is important. Whether you plan to attend or not, please sign, date, and return the enclosed proxy card in the envelope provided. If you attend the meeting and prefer to vote at that time, you may do so.

Thank you for your ongoing support of and continued interest in Boise Cascade.

Sincerely yours,

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Boise Cascade Corporation

Boise Cascade is a major distributor of office products and building materials and an integrated manufacturer and distributor of paper and wood products. We also own or control 2.3 million acres of timberland in the United States. We use third-party audits and an advisory council of independent experts in our Forest Stewardship Program to ensure the protection of wildlife, plants, soil, and air and water quality. The address of our corporate headquarters is 1111 West Jefferson Street, P.O. Box 50, Boise, Idaho 83728-0001, and our telephone number is (208) 384-6161. You can visit us on the Internet at www.bc.com.

Annual Meeting Information

Proxy Statement

This proxy statement summarizes information we must provide to you under the rules of the Securities and Exchange Commission (SEC). It is designed to assist you in voting your shares. We began mailing these proxy materials on or about March 6, 2001.

Voting

Shareholders can vote by:

returning a completed proxy card by mail;

delivering a completed proxy card to the inspector of election prior to the annual meeting; or

completing a ballot and returning it to the inspector of election during the annual meeting.

If you submit a properly executed proxy card, the individuals named on the card, as your proxies, will vote your shares in the manner you indicate. If you sign and return the card without indicating your instructions, your shares will be voted *for* the:

election of the five nominees to serve three-year terms on our board of directors;

appointment of Arthur Andersen LLP as our independent auditors for 2001;

amendment of the 1984 Key Executive Stock Option Plan; and

approval of the Key Executive Performance Unit Plan

and *against* the shareholder proposals to:

declassify our board of directors; and

separate the position of chairman of the board and chief executive officer.

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You may revoke or change your proxy at any time prior to the vote at the annual meeting. To do so:

deliver a new proxy to the independent tabulator, Corporate Election Services, Inc.;

give us written notice of your change or revocation; or

attend the annual meeting and vote in person.

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Each share of Boise Cascade stock is entitled to one vote. As of February 26, 2001 (the record date for determining shareholders entitled to vote at the meeting), we had the following outstanding voting stock:

Type/Series of Stock	Number of Shares Outstanding
Common stock	57,340,481
Convertible preferred stock, Series D (ESOP)	4,649,507

Boise Cascade Employees Who Are Shareholders

Employees participating in the Employee Stock Ownership Plan (ESOP) fund of our Savings and Supplemental Retirement Plan (SSRP) or in the company's common stock fund in one of our savings plans will receive one proxy for all their shares in these plans. ESOP participants may instruct the plan's trustee how to vote the shares allocated to their accounts, as well as a proportionate amount of unallocated and unvoted shares. Participants in the company's common stock fund may instruct the plans' trustee how to vote the shares allocated to their accounts. If you do not provide instructions, the plans provide that the trustee will vote your shares in the same proportion as shares for which other participants have provided voting instructions.

Confidential Voting Policy

We have a confidential voting policy. Shareholders' votes on our proxy card will not be disclosed to us other than in limited situations. The tabulator will collect, tabulate, and retain all proxy cards and will forward any comments written on the proxy cards to management.

Votes Necessary for Action to be Taken

A quorum is necessary to hold a valid meeting. A quorum will exist if a majority of the shareholders entitled to cast votes at the meeting are present in person or by proxy.

The five nominees who receive the greatest number of votes at the annual meeting will be elected as directors. The appointment of Arthur Andersen LLP as our independent public accountants for 2001, approval of the 1984 Key Executive Stock Option Plan amendment, and approval of the Key Executive Performance Unit Plan require an affirmative vote of the majority of the votes cast on these matters.

The shareholder proposal regarding declassifying our board of directors will be approved if the votes for the proposal exceed the votes against the proposal. Declassifying the board and reinstating an annual election of directors will not automatically occur if this proposal is approved. Eliminating board classification would require a formal amendment to our Certificate of Incorporation. Amendment of the Certificate of Incorporation requires approval by at least 80% of the outstanding shares entitled to vote.

Approval of the shareholder proposal regarding separation of the position of chairman of the board and chief executive officer requires an affirmative vote of the majority of the votes cast on this matter. Separating the position of chairman of the board and chief executive officer will not automatically occur if this proposal is approved. Separation of this position would require a formal amendment to our Bylaws.

Abstentions do not count as votes cast either for or against the directors, the independent public accountants, or any of the proposals. Broker nonvotes do not count as votes cast either for or against any of the proposals.

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Proxy Solicitation

We will pay the expenses of soliciting proxies. We retained D. F. King and Company Inc. to assist us in the distribution and solicitation of proxies. We will pay D. F. King a fee of \$14,500, plus expenses, for these services. Proxies may also be solicited on our behalf by directors, officers, and other employees in person or by telephone or electronic transmission. We will not, however, specially compensate these persons for doing so.

Items You May Vote On

1. Election of Directors

We have five nominees for election this year. Detailed information on each nominee is provided beginning on page 10. If a nominee is unavailable for election, either we will vote the proxies for another nominee recommended by the Governance Committee and nominated by the board of directors or the board may reduce the number of directors to be elected at the meeting.

***Your board unanimously recommends a vote "FOR"
each of these nominees.***

2. Appointment of Independent Public Accountants

Your board of directors, upon the recommendation of its Audit Committee, has appointed Arthur Andersen LLP to serve as our independent auditors for 2001, subject to shareholder approval. Arthur Andersen has served us in this capacity since 1956. Representatives of Arthur Andersen will be present at the annual meeting to answer questions. They will also have the opportunity to make a statement if they desire to do so.

Audit services provided by Arthur Andersen during 2000 included an audit of the consolidated financial statements included in our Annual Report, audits of employee benefit plan financial statements, and a review of other filings with the SEC and other governmental agencies. For additional information regarding the services Arthur Andersen provided for us during the year, see the "Audit Committee Report" on page 19.

***Your board unanimously recommends a vote "FOR" the approval
of Arthur Andersen LLP as our independent auditors for 2001.***

3. Amendment of 1984 Key Executive Stock Option Plan

We ask you to consider and approve an amendment, adopted by the board of directors in February 2001, to our Key Executive Stock Option Plan ("KESOP"). This amendment, subject to your approval, increases the number of shares available under the plan by 3,400,000 shares.

History and Operation of the KESOP

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We use the KESOP to tie a portion of our key employees' total compensation directly to improvement in shareholder value. The KESOP also supports our ability to attract and retain highly qualified managers in key positions.

Under the KESOP, the Executive Compensation Committee of the board of directors may grant options to key employees, including executive officers, to purchase shares of the company's common stock. Nonemployees are not eligible for grants under this plan. In 2000, 25 executive officers and 302 other key employees received option grants under the plan. There are 5,843,306

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shares of our common stock that remain subject to options from prior grants. We have 476,892 shares currently available for future stock option grants under the plan.

Options under the KESOP must be granted at the fair market value of the company's common stock on the date of grant. The plan does not permit "repricing" of previously granted options. No incentive stock options or tax offset bonuses have been granted under the plan. All previously granted stock appreciation rights were canceled effective May 1, 1991, and no stock appreciation rights have been granted since then.

Employees exercising an option may pay the exercise price in the form of:

cash;

Boise Cascade stock that has a fair market value equal to the exercise price;

proceeds of a loan authorized by the Executive Compensation Committee; or

any combination of the above methods (including a "cashless" broker-assisted process).

The board of directors may amend the KESOP at any time and may make adjustments to the KESOP and outstanding options, without shareholder approval, to reflect a stock split, stock dividend, recapitalization, merger, consolidation, or other corporate events. Shareholders, however, must approve amendments which:

change the number of shares subject to this plan;

change employee eligibility requirements;

change the method of pricing options on the grant date;

allow any member of the Executive Compensation Committee to receive an option;

change the manner of computing the amount to be paid through a stock appreciation right;

materially increase the cost of the KESOP to the company or the benefits to participants; or

extend the period for granting options or stock appreciation rights.

Options may not be granted under the KESOP after July 24, 2004. The plan, however, will remain in effect until all stock subject to the plan has been purchased through the exercise of options granted under the plan.

Federal Income Tax Consequences

Under current federal law, an employee granted a stock option under the KESOP has no income tax consequences at that time. If the employee exercises an option, then at that time he or she will realize ordinary income equal to the difference between the value of the common stock and the exercise price. In general, shares acquired by exercising an option have a basis equal to the market value of the stock on the date of exercise. When an employee exercises an option, the company is entitled to a federal income tax deduction in the same amount as the employee's realized income.

Proposed Plan Amendment

This amendment increases the number of shares available under the plan by 3,400,000 shares.

The board believes this amendment is essential to maintain our balanced and competitive total compensation program. Without this amendment, we would not have sufficient shares available under the plan to provide for continued option grants in 2001 and beyond, consistent with the

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purpose of the plan and our normal compensation practices. In order to maintain the continuity and consistency of the program, the board recommends amending the plan to authorize additional shares.

This amendment will not be effective unless it is approved by our shareholders.

Additional Information

As of February 26, 2001, the closing price of our common stock on the New York Stock Exchange was \$32.11 per share. We cannot determine the number of options under the KESOP that will be granted in 2001 to specific officers, officers as a group, or nonofficer employees as a group. The plan, however, does not permit grants to any one individual, during the life of the plan, of options to purchase more than 15% of the total number of shares authorized for issuance under the plan. You can find more information regarding options granted and exercised under the KESOP on page 26 under "Stock Option Tables." The tables show the stock options granted under the KESOP to our employees and executive officers in 2000. These amounts would have been the same under the proposed amendment. A copy of the plan is on file with the Securities and Exchange Commission.

The Board of Directors Unanimously Recommends a Vote "FOR" the Approval of the Amendment to the Key Executive Stock Option Plan.

4. Approve Key Executive Performance Unit Plan

We ask you to consider and approve the adoption of the Key Executive Performance Unit Plan ("KEPUP") so that Boise Cascade will be entitled to deduct, as compensation expense, amounts paid to executives under this plan.

Description of the Key Executive Performance Unit Plan

The company relies on its long-term incentive compensation program to attract and retain the key executives essential for its continuing success. The program is also designed to incent performance that adds to long-term shareholder value. For a number of years, this long-term incentive compensation has been provided solely through stock options granted under the KESOP.

We periodically review the program to assess whether it is continuing to promote these objectives. As a result of a review during 2000, the Executive Compensation Committee adopted the KEPUP in February 2001. It will *reduce* the amount of long-term compensation provided through the KESOP and *add* an element of long-term compensation which may be earned if the company's financial performance compares favorably to that achieved by our key business competitors. Our key business competitors, for this purpose, include all the companies which

comprise the Standard & Poor's paper and forest products company index used for comparison purposes in our performance graph, plus several other companies chosen because they have comparable distribution businesses. The KEPUP is not intended to increase the total long-term incentive compensation paid to executives over time. It is intended to add incentives to achieve financial benchmarks that exceed the financial performance of these competitors and to encourage participants to remain in the company's service.

Implementation of the KEPUP does not require shareholder approval. For us to be able to fully deduct compensation paid to our executive officers under the KEPUP, however, federal tax laws require that our shareholders approve the material features of the plan. A copy of the KEPUP is on file with the Securities and Exchange Commission.

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The KEPUP will help reduce the potential dilutive effect, over time, of our stock options and will help our compensation program be more competitive in the employment market. By using improvement in economic value added as the financial measure and comparing the company's financial performance against that of our key competitors, the new plan will continue to link the executive's long-term compensation with improvements in long-term shareholder value.

Under the program, participants will be granted Performance Units. The value of each Performance Unit will be paid as additional cash compensation based on the company's financial performance over rolling three-year periods, measured by "economic value added," and compared to the financial performance of a key competitor group. "Economic value added" is determined by calculating our pretax operating profit and then subtracting a charge for the capital used to generate that profit. Unless the company meets at least minimum relative performance standards, the Performance Units will have no value. Each Performance Unit has a maximum potential value of \$2.25. The number of Performance Units granted to each executive officer is based on a target value of \$1.00 per unit, which will be earned if the company's three-year improvement in economic value added is better than half the competitor group's economic value added improvement.

Actual payments under the program, if any, will vary from year to year, depending on our financial performance over each three-year period and how it compares with the competitor group's performance.

We cannot determine the number of Performance Units that either will be granted in 2001 or would have been granted in 2000, if the KEPUP had been in effect, to specific officers or officers as a group. Under the plan, however, no executive officer may be granted more than 1,500,000 Performance Units in any one year.

The value, if any, of the Performance Units to be granted in 2001 will be determined by the company's financial performance during the period 2001-2003 relative to the competitor group's financial performance during the same period, measured by improvement in economic value added.

If the Performance Units granted under the plan have value at the end of the three-year period, participants may elect to defer receipt of all or a portion of the amount earned under the terms of our Key Executive Deferred Compensation Plan. These deferred amounts become unfunded general obligations of Boise Cascade. Deferred amounts are either credited with interest at a rate based on Moody's Corporate Bond Index or credited with Stock Units. A copy of the Key Executive Deferred Compensation Plan is also on file with the Securities Exchange Commission. In the event of a change in control, as defined in the plan, a trust will pay the previously deferred awards. For more information on this trust, see "Deferred Compensation and Benefits Trust" on page 32.

The Executive Compensation Committee is responsible for overseeing the administration of the KEPUP. The committee may amend or terminate the plan at any time, but any amendment or termination may not adversely affect a participant's earned or accrued benefits.

Federal Income Tax Consequences

Cash amounts received by executives under the KEPUP are subject to income taxation in the year received. Boise Cascade will be entitled to deduct, as compensation expense, amounts paid to executives under this plan if it is approved by shareholders.

The Board of Directors Unanimously Recommends a Vote "FOR" the Approval of the Key Executive Performance Unit Plan.

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5. Shareholder Proposal Regarding Classified Board

In October 2000, we received a shareholder proposal to declassify our board of directors.

Proposal

Gail H. Rowe, c/o Morgan Stanley Dean Witter, 1087 West River Street, Suite 300, Boise, Idaho 83707, who owns 200 shares of Boise Cascade common stock, has given us notice that she intends to present the following proposal at the annual meeting.

RESOLVED, that the stockholders of Boise Cascade Corp. urge the board to take the necessary steps to amend the Company's Bylaws, in compliance with applicable law, to reorganize itself into one class. The reorganization shall be done in a manner that does not affect the unexpired terms of directors previously elected.

Statement by Shareholder in Support of the Proposal

Accountability by the board of directors is of paramount importance to shareholders. This proposal aims to eliminate the Company's so-called "classified board," whereby the directors are divided into three classes, each serving a three-year term. Under the current structure, shareholders can only vote on one-third of the board at any given time. By classifying itself, a board insulates its members from immediate challenge. Insularity may have made sense in the past (e.g., during the takeover frenzy of the 1980s). But now, we believe that insularity works primarily to hamper accountability. A classified board can prevent shareholders from mounting a successful opposition to the entire board, because only one-third of the directors are up for election in any given year. By way of contrast, a declassified board would stand for election in its entirety, every year. Many thoughtful investors believe that corporate governance procedures and practices, and the level of accountability they impose, are closely related to financial performance. It is intuitive that, when directors are accountable for their actions, they perform better. Boise Cascade's financial performance has disappointed. This resolution is intended to improve that performance through this structural reorganization of the board. If the board acts on our proposal, shareholders would have the opportunity to register their views at each annual meeting on performance of the board as a whole, and of each director as an individual.

Statement by Directors in Opposition to the Proposal

In 1985, the company's shareholders voted overwhelmingly to create a classified board. At that time, the board cited two primary benefits of a classified board structure:

First, a classified board would provide the assurance of continuity, stability, and knowledge in the business affairs and financial strategies of the company, because a majority of the directors would always have prior experience as directors of the company. This continuity of directors would ensure that the board had the necessary background and knowledge to handle these issues and others in a way that would best enhance shareholder value.

Second, with staggered elections, at least two annual shareholder meetings would be required to change control of the board of directors. This fact would enhance the board's ability to negotiate with a person or entity seeking to gain control of the company. This enhanced negotiating leverage would put the board in a better position to achieve higher shareholder value if a change in control situation were to arise.

In 2000, a shareholder proposal by Dr. John Osborn to declassify the board received a majority of shareholder votes cast for and against the proposal (although less than a majority of all

outstanding shares). An 80% affirmative vote of all outstanding shares would be required to amend the Certificate of Incorporation to eliminate the classified board provision.

Since the shareholder vote of 2000, your board has once again considered the classified board structure. After lengthy and thoughtful consideration and discussion, the board has concluded that the classified board structure continues to be in the best interests of the company and its shareholders. The majority vote at the company's last annual meeting was given considerable weight in the board's discussion. Nevertheless, the board observed the current climate of rapid consolidation in our industry and the merger and takeover activity associated with that consolidation. Indeed, substantial consolidation activity has taken place since the 2000 annual meeting.

Given the recent consolidation in the industry, the board noted that the classified structure is perhaps even more important now than it was at the time of its adoption 15 years ago. A classified structure provides the board with the ability to protect shareholder interests in the event of a change of control. This fact is exemplified by the recent proposed acquisition of Willamette by Weyerhaeuser. A November 14, 2000, *Wall Street Journal* article noted that Willamette's classified board structure gave Willamette additional time to negotiate with Weyerhaeuser for a higher price.

The board believes that each of the company's directors is accountable to the company's shareholders, whether he or she is elected for a one-year term or for a three-year term. Board classification does not prevent shareholders from voting for or against directors when they are presented for election. Except for our chairman of the board, all of our directors are independent. Additionally, all of our directors have received high shareholder support: no nominee received less than 96% of the votes cast in the last five years. More frequent votes for each director are unnecessary.

Your board understands that this issue continues to be important to many of the company's shareholders. In recognition of this interest in board structure and other governance issues, the board formed a Governance Committee in December 2000. The committee is made up entirely of independent directors and is charged with, among other things, reviewing corporate governance issues and addressing related shareholder concerns. The Governance Committee will continue to periodically review the classified board to evaluate whether such a structure continues to serve the best interests of the company and its shareholders.

***The Board of Directors Unanimously Recommends a Vote "AGAINST"
the Proposal to Declassify Boise Cascade's Board.***

6. Shareholder Proposal Regarding Separation of Position of Chairman of the Board and Chief Executive Officer

In November 2000, we received a shareholder proposal to separate the position of chairman of the board and chief executive officer.

Proposal

John Osborn, M.D., 2421 W. Mission Avenue, Spokane, Washington 99201, who owns 105 shares of Boise Cascade common stock, has given us notice that he intends to present the following proposal at the annual meeting.

RESOLVED: That shareholders urge the board to take the necessary steps to provide that two separate people hold the positions of Chair of the Board and Chief Executive Officer.

Statement by Shareholder in Support of the Proposal

Under the present chair/CEO's tenure, (CEO since 1994, and chairman since 1995), the stock has performed poorly, significantly below the S&P 500, the Dow, and its peers.

Any board must rely on its chair to help it filter information, and to present circumstances fairly so as to make important and sometimes difficult decisions. The present chair is a veteran of BC, well educated (Ph.D, various advanced Harvard business degrees), presumably

persuasive in the board room.

Board of directors, led by the chair, oversee management. Some view an insoluble conflict when the director is also the manager being overseen and many institutional investors support independent boards. Funds across the country support a separation of the positions of chair and CEO, from CalPERS to the state Treasurer of Connecticut and others.

I urge to you support this measure.

Statement by Directors in Opposition to the Proposal

Our company has a long tradition of an independent board consisting primarily of outsiders not employed by the company. All members of our board are independent, outside directors, except our chief executive officer, Mr. Harad. The chair of our Committee of Outside Directors, Mr. Shrontz, leads a meeting of this committee, which includes all outside directors, at least twice a year to review the company's strategy and performance outside the presence of Mr. Harad. The committee also has a formal process to review the CEO's performance against agreed-upon goals. In addition, the Audit, Executive Compensation, and Governance Committees are each composed solely of outside directors, providing extensive independent review.

The board of directors is strengthened by the presence of Mr. Harad, who provides strategic, operational, and technical expertise and context for the matters considered by the board. Our board believes it needs to retain the ability to balance independent board structure with the flexibility to determine board leadership. The board believes this proposal is not in the best interest of the company or its shareholders.

***The Board of Directors Unanimously Recommends a Vote "AGAINST"
the Proposal to Separate the Position of
Chairman of the Board and Chief Executive Officer.***

7. Other Matters to be Presented at the Meeting

Management does not know of any other matters to be voted on at the meeting. If, however, other matters are presented for a vote at the meeting, the persons named on the enclosed proxy card will vote your properly executed proxy according to their judgment on those matters.

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Board of Directors

Structure

Mr. Robert K. Jaedicke is retiring from the board in April because he reached our mandatory retirement age for directors. We thank Mr. Jaedicke for his many years of thoughtful counsel and loyal service to our board.

Our board of directors, comprised of 14 persons after Mr. Jaedicke's retirement, is divided into three classes for purposes of election. Shareholders elect one class at each annual meeting to serve for a three-year term.

Five directors are nominees for reelection in 2001, each to hold office until the annual meeting of shareholders in 2004.

Our other directors are not up for election this year and will continue in office for the remainder of their terms or until they retire.

Directors Nominated This Year for Terms Expiring in 2004

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Philip J. Carroll, 63, joined our board of directors in 1997. Since 1998, Mr. Carroll has been the chairman of the board and chief executive officer of Fluor Corporation, a global engineering, construction, maintenance, and diversified services company. He was the president and chief executive officer of Shell Oil Company from 1993 to 1998. Mr. Carroll is also a director of Vulcan Materials Company.

Claire S. Farley, 43, joined our board of directors in 2000. In 2001, Ms. Farley became the chief executive officer of Trade-Ranger Inc., a global Internet-based marketplace dedicated to buying and selling materials and services used by the energy industry. She was the chief executive officer of Intelligent Diagnostics, Inc., an Internet-based developer of artificial intelligence software used to diagnose medical conditions, from 1999 to 2000. Ms. Farley was a corporate officer for Texaco, Inc., from 1997 to 1999, having been with the company since 1981. In addition, Ms. Farley served as president of its Worldwide Exploration and New Ventures division from 1998 to 1999, as president of its Texaco North America Production from 1997 to 1998, and as chief executive officer of Hydro Texaco in Denmark from 1996 to 1997.

Rakesh Gangwal, 47, joined our board of directors in 1998. Since 1998, Mr. Gangwal has been the president and chief executive officer of US Airways Group, Inc., the parent corporation for US Airways' mainline jet and express divisions as well as several related companies. He also has been the president and chief executive officer of US Airways, Inc., the main operating arm of US Airways Group, since 1998. Mr. Gangwal was the president and chief operating officer of US Airways Group, Inc., and US Airways, Inc., from 1996 to 1998. He was the executive vice president, Planning and Development, of Air France from 1994 to 1996. Mr. Gangwal is also a director of US Airways Group, Inc., and US Airways, Inc.

Gary G. Michael, 60, joined our board of directors in 1997. Since 1991, Mr. Michael has been the chairman of the board and chief executive officer of Albertson's, Inc., a retail food and drug company. He is also a director of Questar Corporation and former chairman of the Federal Reserve Bank of San Francisco.

A. William Reynolds, 67, joined our board of directors in 1989. Since 1995, Mr. Reynolds has been the chief executive of Old Mill Group, a private investment firm. He was the chairman of the board and chief executive officer of GenCorp Inc., a diversified manufacturing and service company, from 1987 to 1995. Mr. Reynolds is also a director of Eaton Corporation and former chairman of the Federal Reserve Bank of Cleveland.

Directors Whose Terms Expire in 2003

Richard R. Goodman, 53, joined our board of directors in 2000. Also in 2000, he became an executive vice president and the chief operating officer of DuPont, a broadly diversified company and the largest chemicals producer in the U.S. He joined DuPont in 1999 as an executive vice president and co-chief operating officer. Mr. Goodman was the president and chief executive officer of America West Airlines from 1996 to 1999. He served as senior vice president of operations for Frito-Lay, Inc., from 1992 to 1996.

Edward E. Hagenlocker, 61, joined our board of directors in 1998. In 1998, he retired from Ford Motor Company, an automotive manufacturer, after serving as its vice-chairman from 1996 to 1998 and serving as the chairman of Visteon Automotive Systems, an automotive parts business and enterprise of Ford Motor Company, from 1997 to 1998. Mr. Hagenlocker was the president of Ford Automotive Operations from 1994 to 1996. He is also a director of Air Products and Chemicals, Inc., AmeriSource Corporation, and Nanophase Technologies Corporation.

George J. Harad, 56, is the company's chairman and CEO. He became a director and president of the company in 1991. He was elected chief executive officer of Boise Cascade in 1994 and became chairman of the board in 1995. Mr. Harad has been an executive officer of the company since 1982.

Donald S. Macdonald, 69, joined our board for the second time in 1996. He was originally elected in 1978 but resigned in 1986. In 2000, Mr. Macdonald became a senior advisor to UBS Bunting Warburg, a business group of UBS AG, one of the leading global financial services firms. He was of counsel to the Toronto law firm of McCarthy Tétrault from 1991 until his retirement in 2000. In addition, Mr. Macdonald has served as a member of the Canadian House of Commons, chairman of the Royal Commission on the Economic Union and Development Prospects for Canada, and Canadian High Commissioner to Great Britain and Northern Ireland. Mr. Macdonald is a director of Aber Diamond Corporation, Alberta Energy Company Limited, Boltons Capital Corporation, Sun Life Financial Services of Canada Inc., TransCanada Pipelines Limited; and several private companies.

Jane E. Shaw, 62, joined our board of directors in 1994. Since 1998, Dr. Shaw has been the chairman of the board and chief executive officer of AeroGen, Inc., a company specializing in the development of pulmonary drug delivery systems. She founded The Stable Network, a biopharmaceutical consulting firm, in 1995 and has worked as a consultant in the biopharmaceutical industry since that time. Dr. Shaw was the president and chief operating officer of ALZA Corporation, a pharmaceutical company, from 1987 to 1994. She is also a director of Intel Corporation, IntraBiotics Pharmaceuticals, Inc., and McKesson HBOC, Inc.

Directors Whose Terms Expire in 2002

Francesca Ruiz de Luzuriaga, 46, joined our board of directors in 1998. From 1999 to 2000, Ms. Luzuriaga served as the chief operating officer of Mattel Interactive, a business unit of Mattel, Inc., one of the major toy manufacturers in the world. Prior to holding this position, she served Mattel as its executive vice president, worldwide business planning and resources, from 1997 to 1999 and as its chief financial officer from 1995 to 1997. Since leaving Mattel, Ms. Luzuriaga has been working as an independent business development consultant.

Frank A. Shrontz, 69, joined our board of directors in 1989. He is chairman emeritus of The Boeing Company, an aerospace company. Mr. Shrontz was the chairman of the board and chief executive officer of The Boeing Company from 1988 until his retirement in 1997. He is also a director of Chevron Corporation and Minnesota Mining & Manufacturing Co.

Carolyn M. Ticknor, 53, joined our board of directors in 2000. Ms. Ticknor was a vice president of Hewlett-Packard Company, a global provider of computing, printing, and imaging products and services, from 1995 until her retirement in early 2001. She was also the president of HP's Imaging and Printing Systems from 1999 until her retirement, and had served as the president or general manager of LaserJet Solutions since 1994. Ms. Ticknor is also a director of Stamps.com.

Ward W. Woods, Jr., 58, joined our board of directors in 1992. He was president and chief executive officer of Bessemer Securities, LLC, a privately held investment company, from 1989 until his retirement in 1999. Mr. Woods is a member, through wholly owned corporations, of the general partner of Bessemer Holdings, L.P., and affiliated investment partnerships. He is also a special partner of Bessemer Holdings & Co. Mr. Woods is a director of Bessemer Securities, LLC, Contour Energy Co., and several private companies.

Business Relationships with Directors

Donald S. Macdonald was of counsel to the law firm of McCarthy Tétrault, located in Toronto, Ontario, Canada, until he retired from this position on March 1, 2000. We and some of our affiliates occasionally used McCarthy Tétrault's services in 2000 to advise us on Canadian legal matters. We expect to do the same in 2001. We retain this firm independent of Mr. Macdonald's service on our board of directors, and Mr. Macdonald derived no financial benefit from our use of McCarthy Tétrault.

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Meetings and Committees of the Board

During 2000, our board of directors met seven times. In addition to meetings of the full board, directors also attended meetings of board committees. All the directors, except Mr. Carroll, attended at least 75% of the meetings of the board and the committees on which they served. Overall, our directors had an attendance rate of 90%.

The Board of Directors and Committee Membership

Director	Committee of Outside Directors	Executive Committee	Executive Compensation Committee	Audit Committee	Governance Committee
Philip J. Carroll	X		X	X	
Claire S. Farley	X		X	X	
Rakesh Gangwal	X			X	X
Richard R. Goodmanson	X			X	X
Edward E. Hagenlocker	X		X		X
George J. Harad		X(1)			
Robert K. Jaedicke(2)	X			X	
Donald S. Macdonald	X	X		X(1)	
Gary G. Michael	X		X	X	
A. William Reynolds	X	X	X(1)		
Francesca Ruiz de Luzuriaga	X		X	X	
Jane E. Shaw	X	X			X(1)
Frank A. Shrontz	X(1)	X			X
Carolyn M. Ticknor	X		X		X
Ward W. Woods, Jr.	X		X	X	
2000 Meetings	2	1	5	3	3

(1)

Committee chair.

(2)

Mr. Jaedicke is retiring from the board in April 2001.

Committee of Outside Directors

The Committee of Outside Directors reviews the performance of the chief executive officer against his individual and corporate goals and strategies. It also reviews the performance and processes of the board of directors and evaluates the communication among the board, management, and shareholders. The committee meets at least twice each year without Mr. Harad (our only management director) present.

Executive Committee

In the absence of a full meeting of the board, the Executive Committee can exercise most of the powers and authority of the full board to manage our business and affairs.

Executive Compensation Committee

The Executive Compensation Committee is comprised entirely of independent directors. It approves all executive officer compensation, including salaries, incentives, stock options, stock grants, and all plans providing benefits to our executive officers. The committee also periodically reviews business and staff organizations to ensure that capable personnel are available to implement the company's business strategies. For additional information regarding the Executive

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Compensation Committee and its functions and responsibilities, see the "Executive Compensation Committee Report" on page 21.

Audit Committee

The Audit Committee, in keeping with its charter, is comprised entirely of independent directors. It provides independent, objective oversight of the company's accounting functions and internal controls and ensures the objectivity of our financial statements. For additional information regarding the Audit Committee and its functions and responsibilities, see the "Audit Committee Report" on page 19.

Governance Committee

The Governance Committee (formerly the Nominating Committee), comprised entirely of independent directors, is responsible for reviewing and recommending to the board:

candidates for nomination;

director compensation;

responses to shareholder proposals;

board and committee structure; and

corporate governance policies, practices, and procedures.

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The board of directors has established qualifications for directors, including the ability to apply good and independent judgment in a business situation and the ability to represent the interests of all our shareholders and constituencies. A director also must be free from any conflicts of interest that would interfere with his or her loyalty to our shareholders and us. In evaluating board candidates, the committee considers these qualifications as well as several other factors, including but not limited to:

demonstrated maturity and experience;

geographic balance;

expertise in business areas relevant to Boise Cascade;

background as an educator in business, economics, or the sciences; and

diversity of background, with particular consideration to female and minority candidates.

Director Compensation

Our current board members, except Mr. Harad (a salaried employee of Boise Cascade), receive compensation for board service. In 2000, that compensation included:

Annual Retainer:	\$40,000
Annual Committee Chair Stipend:	\$6,500
Attendance Fees:	\$1,500 for each board meeting \$1,000 for each committee meeting Expenses related to attendance
Annual Stock Options:	2,000

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Director Stock Option Plan

Through our shareholder-approved Director Stock Option Plan, each nonemployee director receives an annual stock option grant. The options are exercisable one year after the grant date, and they expire the earlier of (a) three years after the director's retirement, resignation, death, or termination as a director or (b) ten years after the grant date. Individuals who are directors on January 1, or who are appointed between January 1 and July 31, receive a grant on July 31. Directors appointed between August 1 and December 31 receive a grant when they join our board.

In 2000, each nonemployee director was granted an option to purchase 2,000 shares of our common stock at a price equal to the stock's closing market price on the grant date.

Director Stock Compensation Plan

Through our shareholder-approved Director Stock Compensation Plan, nonemployee directors can elect to receive part or all of their retainers and meeting fees in stock options rather than cash. Under the plan, the directors must specify by December 31 of each year how much of their retainer and meeting fees for the following year they wish to receive in the form of stock options.

Options are granted to participating directors at the end of each calendar year, equal in value to the cash compensation that the participating directors would otherwise have received. The number of option shares granted to a participating director is based on the amount of compensation he or she elected to have paid in options and the market value of our common stock on July 31 of each year. The options have an exercise price of \$2.50 per share, can be exercised six months after the date of grant, and expire three years after the director's resignation, retirement, or termination as director. Ten of the 14 eligible directors participated in this plan in 2000, and nine directors have elected to participate in the plan in 2001.

Director Deferred Compensation Program

Our directors' deferred compensation program allows each nonemployee director to defer all or a portion of his or her cash compensation.

Under this program, nonemployee directors may defer from a minimum of \$5,000 to a maximum of 100% of their cash compensation in a calendar year. For deferrals prior to 1988, interest is imputed on the deferred amount at a monthly rate equal to Moody's Composite Average of Yields on Corporate Bonds plus four percentage points. For deferrals from 1988 to the present, interest is imputed at a rate equal to 130% of Moody's Composite Average of Yields on Corporate Bonds. A minimum death benefit is also provided based on pre-1995 deferrals. We have purchased corporate-owned life insurance policies to help offset the expense of this program. In the event of a change in control of the company, as defined in the plans, a trust will pay our obligations under these plans. For more information on this trust, see "Deferred Compensation and Benefits Trust" on page 32.

As of December 31, 2000, nine directors participated in the deferred compensation program.

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Stock Ownership

Directors and Executive Officers

The directors, nominees for director, and executive officers furnished the following information to us regarding the shares of our common stock that they beneficially owned on December 31, 2000.

Ownership of Boise Cascade Corporation Stock

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Directors(1)		
Philip J. Carroll	11,627	*
Claire S. Farley	2,982	*
Rakesh Gangwal	6,388	*
Richard R. Goodmanson	2,471	*
Edward E. Hagenlocker	7,563	*
George J. Harad	993,738(2)	1.57%
Robert K. Jaedicke	9,496	*
Donald S. Macdonald	9,222	*
Gary G. Michael	10,053	*
A. William Reynolds	30,217	*
Francesca Ruiz de Luzuriaga	8,091	*
Jane E. Shaw	14,376	*
Frank A. Shrontz	12,000	*
Carolyn M. Ticknor	2,000	*
Ward W. Woods, Jr.	33,635	*

Other Named Executives(2)

Christopher C. Milliken	63,571	*
N. David Spence	201,510	*
Theodore Crumley	260,709	*
John W. Holleran	211,104	*
A. Ben Groce	166,445	*
All directors, nominees for director, and executive officers as a group (1)(2)(3)	3,206,804	5.06%

*Less than 1% of class

(1) Beneficial ownership for the directors includes all shares held of record or in street name, plus options granted but unexercised under the Director Stock Compensation Plan ("DSCP") and Director Stock Option Plan ("DSOP"), described on page 15 under "Director Compensation." The number of shares subject to options under the DSCP included in the beneficial ownership table is as follows: Ms. Farley, 982 shares; Ms. Ruiz de Luzuriaga, 2,091 shares; Ms. Shaw, 5,376 shares; and Messrs. Carroll, 5,127 shares; Gangwal, 1,388 shares; Goodmanson, 471 shares; Hagenlocker, 2,563 shares; Macdonald, 22 shares; Michael, 1,208 shares; Reynolds, 11,217 shares; Woods, 14,635 shares; and directors as a group, 45,080 shares. The number of shares subject to options under the DSOP included in the beneficial ownership table is as follows: Ms. Farley, 2,000 shares; Ms. Ruiz de Luzuriaga, 5,000 shares; Ms. Shaw, 9,000 shares; Ms. Ticknor, 2,000 shares; and Messrs. Carroll, 6,500 shares; Gangwal, 5,000 shares; Goodmanson, 2,000 shares; Hagenlocker, 5,000 shares; Jaedicke, 9,000 shares; Macdonald, 8,000 shares; Michael, 6,500 shares; Reynolds, 9,000 shares; Shrontz, 9,000 shares; Woods, 9,000 shares; and directors as a group, 87,000 shares.

(2) The beneficial ownership for these executive officers includes all shares held of record or in street name, plus options granted but unexercised under the KESOP, described on page 26 under "Stock Option Tables;" interests in shares of common stock held in the Boise Cascade Common Stock Fund by the trustee of the company's Savings and Supplemental Retirement Plan ("SSRP"), a defined contribution plan qualified under Section 401(a) of the Internal Revenue Code; and deferred stock units held under the Key Executive Performance Plan for Executive Officers and the 1995 Executive Officer Deferred Compensation Plan. The following table indicates the nature of each executive's stock ownership and also shows the number of shares of convertible preferred stock, Series D, held in the Employee Stock Ownership Plan ("ESOP") fund of the SSRP which are not included in the beneficial ownership table.

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	Common Shares Owned	Unexercised Option Shares	Deferred Stock Units	SSRP (Common Stock)	ESOP (Preferred Stock)
George J. Harad	3,511	970,800	11,170	8,257	697
Christopher C. Milliken	4,600	52,033	0	6,938	1,047
N. David Spence	2,038	193,100	6,372	0	0
Theodore Crumley	1,247	235,300	3,958	20,204	663
John W. Holleran	74	202,800	7,078	1,152	1,033
A. Ben Groce	1,147	161,300	3,950	48	283
All executive officers as a group	15,353	2,896,442	56,029	78,858	20,239

(3) Our executive officers (individually or as a group) do not own more than 1% of the company's Series D Preferred Stock (ESOP).

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and reporting executive officers, and any person who owns more than 10% of a registered class of our equity securities, to file reports of holdings and transactions in Boise Cascade shares with the SEC and the New York Stock Exchange. Based on our records and other information, we believe that in 2000 our directors and reporting officers met all applicable SEC filing requirements.

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Ownership of More than 5% of Boise Cascade Stock

As of December 31, 2000, the table below describes each person or entity that we know to be the beneficial owner of more than 5% of any class of our voting securities.

Name and Address of Beneficial Owner	Voting Power		Investment Power		Total Amount of Beneficial Ownership	Percent of Class
	Sole	Shared	Sole	Shared		
<u>Common Stock, \$2.50 Par Value</u>						
Dodge & Cox One Sansome St. 35th Floor San Francisco, CA 94104	3,856,327	33,800	4,166,216	0	4,166,216	7.3%
Joint filing by Forstmann- Leff Associates, LLC; FLA Asset Management, LLC; FLA Advisers L.L.C.; and Forstmann-Leff International, LLC 590 Madison Avenue New York, NY 10022	1,746,399	5,453,875	2,277,632	6,309,750	8,587,382	15.0%
Franklin Mutual Advisers, LLC 51 John F. Kennedy Parkway Short Hills, NJ 07078	3,110,285	0	3,110,285	0	3,110,285	5.4%
Jennison Associates LLC 466 Lexington Avenue New York, NY 10017	3,461,300	0	0	3,634,600	3,634,600(1)	6.34%
Morgan Stanley Dean Witter & Co. 1585 Broadway New York, NY 10036	0	2,711,588	0	3,040,768	3,040,768	5.32%
The Prudential Insurance Company of America 751 Broad Street Newark, NJ 07102	308,392	3,336,493	308,392	3,540,458	3,848,850(1)	6.71%
<u>Common Stock, \$2.50 Par Value, and Common Stock Equivalents</u>						
State Street Bank and Trust Company 225 Franklin St. Boston, MA 02110	964,041	6,210,236	1,111,243	5,276,626	6,387,869(2)	10.5%
<u>Convertible Preferred Stock, Series D</u>						
State Street Bank and Trust Company, as Trustee for the Boise Cascade Corporation Employee Stock Ownership Plan (ESOP) 225 Franklin St. Boston, MA 02110	0	4,688,030	0	4,688,030	4,688,030(3)	100%

- (1) According to the Schedule 13G filed by Jennison Associates LLC on February 14, 2001, "The Prudential Insurance Company of America indirectly controls Jennison through its indirect ownership of Jennison. As a result, Prudential may be deemed to have the power to exercise or to direct the exercise of such voting and/or dispositive power that Jennison may have with respect to the Issuer's Common Stock held by the Managed Portfolios. Jennison does not file jointly with Prudential, as such, shares of the Issuer's Common Stock reported on Jennison's 13G may be included in the shares reported on the 13G filed by Prudential."
- (2) State Street Bank and Trust Company, as trustee for three of the company's defined contribution plans and for the Employee Stock Ownership Plan ("ESOP") fund of the Savings and Supplemental Retirement Plan, reported on a Schedule 13G that it was the beneficial owner of 6,387,869 shares of the company's common stock. This represents 2,620,709 shares of the company's common stock and 4,688,030 shares of the company's Convertible Preferred Stock, Series D (held by the ESOP). The shares of preferred stock held by the ESOP are convertible into approximately 3,767,160 shares of common stock (using a conversion ratio of 1 share of preferred stock = .80357 common shares). Included in the reported shares were 1,509,466 shares of Boise Cascade common stock held by State Street as trustee for the company's defined contribution plans (approximately 23.63% of the total shares held). These shares represent approximately 2.5% of the company's common stock outstanding as of December 31, 2000. The trustee, subject to participants' instructions, has voting and investment authority for the shares held in the company's plans and for the ESOP shares. State Street Bank and Trust Company has sole voting power for 964,041 shares and sole investment power for 1,111,243 shares not held as trustee for the company's benefit plans.
- (3) The shares of preferred stock held by the ESOP represent approximately 7.6% of the company's voting securities outstanding as of December 31, 2000. For further information regarding the Series D preferred stock, see footnote (2) above.

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Audit Committee Report

The Audit Committee of the board of directors is responsible for independent, objective oversight of the company's accounting functions and internal controls. It is comprised entirely of independent directors as required by the New York Stock Exchange listing standards and by its written charter, attached to this Proxy Statement as Appendix A.

The Audit Committee, formed in 1969, has had a charter since 1973. The committee periodically reviews and updates that charter based on changes in its responsibilities. In 2000, the Audit Committee updated its charter to reflect the new standards set out in the SEC's regulations and in the New York Stock Exchange's listing standards. These changes reflected increased specificity in its charter rather than changes in the committee's overall practices.

Audit Committee Responsibilities

The Audit Committee's responsibilities include recommending to the board an independent certified public accounting firm as the company's independent auditor. The committee, with management, internal audit personnel, and/or the independent auditors, also evaluates and reviews the company's:

financial statements, reports, and other financial information;

systems of internal controls regarding finance, accounting, legal compliance, and business standards established by management and the board; and

auditing, accounting, and financial reporting processes in general.

The committee is also responsible for reviewing the scope of audit and nonaudit services provided by the independent auditor and any significant related party transactions between the company and any officer, director, or principal shareholder not otherwise considered by the board.

Financial Statement Recommendation

The Audit Committee is responsible for recommending to the board that the company's audited financial statements be included in its Annual Report on Form 10-K. The committee took a number of steps in making this recommendation for 2000, including discussing with Arthur Andersen LLP, Boise Cascade's independent auditor, the:

applicable auditing standards, including information regarding the scope and results of the audit, as required by the Statement on Auditing Standards No. 61; and

auditor's independence, including receipt of a letter from Arthur Andersen regarding its independence, as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees.

As the final step to this procedure, the Audit Committee reviewed and discussed with Arthur Andersen and Boise Cascade's management the company's audited consolidated balance sheets at December 31, 2000 and 1999, and its audited consolidated statements of income, cash flows, and stockholders' equity for the three years ended December 31, 2000.

Based on the discussions with the company's management regarding the audited financial statements and Arthur Andersen regarding its audit, independence, and financial statement review, the Audit Committee recommended to the board that these financial statements be included in Boise Cascade's 2000 Annual Report on Form 10-K.

Nonaudit and Other Services

In addition to its audit services for the annual financial statements, Arthur Andersen provides Boise Cascade with nonaudit and other services (such as foreign statutory reporting; audits of the company's employee benefit plans; various advisory and consulting services, including tax consultation and compliance services; acquisition due diligence and consulting; and technical research and consultation). The committee reviews and discusses the scope of these additional services with Arthur Andersen. Based on this review, the committee believes that Arthur Andersen's provision of its nonaudit services is compatible with maintaining its independence.

The following table sets out the various fees paid by the company to Arthur Andersen for its services.

Annual Fees for 2000

Description	Amount
Audit Fees(1)	\$ 1,411,000
Financial Information Systems Design and Implementation Fees(2)	0
All Other Fees(3)	1,215,000

(1) Professional audit services, including Arthur Andersen's audit of the company's annual financial statements for 2000 and its review of the financial statements included in the company's Forms 10-Q.

(2)

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Boise Cascade did not retain Arthur Andersen's services in 2000 for the design and implementation of any of its financial information systems.

- (3) All nonaudit and other services (such as foreign statutory reporting; audits of the company's employee benefit plans; various advisory and consulting services, including tax consultation and compliance services; acquisition due diligence and consulting; and technical research and consultation).

Leased Personnel

Arthur Andersen's full-time, permanent employees conducted the audit of the company's 2000 financial statements. Leased personnel were not employed with respect to this audit engagement.

This report is respectfully submitted by the members of the Audit Committee of the Board of Directors:

Donald S. Macdonald, Chairman
Philip J. Carroll
Claire S. Farley
Rakesh Gangwal
Richard R. Goodmanson
Robert K. Jaedicke
Gary G. Michael
Francesca Ruiz de Luzuriaga
Ward W. Woods, Jr.

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Executive Compensation Committee Report

The Executive Compensation Committee of the board of directors approves the individual salaries and compensation programs for executive officers. The following report explains the basis for the committee's compensation decisions during 2000.

The company's salary policy provides for compensation at competitive levels for all employees. Our executive compensation program is designed to:

attract, motivate, reward, and retain the broad-based management talent critical to achieving the company's business goals;

link a portion of each executive officer's compensation to the performance of both the company and the individual executive officer; and

encourage ownership of company common stock by executive officers.

To ensure that compensation levels remain competitive, the company and committee analyze information on executive compensation practices from a wide variety of sources. Compensation practices and data throughout general industry and at paper and forest products companies are analyzed. The committee also assesses compensation practices and data from a representative peer group of companies designed by our consultants. This peer group's compensation practices were only nominally different than the compensation practices of the paper and forest products companies.

In addition, the company and committee used information regarding executive compensation programs provided by human resource consulting firms, including Hewitt Associates, Management Compensation Group, and Stern Stewart & Co.

In 2000, the company's executive compensation program had four principal components:

base salary;

annual variable incentive compensation;

stock options; and

other compensation plans.

During 2000, the cash-based annual variable (at-risk) incentive component linked executive compensation directly to the company's financial performance, and the stock option component tied executive compensation to growth in its stock value.

The company's compensation plans reflect the committee's intent that the compensation paid to executive officers will qualify for federal income tax deduction by the company. Executive compensation decisions, however, necessarily involve some subjective judgment. The committee reserves the authority to make compensation payments that may not be deductible under federal tax law.

Base Salary

A salary guideline is established for each salaried position in the company, including each executive officer position. The midpoint of each salary guideline approximates the average salary, adjusted for company size (in sales), of equivalent positions at the peer group companies. Annual base salary is designed to compensate executives for their level of responsibility and sustained individual performance. In weighing these factors, the committee must make inherently subjective judgments.

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Each year, the committee reviews the criteria discussed above and establishes the chief executive officer's base salary. The chief executive officer's performance is formally reviewed against a written performance plan. In 2000, the committee set Mr. Harad's base salary at \$900,012 per year, reflecting his 30 years of experience with the company and the performance of his responsibilities as chief executive and chief operating officer.

Annual Variable Incentive Compensation

The committee establishes objective performance criteria for the variable incentive compensation program. This program applies to all of the company's salaried employees. The committee oversees administration of the plan covering executive officers.

The criteria for the program specify percentages of the participants' compensation to be paid as additional cash compensation based on improvements in the company's "economic value added." Economic value added is determined by calculating the company's operating profit and then subtracting a pretax charge for the capital used to generate that profit. For the company, studies indicate that increases in economic value added have a high positive correlation to increases in shareholder value over time.

The committee establishes target payouts for each participating position using the average bonus targets, adjusted for company size (in sales), of equivalent positions at the peer group companies. In 2000, the target payout for the chief executive officer was 70% of his base salary. The committee, beginning in program year 2001, revised this target to 100%, thereby placing a greater portion of Mr. Harad's cash compensation at risk. The actual payout under the plan varies from year to year depending on the company's annual financial performance. Target payout amounts for executive officers and other plan participants also vary, depending on competitive compensation practices.

Under the 2000 program, Mr. Harad received a payment equal to 13.38% of his base salary, as reported in the Summary Compensation Table on page 25. The Summary Compensation Table reflects amounts paid under this variable incentive program.

Stock Options

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The purpose of the stock option plan is to further align management's interests with the company's long-term performance and, therefore, the long-term interests of the shareholders. The committee grants stock options to executive officers and other key managers. It administers this plan and generally grants stock options to plan participants each year. Stock options were granted under this plan in 2000. Since the exercise price of all grants represents the fair market value of the common stock when granted, the options have no value unless the common stock price exceeds the exercise price of the options.

The committee determines the number of stock options to grant by:

analyzing peer group companies' competitive compensation;

considering consultants' recommendations; and

taking each individual's salary guideline and responsibilities into account.

The committee may also consider the number and exercise price of options granted to an individual in the past, as well as individual performance throughout the year. Corporate or business unit measures are not used to determine the size of individual option grants.

The stock option plan limits the number of shares issued to any individual over the life of the plan to 15% of the total number of shares authorized by shareholders for issuance under the plan.

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This provision reflects the committee's view that the plan is intended to provide long-term incentive compensation to a broad spectrum of the company's management.

During 2000, Mr. Harad was granted options to purchase 263,900 shares of the company's common stock. In determining the number of shares to include in Mr. Harad's grant, the committee considered:

the value of stock option grants made to chairpersons and chief executive officers of the peer group companies;

the size of grants offered to the company's other executive officers; and

the number and exercise price of shares previously granted to Mr. Harad.

As described on page 5, the committee approved the addition of the Key Executive Performance Unit Plan to the company's long-term incentive program, beginning in 2001.

Other Compensation Plans

The company's executive officers receive additional compensation in the form of payments, allocations, or accruals under various other compensation and benefit plans. The plans are described more fully in the footnotes to the Summary Compensation Table and on page 29 under "Other Benefit Plans." Each of these plans is an integral part of the company's compensation program.

Stock Ownership Guidelines

In 1999, the committee established stock ownership guidelines for executive officers. These guidelines are intended to increase the officers' equity stake in the company and more closely align their interests with those of our shareholders. These voluntary guidelines provide that, over time:

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the chief executive officer should acquire and maintain stock ownership equal to three times his base salary;

the senior vice presidents should acquire and maintain stock ownership equal to twice their base salary; and

the vice presidents should acquire and maintain stock ownership equal to their base salary.

All of our executive officers either meet or have made significant progress toward meeting the stock ownership guidelines.

This report is respectfully submitted by the members of the Executive Compensation Committee of the Board of Directors:

A. William Reynolds, Chairman
Philip J. Carroll
Claire S. Farley
Edward E. Hagenlocker
Gary G. Michael
Francesca Ruiz de Luzuriaga
Carolyn M. Ticknor
Ward W. Woods, Jr.

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Performance Graph

The following graph compares the five-year cumulative total return (assuming dividend reinvestment) for the Standard & Poor's 500 index, the Standard & Poor's paper and forest products company index, and Boise Cascade.

Compensation Tables

The following tables present compensation information for our chief executive officer and the five next most highly compensated executive officers.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards	All Other Compensation (\$) (5)
		Salary (\$) (1)	Bonus (\$) (2)	Other Annual Compensation (\$) (3)	Securities Underlying Options/SARs (#) (4)	
George J. Harad, Chairman and Chief Executive Officer	2000	\$ 875,010	\$ 120,422	\$	263,900	\$ 147,487
	1999	800,004	732,564		162,300	123,522
	1998	791,628	751,284	1,891	102,800	98,029
Christopher C. Milliken, Senior Vice President, Boise Cascade Office Products	2000	480,006	189,514		52,033	47,668
	1999	435,000	236,295		0	32,997
	1998	371,250	202,722		0	26,050
N. David Spence, Senior Vice President, Paper Division*	2000	293,778	31,386		40,000	107,044
	1999	342,000	246,069		32,700	56,235
	1998	338,502	206,465	3,054	23,100	50,421
Theodore Crumley, Senior Vice President and Chief Financial Officer	2000	369,958	42,080		61,000	58,333
	1999	338,669	250,386		50,400	51,726
	1998	328,503	200,431		28,700	45,470
John W. Holleran, Senior Vice President, Human Resources, and General Counsel	2000	330,300	37,241		44,500	50,741
	1999	290,938	222,757		45,100	41,675
	1998	274,206	167,592	159	23,100	34,800
A. Ben Groce, Senior Vice President and General Manager, Paper Division	2000	282,348	34,716		39,100	56,866
	1999	253,308	182,255		23,700	51,540
	1998	250,308	152,922		16,300	42,190

*David Spence, our beloved colleague and friend, passed away in October 2000.

(1) Includes amounts deferred under the company's SSRP and Executive Officer Deferred Compensation Plans.

(2) Payments, if any, under the company's variable incentive compensation program. See "Annual Variable Incentive Compensation" on page 22. In addition, the amount reported for Mr. Milliken in 2000 includes \$120,750 earned under the Boise Cascade Office Products Corporation (BCOP) Key Executive Retention and Incentive Plan which was adopted by the company in connection with its repurchase of BCOP's outstanding minority interest.

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(3) The amounts shown in this column reflect the amount of federal income tax incurred by the named executive and paid by the company relating to various executive officer benefits. The cost incurred by the company during these years for various other perquisites provided to each of the named executive officers is not included in this column, because the amount did not exceed the lesser of \$50,000 or 10% of the executive's compensation during each year.

(4) Grants under the company's Key Executive Stock Option Plan. During 1998 and 1999, Mr. Milliken was granted options under BCOP's Key Executive Stock Option Plan to purchase 90,000 shares and 118,000 shares, respectively, of BCOP's common stock. Any options not exercised prior to completion of the company's repurchase of BCOP's outstanding minority interest were canceled.

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(5) Amounts disclosed in this column include \$50,811 paid for earned but unused vacation for Mr. Spence and the following:

Name	Year	Company Matching Contributions to Executive Officer Deferred Compensation or SSRP Plans (\$)(*)	Accruals of Above-Market Interest on Executive Officer Deferred Compensation Plans Balances (\$)	Company Allocations to the Employee Stock Ownership Plan (\$)	Company-Paid Portion of Executive Officer Life Insurance Programs (\$)
George J. Harad	2000	\$ 68,490	\$ 49,754	\$ 0	\$ 29,243
	1999	65,154	35,299	500	22,569
	1998	59,347	25,762	800	12,120
Christopher C. Milliken	2000	21,489	21,483	0	4,696
	1999	18,961	10,588	0	3,448
	1998	13,773	8,072	0	4,205
N. David Spence	2000	23,176	21,801	0	11,256
	1999	23,036	20,796	395	12,008
	1998	21,422	14,668	592	13,739
Theodore Crumley	2000	26,360	20,755	0	11,218
	1999	22,642	15,474	500	13,110
	1998	20,782	10,600	800	13,288
John W. Holleran	2000	23,641	17,762	0	9,338
	1999	19,258	13,430	500	8,487
	1998	17,316	9,126	780	7,578
A. Ben Groce	2000	19,740	30,956	0	6,170
	1999	17,126	23,712	473	10,229
	1998	15,814	16,692	716	8,968

(*) The company's Executive Officer Deferred Compensation Plans are unfunded plans. Under these plans, executive officers may irrevocably elect to defer receipt of a portion (6% to 20%) of their base salary until termination of employment or beyond. Amounts deferred through December 31, 2000, are generally credited with imputed interest at a rate equal to 130% of Moody's Composite Average of Yields on Corporate Bonds or, under the company's 1995 Executive Officer Deferred Compensation Plan, with either imputed interest or stock units. Each stock unit is equal in value to one share of the company's common stock. The company makes an additional contribution to each participant's stock unit account equal to 25% of the participant's contribution. Amounts reflected in this column do not include the company's contribution to the listed officers' stock unit accounts. Company contributions are set out in the Long-Term Incentive Plans table on page 28. The company's SSRP is a profit-sharing plan qualified under Section 401(a) of the Internal Revenue Code which contains a cash

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or deferred arrangement meeting the requirements of Section 401(k) of the Code.

Stock Option Tables

This table details the 2000 option grants under our Key Executive Stock Option Plan ("KESOP") to the six executives named in the Summary Compensation Table, as well as to all executive officers as a group and nonofficer employees as a group.

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Option/SAR Grants in 2000

Name	Individual Grants				Grant Date Value	
	Number of Securities Underlying Options/SARs Granted (#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)(1)	Expiration Date	Grant Date Present Value(2) (\$)	
George J. Harad	138,900	7.95%	\$ 27.50	7/28/10	\$ 1,072,308	841,250
	125,000	7.16	24.75	9/28/10		
Christopher C. Milliken	47,133	2.70	27.50	7/28/10	363,867	32,977
	4,900	0.28	24.75	9/28/10		
N. David Spence	29,000	1.66	27.50	7/28/10	223,880	74,030
	11,000	0.63	24.75	9/28/10		
Theodore Crumley	37,500	2.15	27.50	7/28/10	289,500	158,155
	23,500	1.35	24.75	9/28/10		
John W. Holleran	37,500	2.15	27.50	7/28/10	289,500	47,110
	7,000	0.40	24.75	9/28/10		
A. Ben Groce	24,100	1.38	27.50	7/28/10	155,172	100,950
	15,000	0.86	24.75	9/28/10		
Executive officers as a group	832,242	47.64	26.77	7/28/10-9/28/10	6,208,376	
Nonofficer employees as a group	914,571	52.36	27.61	4/21/10-7/28/10	7,097,226	

(1) Under the KESOP, the exercise price must be the fair market value at the date of grant. Options granted under this plan during 2000 were fully vested when granted. Except under limited circumstances, however, the options are not exercisable until one year after the date of the grant. Under the plan, no options may be granted after July 24, 2004. The exercise price of options granted to executive officers as a group and nonofficer employees as a group is the weighted average of options granted during 2000.

(2) "Grant Date Present Value" has been calculated using the Black-Scholes model of option valuation, with assumptions of: (a) a risk-free interest rate of 6%, (b) expected stock price volatility of 30%, (c) expected option term of 4.2 years, and (d) expected dividends of \$0.60/share. Based on this model, the calculated values of the options on July 27, 2000, and September 27, 2000 (grant dates), are \$7.72 and \$6.73 per share granted. This value does not necessarily represent the amount an option holder may ultimately realize upon exercise of an option.

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The following table sets forth the shares acquired and gross value (without adjustment for personal income taxes and fees, if any) realized by the top six executives when they exercised their stock options during 2000 and also states the year-end gross value of unexercised stock options held by these executives.

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Aggregate Option/SAR Exercises for 2000 and 2000 Option/SAR Values

Name	Shares Acquired Upon Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options/SARs at 12/31/00 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs at 12/31/00 (\$) Exercisable/ Unexercisable (2)
George J. Harad	36,600	\$ 172,364	706,900/263,900	\$ 3,009,200/1,960,138
Christopher C. Milliken	146,400	548,725	0/ 52,033	0/ 332,177
N. David Spence	16,000	57,826	153,100/ 40,000	499,913/ 275,250
Theodore Crumley	15,000	52,425	174,300/ 61,000	509,363/ 438,250
John W. Holleran	2,900	11,238	158,300/ 44,500	562,625/ 291,813
A. Ben Groce	0	0	122,200/ 39,100	544,175/ 280,738

- (1) The "value realized" represents the difference between the option's exercise price and the value of the company's common stock at the time of exercise. For Mr. Milliken, this figure represents the value realized on the exercise of BCOP stock options in conjunction with the completion of the company's repurchase of BCOP's outstanding minority interest.
- (2) This column indicates the aggregate amount, if any, by which the common stock share price on December 29, 2000, \$33.625, exceeded the options' exercise price.

Long-Term Incentive Plans Table

This table details the stock units contributed by the company during 2000 under our 1995 Executive Officer Deferred Compensation Plan ("DCP") and Key Executive Performance Plan ("KEPP") to the six executives named in the Summary Compensation Table. The company's contribution is equal to 25% of each participant's contribution to the stock unit account in the plans. Each stock unit is equal in value to the market value of one share of the company's common stock. Stock units accumulate "dividends" similar to normal stock ownership. These dividends are included in the figures set out in this table.

Long-Term Incentive Plans Awards in 2000

Name	Number of Units DCP (1)	Number of Units KEPP (2)	Performance Period Until Maturation (3)
George J. Harad	490	0	2000-2004
Christopher C. Milliken	0	0	2000-2004
N. David Spence	730	0	2000-2004
Theodore Crumley	482	0	2000-2004
John W. Holleran	858	0	2000-2004
A. Ben Groce	480	0	2000-2004

- (1) The company's DCP is an unfunded plan pursuant to which executive officers may irrevocably elect to defer receipt of a portion (6% to 20%) of their base salary until termination of employment or beyond. Amounts deferred through December 31, 2000, are credited either with (a) interest at a rate equal to 130% of Moody's Composite Average of Yields on Corporate Bonds or (b) stock units.
- (2) The company's KEPP is an unfunded variable compensation plan pursuant to which executive officers may irrevocably elect to defer all or a portion of any payout. Deferred amounts are credited either with (a) interest at the prime rate offered by the Bank of America NT & SA each January 1 or (b) stock units.
- (3) These stock units vest 20% per year over a five-year period. They may be paid out (in shares of company common stock) only after a participant's employment with the company has ended.

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Other Benefit Plans

Deferred Compensation

Under our 1982 Executive Officer Deferred Compensation Plan, executive officers elected before January 1, 1987, could defer between 6% and 10% of their total compensation earned during a period of four years. In addition, each participant could elect to have an amount up to 3.6% of his or her compensation imputed to deferrals under the plan in lieu of matching contributions to the Savings and Supplemental Retirement Plan ("SSRP"). This plan is not funded, and its cost is largely offset by participant salary deferrals.

The benefit payable to each participant under this plan upon retirement at age 65 is determined by the amount of salary deferred, any amount we have contributed, and the number of years to normal retirement age at the time of contribution. We pay the benefits in equal monthly installments up to 15 years. Participants may also elect to receive their accrued balance in a lump sum, but they will incur a 10% penalty and will be suspended from making contributions to any of our deferred compensation plans for a period of 12 months.

The following table outlines the contributions and benefits under this plan for Mr. Harad as of December 31, 2000.

Name	Projected Years of Service Upon Attainment of Age 65	Participant's Total Contribution	Annual Benefit at Age 65
George J. Harad	38	\$ 87,225	\$ 118,120

Pension Plan

The estimated annual benefits payable upon retirement at age 65 under this plan for specified high-five-year average remuneration and years-of-service classifications are set out in the following table.

Pension Plan Table

Remuneration	Years of Service					
	15	20	25	30	35	40

\$ 300,000	\$ 56,250	\$ 75,000	\$ 93,750	\$ 112,500	\$ 131,250	\$ 150,000
400,000	75,000	100,000	125,000	150,000	175,000	200,000
500,000	93,750	125,000	156,250	187,500	218,750	250,000
600,000	112,500	150,000	187,500	225,000	262,500	300,000
700,000	131,250	175,000	218,750	262,500	306,250	350,000
800,000	150,000	200,000	250,000	300,000	350,000	400,000
900,000	168,750	225,000	281,250	337,500	393,750	450,000
1,000,000	187,500	250,000	312,500	375,000	437,500	500,000
1,200,000	225,000	300,000	375,000	450,000	525,000	600,000
1,400,000	262,500	350,000	437,500	525,000	612,500	700,000
1,600,000	300,000	400,000	500,000	600,000	700,000	800,000

The pension plan entitles each vested employee, including executive officers, to receive a pension benefit at normal retirement equal to 1¹/₄% of the average of the highest five consecutive years of compensation (as defined in the plan) out of the last ten years of employment, multiplied by the employee's years of service.

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Under the plan, "compensation" is the employee's base salary plus any amounts earned under the company's variable incentive compensation programs (only "Salary" and "Bonus" from the Summary Compensation Table). As of December 31, 2000, the average of the highest five consecutive years of compensation for 1991 through 2000 and the years of service for the named executives are as follows:

Name	Compensation	Years of Service
George J. Harad	\$ 1,403,912	30
Christopher C. Milliken	521,225	23
N. David Spence	512,299	24
Theodore Crumley	514,414	30
John W. Holleran	425,757	22
A. Ben Groce	394,096	21

As shown in the Pension Plan Table above, benefits are computed on a straight-life annuity basis and are not offset by social security or other retirement-type benefits. An employee is 100% vested in his or her pension benefit after five years of service, except for breaks in service. If an employee is entitled to a greater benefit under the plan's formula than the Internal Revenue Code allows for tax-qualified plans, the excess benefits will be paid from the company's general assets under the unfunded Supplemental Pension Plan. The Supplemental Pension Plan will also provide payments to the extent that participation in these deferred compensation plans has the effect of reducing an individual's pension benefit under the qualified plan.

In the event of a change in control (as defined in the plan), the plan restricts our ability or our successor's ability to recoup surplus plan assets, if any exist. In general, after a change in control, the participants and beneficiaries will receive the plan's surplus assets, if any, on a pro rata basis if the plan is terminated, merged or consolidated with another plan, or the assets are transferred to another plan. After a change in control, a majority (in both number and interest) of plan participants and beneficiaries must consent to amend this provision.

Supplemental Early Retirement Plan

The Supplemental Early Retirement Plan applies to executive officers:

55 years old or older;

who have ten or more years of service;

who have served as an executive officer for at least five full years; and

who retire before age 65.

Eligible officers receive an early retirement benefit prior to age 65 equal to the benefit calculated under the Pension Plan for Salaried Employees without reduction due to the officer's early retirement.

Executive Officer Agreements

Our executive officers have agreements that formalize their severance benefits if the executive officer is terminated after a change in control of the company (as defined in the agreement). The agreements provide severance benefits and protect other benefits that the officers have already earned or reasonably expect to receive under our employee benefit plans. The officer will receive the benefits provided under the agreement if, after a change in control, the officer's employment is terminated other than for cause or disability (as defined in the agreement) or if the officer terminates employment after actions (as specified in the agreement) that adversely affect the officer are taken.

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Under the agreement, the officer must remain employed with us for six months following the first potential change in control.

These agreements help ensure that we will have the benefit of these officers' services without distraction in the face of a potential change in control. The board of directors believes that the agreements are in the best interests of our shareholders and the company.

The benefits under the agreements include:

the officer's salary through the termination date;

severance pay equal to three times the officer's annual base salary and target incentive pay, less any severance pay that the officer receives under the Severance Pay Policy for Executive Officers, which is currently the amount of the officer's annual base salary;

vacation pay according to our Vacation Policy;

any earned but unpaid bonus under the Key Executive Performance Plan (or any substitute plan) for the year preceding termination;

an award under the Key Executive Performance Plan (or any substitute plan) equal to the greater of:

- (a) the officer's target award prorated through the month in which the officer is terminated; or
- (b) the actual award through the end of the month prior to termination based upon the award criteria for the applicable plan, prorated through the month in which the officer is terminated;

benefits under the Supplemental Early Retirement Plan; and

additional retirement and other employee benefits.

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The agreements provide four additional benefits. First, we will maintain for up to one year all employee benefit plans and programs in which the officer was entitled to participate immediately prior to termination or we will substitute similar arrangements. Second, we will maintain our participation in the Split-Dollar Life Insurance Plan until the officer's insurance policy under that plan is fully paid. Third, we will pay legal fees and expenses that the officer incurs to enforce his or her rights or benefits under the agreement. Fourth, we will increase the officer's total payments under the agreement to cover any excise taxes imposed by the Internal Revenue Service as a result of such payments.

The estimated amount of payments and other benefits (not including legal fees, if any) each named executive officer would receive under the agreement based on 2000 compensation figures (in excess of the benefits to which the officer is entitled without the agreement) is:

George J. Harad	\$	6,613,512
Christopher C. Milliken		2,769,446
N. David Spence		1,814,784
Theodore Crumley		2,329,595
John W. Holleran		2,442,999
A. Ben Groce		1,841,309

(Payments which would be made subsequent to the termination date have been discounted as of December 31, 2000, at a rate of 6.95%, according to the requirements of Section 280G of the Internal Revenue Code.) Actual payments made under the agreements at any future date would

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vary, depending in part upon what the executive has accrued under the variable compensation plans and benefit plans and upon the market price of our common stock.

Each agreement is effective until December 31, 2003. The agreements are automatically extended each January 1 for a new three-year period, unless we notify the officers by September 30 of the preceding year that we do not wish to extend the agreements.

Deferred Compensation and Benefits Trust

The company has established a deferred compensation and benefits trust. This trust is intended to ensure that participants and beneficiaries under our nonqualified and unfunded deferred compensation plans and the executive officer agreements will receive the benefits they have earned in the event of a change in control of the company (as defined in the plans and the agreements). The trust will not increase the benefits to which any individual participant is entitled under the covered plans and agreements. If a potential change in control occurs, the trust will be revocably funded. If an actual change in control occurs, the trust will be irrevocably funded and will pay benefits to participants in accordance with the plans and agreements. The trustee will receive fees and expenses either from us or from the trust assets. If the company becomes bankrupt or insolvent, the trust assets will be accessible to the claims of the company's creditors.

Indemnification

To the extent that Delaware law permits, we will indemnify our directors and officers against liabilities they incur in connection with actual or threatened proceedings to which they are or may become parties and which arise from their status as directors and officers. We insure, within stated limits, the directors and officers against these liabilities. The aggregate premium on the insurance policies for 2000 was \$662,200.

Other Information

Shareholder Proposals for the 2002 Annual Meeting

If you wish to submit a proposal to be included in our 2002 proxy statement, we must receive it no later than November 6, 2001.

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All other proposals to be presented at the meeting must be delivered to our corporate secretary, in writing, no later than January 20, 2002. According to our bylaws, your notice must include:

a brief description of the business you wish to bring before the meeting and the reasons for conducting the business at the meeting;

your name and address;

the class and number of shares of our stock which you beneficially own; and

any material interest you have in the business to be brought before the meeting.

The chairperson of the meeting may disregard any business not properly brought before the meeting according to our bylaws.

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Shareholder Nominations for Directors

If you wish to suggest a nominee for the Governance Committee's consideration, write to Karen E. Gowland, vice president and corporate secretary, 1111 West Jefferson Street, P.O. Box 50, Boise, Idaho 83728-0001. You should describe in detail your proposed nominee's qualifications and other relevant biographical information and indicate whether the proposed nominee is willing to accept nomination.

The Governance Committee will consider director nominees from shareholders for election at the annual shareholders meeting if our corporate secretary receives a written nomination not less than 30 days or more than 60 days in advance of the meeting. According to our bylaws, your notice of nomination must include:

your name and address;

each nominee's name, age, and address;

each nominee's principal occupation or employment;

the number of shares of our stock which the nominee beneficially owns;

the number of shares of our stock which you beneficially own;

any other information that must be disclosed about nominees in proxy solicitations under Regulation 14A of the Securities Exchange Act of 1934; and

each nominee's executed consent to serve as our director if elected.

The chairperson of the meeting may disregard any nomination not made in accordance with the above procedures.

Boise Cascade's Annual Report and Form 10-K

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We are mailing you our 2000 Annual Report with this proxy statement. We will file our Form 10-K with the SEC in March. Copies of the 2000 Annual Report to Shareholders and Annual Report on Form 10-K can be obtained at no charge from our Corporate Communications Department, 1111 West Jefferson Street, P.O. Box 50, Boise, Idaho 83728-0001, 208/384-7990, or through our Internet home page at www.bc.com. Our financial statements are also on file with the SEC and with the New York Stock Exchange. You can obtain copies of these statements through the Securities and Exchange Commission's web site at www.sec.gov.

We request that you promptly sign, date, and return the enclosed proxy so that it will be available for use at the meeting.

Karen E. Gowland
Vice President
and Corporate Secretary

March 6, 2001

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APPENDIX A Audit Committee Charter

RESOLVED THAT:

1. Pursuant to Section 23 of the Corporation's Bylaws, there is hereby established an Audit Committee (the "Committee") of this Board of Directors consisting of at least five members. Each member shall meet the following requirements:
 - a. he or she is not an officer or employee of the Corporation;
 - b. he or she has no relationship to the Corporation that may interfere with the exercise of independence from management and the Corporation;
 - c. he or she is financially literate or becomes financially literate within a reasonable time following appointment to the Committee; and
 - d. he or she has received adequate orientation to assure understanding of the business environment in which the Corporation operates.

In addition, at least one member of the Committee will have accounting or related financial management expertise.
2. The primary purpose of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: the financial reports and other financial information provided by the Corporation; the Corporation's systems of internal controls regarding finance, accounting, legal compliance, and business standards that management and the Board have established; the scope of audit and nonaudit services provided by the independent auditor; and the Corporation's auditing, accounting, and financial reporting processes generally. In carrying out these responsibilities, the Committee shall perform the following functions:
 - a. Nominate for shareholder approval each year, review, and, where appropriate, replace a firm of independent certified public accountants as the Corporation's independent auditor. The independent auditor is ultimately accountable to the Committee and the Board;
 - b.

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Review with management and the independent auditor the audited annual financial statements to be included in the Corporation's Annual Report on Form 10-K, recommend to the Board whether the audited annual financial statements should be included in the Annual Report on Form 10-K, and review and consider with the independent auditor the matters required to be discussed by Statement of Auditing Standards ("SAS") No. 61, as amended;

- c. Engage the independent auditor to review interim financial statements to be included in quarterly reports on Form 10-Q in accordance with SAS No. 71. At the independent auditor's request and before the Form 10-Q is filed, if possible, discuss with the auditor, as a whole or through the Committee chairperson, any matters that may have affected the quality of the Corporation's financial reporting, including significant events, transactions, and changes in accounting estimates;
- d. Each year, request from the independent auditor a formal written statement describing all relationships between the auditor and the Corporation, discuss with the auditor all disclosed relationships and their impact on the auditor's independence, and recommend that the Board take appropriate action in response to the auditor's report to satisfy itself of the auditor's independence; and

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- e. Discuss with management and the independent auditor the quality and adequacy of the Corporation's internal controls.

3. In discharging its oversight responsibilities, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation and to retain outside counsel, auditors, or other experts for this purpose.

4. Except for proposals considered by the Board, the Committee shall be responsible for reviewing any significant related party transaction (e.g., loans, sales, purchases, leases, stock purchases, ownership in subsidiaries) between the Corporation and any officer, director, or principal shareholder to determine if the transaction should be entered into, continued, or eliminated.

5. While the Committee has the oversight responsibilities and the powers set forth in this resolution, it is not the Committee's duty to plan or conduct audits or to determine that the Corporation's financial statements are complete, accurate, or in accordance with generally accepted accounting principles. Nor is it the Committee's duty to conduct investigations to assure compliance with laws, regulations, or the Corporation's Standards of Business Conduct Policy. Management is responsible for these duties. The independent auditor is responsible for providing a report expressing its opinion regarding the Corporation's financial statements based on an audit conducted in accordance with U.S. generally accepted auditing standards.

Cost of products and services sold(22.404.197) (61.808.609) (3.416.300) (22.229.777) (5.709.125) 62.674.691 (52.893.317)

Gross profit25.895.476 10.985.398 1.342.179 2.317.150 2.980.693 (671.511)42.849.385 **Operating expenses**(2.318.445) (2.951.714) (3.120.019) (1.467.597) (1.703.526) (4.035.978) 280.710 (15.316.569)

Selling, general and administrative expenses(369.967)(2.315.815) (417.699)(1.267.496) (909.623)(1.534.205) 280.710 (6.534.095) Taxes(232)(73.117)(29.825)(146.413)(93.833)(639.191) (982.6 costs for the extraction of crude oil and gas(1.279.240) (358.578) (1.637.818) Costs of research and technological development(260.847)(134.220)(17.543) (1.933)(156.307) (570.850) Other operating expenses(408.159)(428.562)(2.654.952) (53.688)(339.559)(1.706.275) (5.591.195)

Operating income (loss) (1)23.577.031 8.033.684 (1.777.840) 849.553 1.277.167 (4.035.978) (390.801)27.532.816 Financial expenses, net(13.037)116.209 156.539 (189.700)26.650 1.442.220 (188.751)1.350.130 Participation in affiliated companies 188.079 56.384 (171.432)(1.082.152) (1.009.121) Monetary restatement(383.456)(69.109)(4.447)(3.473)(35.228)11.005 (484.708)

Income(loss) before income tax, social contribution, profit sharing for employees and management and minority interest23.180.538 8.268.863 (1.569.364) 656.380 1.097.157 (3.664.905) (579.552)27.389.117 Income tax and social contribution(7.978.829) (2.740.792) 971.905 (220.697)(209.858)2.196.419 166.155 (7.815.697) Minority interest (96.637)(656.810) (130.862) (884.309)Profit sharing for employees and management(376.090)(232.693)(5.377)(82.189)(9.758)(188.335) (894.442)

Net income (loss) for the year14.825.619 5.198.741 (1.259.646) 353.494 746.679 (1.656.821) (413.397)17.794.669

2004							
INTERNATIONAL AREA	E&P	Supply	Gas & Energy	Distribution	Corporate	Eliminations	Total
Assets	13,575,741	3,338,845	4,231,422	589,042	5,505,939	(5,953,745)	21,287,244
Statement of Income							
Net operating revenue	4,778,547	5,833,686	2,060,508	2,428,514	47,419	(4,555,097)	10,593,577
Intersegments	2,871,676	2,962,487	322,724	39,382		(4,555,097)	1,641,172
Third parties	1,906,871	2,871,199	1,737,784	2,389,132	47,419		8,952,405
Operating income (loss)	1,576,573	628,135	466,555	(387,623)	(383,584)	37,886	1,937,942
Net income (loss)	340,336	569,039	365,310	(275,859)	(691,599)	39,487	346,714
2003							
INTERNATIONAL AREA	E&P	Supply	Distribution	Gas & Energy	Corporate	Eliminations	Total
Assets	13,533,841	3,465,068	551,351	4,358,168	6,540,410	(5,845,436)	22,603,402
Statement of Income							
Net operating revenue	4,290,488	4,827,387	1,880,997	1,315,209	41,991	(3,666,254)	8,689,818
Intersegments	2,069,214	1,997,035	19,194	219,475		(3,666,254)	638,664
Third parties	2,221,274	2,830,352	1,861,803	1,095,734	41,991		8,051,154
Operating income (loss)	1,177,371	183,767	(29,448)	292,356	(333,564)	(13,315)	1,277,167
Net income (loss)	391,456	86,037	(82,036)	355,761	20,415	(21,954)	746,679

The assumptions used to prepare this statement are described in Note 20.

The accompanying notes form an integral part of these financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS

ADDITIONAL INFORMATION TO THE FINANCIAL STATEMENTS

SOCIAL BALANCE SHEET

Years ended December 31, 2004 and 2003

(In thousands of reais)

1 Calculation basis	2004			2003		
Net revenues (RL)				108.201.479		95.742.702
Operating income (RO)				27.251.411		27.873.825
Gross payroll (FPB)				5.151.447		3.362.066
2 In-house social indicators	Amount	% of FPB	% of RL	Amount	% of FPB	% of RL
Meals	301.524	6%	0%	245.233	7%	0%
Mandatory social security	2.212.483	43%	2%	1.582.654	47%	2%
Private pension	387.175	8%	0%	331.099	10%	0%
Health care	587.585	11%	1%	429.129	13%	1%
Occupational safety and medical care	43.551	1%	0%	76.991	2%	0%
Education	84.082	2%	0%	18.531	1%	0%
Culture	1.775	0%	0%	148.556	4%	0%
Professional capacity-building and development	274.659	5%	0%	275.105	8%	0%
Day-care center allowances	1.570	0%	0%	41.868	1%	0%
Profit-sharing	783.224	15%	1%	894.442	27%	1%
Others	57.410	1%	0%	55.567	2%	0%
Total - In-house social indicators	4.735.038	92%	4%	4.099.175	122%	4%
3- External social indicators	Amount	% of RO	% of RL	Amount	% of RO	% of RL
Education	66.118	0%	0%	28.166	0%	0%
Culture	153.147	1%	0%	148.747	1%	0%
Healthcare and sanitation	7.969	0%	0%	ND	0%	0%
Sports	34.553	0%	0%	21.633	0%	0%
Food security and fight against hunger	32.904	0%	0%	17.796	0%	0%
Others	17.943	0%	0%	74.008	0%	0%
Total contributions to society (i)	312.634	1%	0%	290.350	1%	0%
Taxes paid (net of social security charges)	45.254.056	166%	42%	42.239.729	152%	44%
Total - External social indicators	45.566.690	167%	42%	42.530.079	153%	44%
4 Environmental indicators (i)	Amount	% of RO	% of RL	Amount	% of RO	% of RL
Investments related to corporate production/operations	1.515.625	6%	1%	2.249.751	8%	2%
Investments in external programs and/or projects	17.026	0%	0%	42.000	0%	0%

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Total investments in environmental activities	1.532.651	6%	1%	2.291.751	8%	2%
--	-----------	----	----	-----------	----	----

For establishing annual targets to minimize solid wastes and general production/operation consumption, while boosting the effective use of natural resources, the Company: *	(x) no targets established () 0 to 50% complianc	() 51 to 75% complian () 76 to 100% compliance	(x) no targets established	() 51 a 75% compliance () 76 a 100% compliance
--	--	---	----------------------------	---

5 - Employee indicators (i)

	2004	2003
Headcount at end of period	52.037	48.799
Admissions during period *****	3.355	2.389
Outsourced workers *****	146.826	123.266
On-the-job trainees/interns	660	ND
Employees over age 45 *****	15.313	13.229
Women working for the Company *****	4.857	4.406
% management positions held by women *****	9,40%	9,12%
Black people working for the Company ***	2.339	ND
% management positions held by black people ***	3,10%	ND
Workers with special needs ***	1.298	ND

The accompanying notes are an integral part of the financial statements.

6 Significant information on corporate citizenship

	2004	Targets for 2005
Ratio between the highest and lowest remuneration in the Company	41	41
Total industrial accidents ** (i)	505	446
The outreach and environmental projects implemented by the Company were defined by: (i)	() the Board and management	(x) the Board and management
	() all employees	() all employees
	() the Board and management	(x) the Board and management
	() all employees	() all employees
	() all employees + Cipa	() all employees + Cipa
	(x) the Board and management	(x) the Board and management
	() all employees	() all employees
	() all employees + Cipa	() all employees + Cipa
In terms of trade union initiatives, collective bargaining rights and in-house worker representation, the Company: (i)	() no involvement	(x) encourages and complies with the ILO
	() complies with the ILO	() complies with the ILO
	(x) encourages and complies with the ILO	(x) encourages and complies with the ILO
	() no involvement	() no involvement
	() complies with the ILO	() complies with the ILO
	(x) encourages and complies with the ILO	(x) encourages and complies with the ILO
The Private Pension Fund covers: ***** (i)	() the Board and management	(x) all employees
	() the Board and management	() the Board and management
	(x) all employees	(x) all employees
The Profit-Sharing Scheme includes: (i)	() the Board and management	(x) all employees
	() the Board and management	() the Board and management
	(x) all employees	(x) all employees
	() the Board and management	() the Board and management
	(x) all employees	(x) all employees
When selecting suppliers, the same ethical standards and social/environmental accountability criteria adopted by the Company: (i)	() not considered	(x) required
	() suggested	() suggested
	(x) required	(x) required
	() not considered	() not considered
	() suggested	() suggested
	(x) required	(x) required

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In terms of employee participation in voluntary work programs, the Company: (i)	() no involvement	() supports	(x) organizes and encourages	() no involvement	() support	(x) organizes and encourages
Total number of complaints and criticisms received from consumers: ***** (i)	at the Company <u>118.798</u>	at Procon <u>2</u>	at Court <u>1</u>	at the Company <u>200.000</u>	at Procon <u>0</u>	at Court <u>0</u>
% complaints and criticisms received or resolved: ***** (i)	at the Company <u>100%</u>	at Procon <u>50%</u>	at Court <u>0%</u>	at the Company <u>100%</u>	at Procon <u>100%</u>	at Court <u>100%</u>
Total added value for distribution:	In 2004: 97.198.174			In 2003: 80.996.341		
Distribution of added value (DVA):	61% government 6% shareholders	7% staff 13% third parties	13% withheld	65% government 8% shareholders	6% staff 6% third parties	15% withheld

7 Other information

1)

This company does not make use of children's labor or slave work. (i)

(i)

Unaudited.

(*)

Implementation of a solid waste management system was initiated in 2001. As of 2005, the Health, Environment and Safety (SMS) Management Committee will monitor the indicators referring to hazardous solid waste, consolidating information on generation, treatment and disposal of this material.

(**)

The indicator relating to this item refers to the Accidents with Downtime Frequency Rate (TFCA), indicating the number of employees or outsourced personnel absent from work due to accidents per 1 million men-hours exposed to the risk. This indicator complies with international standards and the related target established by PETROBRAS for 2005 is 0,92 which, considering an estimated 485 million men-hours' exposure to the risk during the period, is equivalent to 446 accidents with downtime.

(***)

The figure disclosed was estimated considering a national research conducted on the internet, on a self-declaratory basis, which prompted completion of the fields. 33,04% of PETROBRAS Holding's employees took part in the research. A census is expected to be conducted in 2005.

(****)

In 2003, PETROBRAS established a task force, including FUP and PETROS, with a view to proposing alternative options for the supplementary pension plan framework. New employees are provided with life insurance taken out and funded by the Company, which will be in effect until a new private pension plan is defined by the Company.

(*****)

Refers to PETROBRAS Holding.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS

NOTES TO THE FINANCIAL STATEMENTS (CONSOLIDATED AND PARENT COMPANY)

At December 31, 2004 and 2003

(In thousands of reais)

1. Consolidation principles

The consolidated financial statements as of and for the years ended December 31, 2004 and 2003 were prepared in accordance with accounting practices adopted in Brazil and supplementary standards of the Brazilian Securities Commission (CVM), and include the financial statements of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and the following subsidiaries and jointly-owned subsidiaries:

	Ownership of capital - %			
	2004		2003	
	Subscribed and paid-up	Voting	Subscribed and paid-up	Voting
Subsidiaries				
PETROBRAS QUÍMICA S.A. PETROQUISA and subsidiaries	99,00	99,99	99,00	99,99
PETROBRAS DISTRIBUIDORA S.A. BR and subsidiaries	99,99	99,90	99,20	99,90
BRASPETRO OIL SERVICES COMPANY - BRASOIL and subsidiaries (i)	99,99	99,99	99,99	99,99
BRASPETRO OIL COMPANY - BOC and subsidiaries (i)	99,99	99,99	99,99	99,99
PIB BV PETROBRAS INTERNATIONAL BRASPETRO and subsidiaries (i)	99,99	99,99	99,99	99,99
PETROBRAS COMERCIALIZADORA DE ENERGIA LTDA. - PCEL	100,00	100,00	100,00	100,00
PETROBRAS NEGÓCIOS ELETRÔNICOS S.A. and subsidiary	99,95	99,95	99,95	99,95
PETROBRAS GÁS S.A. - GASPETRO and subsidiaries	99,90	99,99	99,90	99,99
PETROBRAS INTERNATIONAL FINANCE COMPANY PIFCo and subsidiaries (i)	99,99	99,99	99,99	99,99
PETROBRAS TRANSPORTE S.A. TRANSPETRO and subsidiary	100,00	100,00	100,00	100,00
DOWNSTREAM PARTICIPAÇÕES S.A. and subsidiaries	99,99	99,99	99,99	99,99
PETROBRAS NETHERLANDS BV and subsidiaries	100,00	100,00	100,00	100,00
UTE NOVA PIRATININGA LTDA.	100,00	100,00	100,00	100,00
FAFEN ENERGIA S.A.	100,00	100,00		
TERMOR PARTICIPAÇÕES S.A. (iii)			100,00	100,00
Jointly-owned subsidiaries (ii)				
TERMOGAÚCHA Usinas Termoeletricas S.A.	25,00	25,00	25,00	25,00

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TERMOSERGIPE S.A.	20,00	20,00	20,00	20,00
TERMOAÇU S.A.	39,00	39,00	30,00	30,00
TERMORIO S.A.	50,00	50,00	50,00	50,00
IBIRITERMO S.A.	50,00	50,00	50,00	50,00
TERMOBAHIA LTDA.	29,00	29,00	29,00	29,00
USINA TERMOELÉTRICA NORTE FLUMINENSE S.A.	10,00	10,00	10,00	10,00
GNL DO NORDESTE LTDA.	50,00	50,00	50,00	50,00

- (i) Companies located overseas, whose financial statements are prepared in the respective local currencies.
(ii) Companies with shared management, consolidated in proportion to the Company's holdings in total capital.
(iii) Disposed of in December 2004.

The consolidation process for the balance sheet and income statement accounts reflects the aggregate value of the assets, liabilities, income and expense account balances, according to their nature, together with the following eliminations:

- ◇ the participations in capital and reserves held among the companies;
- ◇ the balances of intercompany current accounts and other asset and/or liability accounts held among the companies;
- ◇ unrealized results, current assets and permanent assets arising from intercompany transactions;
- ◇ the effects of significant transactions between the companies.

The discount not eliminated is presented in the consolidated statements as deferred income.

The reconciliation between consolidated shareholders' equity and net income (loss) for the year and the corresponding amounts of PETRÓLEO BRASILEIRO S.A. (PETROBRAS (parent company)), at December 31, is as follows:

	Shareholders' equity		Net income (loss) for the year	
	2004	2003	2004	2003
Consolidated financial statements	62.271.563	49.367.329	17.860.754	17.794.669
Gains on the sale of products in stock of subsidiaries, net of taxes	186.281	163.076	186.281	163.076
Reversal of gains in prior year inventories			(163.076)	(163.860)
Capitalized interest	436.515	515.508	67.601	219.355
Absorption (partial reversal) of negative shareholders' equity of subsidiary (*)	655.390	1.103.170	(308.047)	(838.960)
Other eliminations	703.887	370.489	110.658	350.426
Parent company financial statements	64.253.636	51.519.572	17.754.171	17.524.706

(*) According to CVM Instruction No. 247/96 and Circular Letter/ CVM/SNC/SEP/No. 04/96, the losses considered to be non-permanent (temporary) on investments recorded under the equity method, for which the investee companies do not show signs of closing down business or the need of financial support from the investor, should be limited to the value of the investment in the subsidiary. Therefore, unsecured liabilities (negative shareholders' equity) of subsidiaries did not influence the income or equity recorded by PETROBRAS in the financial years ended December 31, 2004 and 2003, generating a reconciliation item between the financial statements of PETROBRAS and the consolidated financial statements.

2. Summary of significant accounting policies

The financial statements (consolidated and parent company) were prepared in accordance with the accounting practices adopted in Brazil, in conformity with the provisions of Brazilian Corporate Law (Lei das Sociedades por Ações) and supplementary standards established by the Brazilian Securities Commission (CVM), in accordance with the following accounting practices:

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Some balance sheet accounts for December 31, 2003 were reclassified for consistency purposes.

(a) Determination of net income, current and noncurrent assets and liabilities

Net income is accounted for on an accrual basis and include: revenues, expenses and monetary or exchange variations, based upon official indexes or rates, calculated on current and noncurrent assets and liabilities as well as, where applicable, the adjustment of assets to market or net realizable values and provision for uncollectible accounts established in amounts considered sufficient to cover possible losses on accounts receivable.

(b) Inventories

Inventories are stated as follows:

- ◇ Raw materials comprise principally crude oil inventories, which are stated at average importation and production cost, not exceeding market value.
- ◇ Oil products and alcohol are stated at average refining or purchase cost, adjusted, when applicable, to their net realizable value.
- ◇ Materials and supplies are stated at average purchase price not exceeding replacement value; imports in transit are stated at identified cost and advances are shown at the amounts effectively paid.

(c) Permanent assets

Permanent assets are recorded at acquisition cost, plus monetary restatement until December 31, 1995 for the companies incorporated in Brazil and until December 31, 2002 for the companies incorporated in Argentina, and comprise the following:

(i) Investments

Investments in subsidiaries, jointly-owned subsidiaries and affiliated companies (Note 9) are carried at the proportional interest in the book value of the investees under the equity accounting method. Exchange gains or losses on investments abroad are also reflected as participation in the results of subsidiaries and affiliated companies.

(ii) Property, plant and equipment

Depreciation of equipment and installations related to oil and gas production is based on the volume of monthly production in relation to the proven developed reserves of each production field. Assets whose estimated useful lives are shorter than the related field are depreciated on a straight-line basis. Depreciation of other equipment and assets not related to the production of oil and gas is based on their estimated useful lives.

The costs incurred with exploration and production of oil and gas are recorded in accordance with the successful efforts method and include estimated abandonment costs discounted to present value. This method requires that the costs related to the development of all production wells and successful exploratory wells on proven reserves are capitalized. In addition, the costs relating to geological and geophysical activities are charged as expenses in the period incurred and the costs relating to dry wells and to those on unproven reserves are charged as expenses when determined as dry or uneconomical.

The capitalized costs and related assets are reviewed annually, on a field-by-field basis, to identify possible impairment losses, taking into consideration the estimated future cash flows for the fields.

The capitalized costs are depreciated based on the unit-of-production method using proven developed reserves. These reserves are estimated by the Company's geologists and petroleum engineers in accordance with international standards and are reviewed annually or when there are indications of significant changes in the reserves.

(d) Income tax and social contribution

These taxes are calculated and recorded based on the rates in effect at the balance sheet date. Deferred taxes are recognized based on timing differences and tax loss carryforwards, whenever applicable.

(e) Employee benefits

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The provision for actuarial liabilities related to pension and retirement benefit plans and to health care benefits is recorded in accordance with the procedures stipulated in CVM Resolution No. 371/00, based on an actuarial calculation prepared by an independent actuary according to the projected credit unit method, net of plan assets, when applicable. The cost corresponding to the increase in the present value of the liability resulting from the services provided by the employees is recognized during the working life of the employees.

The projected credit unit method considers each service period as a triggering event of an additional benefit unit and the units are accumulated to calculate the final liability. In addition, other actuarial assumptions are used, such as an estimate of the evolution of health care costs, biometric and economic hypotheses and also historical data on expenses incurred and employee contributions.

(f) Programmed maintenance (Campaign)

The provision for maintenance of industrial units and vessels is recognized in the period prior to each shutdown, based on the total estimated maintenance costs.

(g) Discount on asset swap

The discount recorded on asset swap (Note 9e) is derived from expected future earnings of the investee company and has been amortized over the period and to the extent of the projections that gave rise to the discount.

(h) Change in accounting practices – abandonment of wells and demobilization of areas

As of January 1, 2003, the Company has adopted a new accounting practice to recognize costs associated with well abandonment and the demobilization of areas and corresponding liabilities in connection with oil and gas production and exploration activities. The adjustments arising from this change resulted in a decrease in the abandonment provision recorded as liabilities against prior year adjustments in shareholders' equity in 2003.

In accordance with the new accounting practice, based on Statement SFAS 143 - Accounting for Asset Retirement Obligations issued by the Financial Accounting Standards Board (FASB), the future liability with well abandonment and demobilization of production areas at present value discounted at a free-risk rate, is fully recorded upon the start-up of production activities as part of the costs of the related assets (property, plant and equipment) against the provision supporting these costs, recorded in liabilities.

(i) Use of estimates

The preparation of financial statements in conformity with accounting practices requires management to use estimates and assumptions regarding the disclosure of assets and liabilities and contingent assets and liabilities at the balance sheet date, as well as estimates regarding revenues and expenses for the year. Actual amounts may differ from estimates.

(j) Additional information to the financial statements

For purposes of providing additional information, the following statements are presented: (a) statement of cash flows, prepared in accordance with Accounting Standards and Procedures NPC 20, issued by the the Institute of Independent Auditors of Brazil IBRACON; (b) statement of value added, prepared in accordance with Resolution CFC No. 1.010 issued by the Federal Accountancy Board on January 21, 2005; (c) social balance sheet, prepared in accordance with Resoultion CFC No. 1.003 issued by the Federal Accountancy Board on August 19, 2004; and (d) statement of segmentation of business, prepared in accordance with International Accounting Standard SFAS-131 issued by the Financial Accounting Standards Board.

3. Cash and cash equivalents

	Consolidated		Parent company	
	2004	2003	2004	2003
Cash and banks	1.644.488	2.214.663	921.166	1.513.996
Short-term investments				
Local				

Provision for uncollectible accounts				
Balance at January 1	2,267,515	2,448,596	116,705	99,927
Additions	340,054		14,263	16,778
Exclusions	(204,120)	(181,081)	(36,128)	
Balance at December 31	2,403,449	2,267,515	94,840	116,705
Provision for uncollectible accounts - short-term	401,323	319,414	94,840	116,705
Provision for uncollectible accounts - long-term	2,002,126	1,948,101		

5. Inventories

	Consolidated		Parent company	
	2004	2003	2004	2003
Products:				
Oil products (*)	4,544,778	2,607,012	3,211,804	1,893,914
Fuel alcohol	36,856	194,993	36,551	101,693
	4,581,634	2,802,005	3,248,355	1,995,607
Raw materials, mainly crude oil (*)	6,446,884	3,918,753	5,578,491	3,216,246
Maintenance materials and supplies (*)	1,854,551	1,991,092	1,570,905	1,756,178
Advances to suppliers	1,112,472	1,432,655	1,067,558	1,382,998
Other	423,095	250,644	90,318	31,703
Total	14,418,636	10,395,149	11,555,627	8,382,732

(*) includes imports in transit.

6. Petroleum and alcohol account - National Treasury Secretariat (STN)**(a) Deregulation of the Brazilian fuel market**

In accordance with the Petroleum Law and subsequent legislation, the fuel market in Brazil was fully deregulated as from January 1, 2002. Therefore, as of this date the Petroleum and Alcohol Account has no longer been used to reimburse expenses in connection with the Federal Government's stabilization policy on the price of oil products and fuel alcohol to PETROBRAS and third parties. This account will only include changes in amounts with triggering events having occurred before December 31, 2001, in accordance with Law No. 10.453, of May 13, 2002.

(b) Change in the Petroleum and Alcohol Account

	2004	2003
--	------	------

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Balance at January 1	689.360	643.925
Reimbursement to third parties		14.997
Reimbursement to PETROBRAS	4.221	219
Adjustments recommended by the Audit Committee	50.173	
Partial settlement	(8.095)	
Intercompany loan charges	13.129	30.219
Balance at December 31	748.788	689.360

(c) Settlement of accounts with the Federal Government

Formed by ANP Ruling No. 50, of April 19, 2002, the ANP/STN Integrated Audit Committee submitted, through Official Letter No. 11/2004, of June 23, 2004, its final report on the audit performed to certify and approve the balance of the Petroleum and Alcohol Account for the period from July 1, 1998 to December 31, 2001, enabling the conclusion of the ongoing process for the settlement of accounts between PETROBRAS and the Federal Government.

As defined by Law No. 10.742 dated October 6, 2003, the settlement of accounts should have been completed by June 30, 2004. After having provided all information required by the National Treasury Secretariat (STN), PETROBRAS has been in contact with the Ministry of Energy and Mines (MME) with a view to resolving the differences between the parties in order to conclude the settlement process as established by Provisional Measure No. 2.181-45, of August 24, 2001.

There were 138.791 National Treasury Notes series H (NTN-H), in the amount of R\$ 172.873 thousand, issued in favor of PETROBRAS for the purpose of guaranteeing payment of the debit balance of the Petroleum and Alcohol Account, such amount being less than the balance of the account.

On July 2, 2004, the Federal Government deposited R\$ 172.873 thousand referring to NTN-H expired on June 30, 2004, as a partial guarantee to the balance of the petroleum and alcohol account. Of the total amount, R\$ 8.095 were made available to PETROBRAS and the remaining R\$ 164.778 were deposited in an account open in the Company's name as a deposit linked to the order of STN. The remaining balance may be paid with National Treasury Bonds issued at the same amount as the final balance determined as a result of the process for the settlement of accounts, or other amounts that might be owed by PETROBRAS to the Federal Government, or a combination of the foregoing.

7. Marketable securities

At December 31, marketable securities negotiated in Brazil classified as noncurrent assets are comprised as follows:

	Consolidated		Parent company	
	2004	2003	2004	2003
Tax incentives FINOR	9.797	9.753	4.815	4.815
B Certificates	402.942	517.841		
Other	144.747	111.243	25	24
	557.486	638.837	4.840	4.839

B certificates, which were received by BRASOIL in 2002 on account of the sale of platforms in 2000 and 2001, have semi-annual maturity dates until 2011 and carry interest equivalent to the Libor rate plus 2,50% to 4,25% p.a.

8. Project financings

The Company develops projects with domestic and international finance agencies and companies in the oil and energy sector to establish operational partnerships for the purpose of making viable investments necessary in the business areas where PETROBRAS operates.

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Additionally, PETROBRAS has been participating in projects to implement thermoelectric power plants in Brazil, through the prepayment of expenses that in the future may be converted into shareholding interests, reimbursed through structured financing arrangements with third parties or incorporated into the productive assets of PETROBRAS.

(a) Ventures under negotiation

These balances involve project costs for which no partnership has yet been obtained as well as the balance of compensation for amounts already spent by PETROBRAS in the projects for which partnerships have been obtained. These amounts are classified under noncurrent assets as project financings, as shown below:

Projects	Consolidated		Parent company	
	2004	2003	2004	2003
Ute Piratininga			965.044	811.710
Malhas Sudeste/Nordeste Project		439.835		439.835
Optical fiber	106.971	76.786		
Gas Flow and Treatment Plan		236.683		236.683
Oil Flow and Treatment Plan	147.652	65.003	147.652	65.003
Other	35.812	31.209	35.812	31.209
Ventures under negotiation	290.435	849.516	1.148.508	1.584.440
Reimbursements receivable (Note 8b)	629.417	1.110.431	681.749	1.110.431
Total project financings	919.852	1.959.947	1.830.257	2.694.871

As the expenses with the gas flow and treatment plan in connection with the Cabiúnas Project refer to long-term service rendering, they were reclassified from ventures under negotiation to reimbursements receivable, in conformity with the service agreement between PETROBRAS, as subcontracted, and the consortium formed by the companies Toyo Engineering Corporation, headquartered in Japan, Setal Overseas Limited, located on the Cayman Islands and TOYO-SETAL do Brasil LTDA., headquartered in Macaé, Rio de Janeiro, Brazil.

The expenses with the Malhas Sudeste/Nordeste Project were reclassified from ventures under negotiation to reimbursements receivable due to the closing of the operation.

(b) Reimbursements receivable

The balance receivable, net of advances received corresponding to costs incurred by PETROBRAS respective to projects already negotiated with third parties, is classified under noncurrent assets as project financings and is broken down as follows:

Companies	Parent Comapny	
	2004	2003
Companhia Petrolífera Marlim CPM	39.715	39.715
NovaMarlim Petróleo S.A.	4.899	799.222
Fundação Petrobras de Seguridade Social-PETROS	218.295	382.511
EVM Leasing Corporation	276.269	726.698
Cayman Cabiunas Investment Co., Ltd.	995.709	619.244
Companhia de Recuperação Secundária CRSec	331.930	256.906
Nova Transportadora do Sudeste	230.936	

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Nova Transportadora do Nordeste	142.589	
Total	2.240.342	2.824.296
Advances received	(1.558.593)	(1.713.865)
Net	681.749	1.110.431

(c) Project financing obligations

Marlim Project - NovaMarlim Petróleo S.A.

PETROBRAS entered into a consortium on December 6, 2001 with the Special Purpose Company (SPC) NovaMarlim Petróleo S.A. and Companhia Petrolífera Marlim, for the purpose of optimizing the development of production in the Marlim field. These SPCs provided funds for the project, in the amount of R\$ 1.061.181 in 2004 (R\$ 1.454.403 in 2003), net of operating expenses already incurred by PETROBRAS of some R\$ 1.053.354 (R\$ 709.597 in 2003) and of assets transferred in the amount of R\$ 49.465, classified under current liabilities, as project financings. As of December 31, 2004, total expenses incurred in the acquisition of assets to be transferred by PETROBRAS to the project amounted to R\$ 44.614 (R\$ 838.937 in 2003), as mentioned in Note 8(b), and total expenses incurred in the project were R\$ 1.147.433 (R\$ 1.548.534 in 2003).

CLEP Project

By December 31, 2004, Companhia Locadora de Equipamentos Petrolíferos (CLEP) had transferred R\$ 5.143.010 (R\$ 2.018.981 in 2003) to PETROBRAS as advances for the future sale of assets by PETROBRAS. This amount, net of assets sold by PETROBRAS to CLEP in the amount of R\$ 1.727.224, totaled R\$ 3.415.786 (R\$ 2.018.981 in 2003) is classified as project financings under current liabilities.

(d) Accounts payable related with consortium in operation

As of December 31, 2004, PETROBRAS had consortium contracts for the purpose of supplementing the development of oil field production, and the related accounts payable to consortium partners, in the amount of R\$ 175.502 (R\$ 416.081 in 2003), were classified under current liabilities as project financings.

Project/Company	Consolidated		Parent company	
	2004	2003	2004	2003
Advances received				
Nova Marlim Petróleo S.A. (Note 8c)	1.061.181	1.454.403	1.061.181	1.454.403
Malhas Sudeste/Nordeste Project Cia. Locadora de Equipamento Petrolífero - CLEP (Note 8c)		270.556		270.556
			3.415.786	2.018.981
	1.061.181	1.724.959	4.476.967	3.743.940
Accounts payable for consortium in operation				
Companhia Petrolífera Marlim	110.274	322.041	110.274	322.041
Nova Marlim Petróleo S.A.		39.782		39.782
Albacora Japão Petróleo Ltda.	1.122		1.122	
Fundação Petros de Seguridade Social	64.106	54.260	64.106	54.260
	175.502	416.083	175.502	416.083

1.236.683 2.141.042 4.652.469 4.160.023

(e) Commitments with project financings

As determined by CVM Instruction No. 408, of August 18, 2004, the financial information of special purpose companies whose activities are directly or indirectly, individually or jointly controlled by a publicly-held company must be included in the consolidated financial statements of the latter company as of January 1, 2005.

The amounts for the SPCs' assets, liabilities and net equity, as well as the value of commitments assumed to acquire the assets, not yet incurred, are presented as follows:

Special Purpose Company	Property plant and equipment, net of assets	Other assets	Short- term	Financing		Commitments assumed to acquire the assets
				Long- term	Net equity	
		(i)	(i)	(i)		(ii)
Cia. Petrolífera Marlim	1.334.757	390.518	195.913	1.400.307	240.436	
Cayman Cabiúnas Investment Co. Ltd.	1.630.707	254.061	321.320	1.526.190	2.222	71.669
Barracuda and Caratinga Leasing Company B.V.	5.537.206	1.451.421	1.061.760	5.120.656	(80.481)	
EVM Leasing Corporation	701.895	431.887	313.116	790.313		
Albacora Japão Petróleo Ltda.	196.994	10.047	42.890	114.750	49.401	
Companhia de Recuperação Secundária (CRSec)	148.439	7.101	58.901	80.901	24.487	
PDET Onshore S.A.	3.699	105.942	109.598		45	
Nova Transportadora do Sudeste	303.361	12.319	10.623	301.877	3.180	774.779
Nova Transportadora do Nordeste	202.815	17.795	10.352	207.075	3.183	986.083
PDET Offshore S.A.		201.397	186.732		14.666	
Cia. Locadora de Equipamentos Petrolíferos - CLEP		9.893	66.933		416.897	
Subtotal	10.059.873	2.892.381	2.378.138	9.542.069	674.036	1.832.531
Funds raised but not allocated to projects		(2.655.310)	(2.200.962)	(454.348)		
Total	10.059.873	237.071	177.176	9.087.721	674.036	1.832.531

(i) Amounts net of operations with PETROBRAS and subsidiaries.

(ii) Refer to commitments assumed in the contracts, net of amounts already allocated to the projects.

(f) Special purpose companies**Albacora Project**

This project aims to develop the production of part of the Albacora oil field located in the Campos Basin. PETROBRAS formed a consortium with a special purpose company (SPC), Albacora Japan Petroleum Limited Company (AJPL). With funds of US\$ 170 million, derived from own capital (around 39% of total capital) provided by AJPL's shareholders and financing operations obtained in the international financial market, AJPL acquired assets from PETROBRAS (underwater equipment for oil production in the Albacora field). Among the obligations of each of the parties under the agreement, AJPL will provide its assets for the use of PETROBRAS, which will, in turn, be responsible for operating, maintaining and marketing of the oil produced in the field, and deliver to AJPL revenues equivalent to a fixed oil amount as previously defined in the agreement. On a quarterly basis, PETROBRAS and AJPL share the operational results generated by the consortium, in accordance with rules previously agreed upon. From January 1, 2004 to December 31, 2004, the shared amount received by AJPL as a result of the consortium operations amounted to US\$ 24,2 million (same amount in 2003), fully paid by PETROBRAS to AJPL by year end.

PCGC Project

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Under this project, PETROBRAS sold certain assets in connection with secondary recovery projects (water injection systems) related to Pargo, Carapeba, Garoupa, Cherne and other fields (PCGC) located in the Campos Basin to the SPC Companhia de Recuperação Secundária (CRSec), incorporated as a publicly-held company. CRSec provided funds to the Project in the amount of R\$ 196.191, which were used to acquire the related assets, later leased back to PETROBRAS. The funds used by CRSec for the purchase of assets derive from single series simple subordinated debentures of R\$ 180.000 issued on December 1, 2001, R\$ 161.800 of which were subscribed with maturity on December 1, 2008, and from shareholders' capital amounting to R\$ 43.456.

CRSec revenues arise solely from PETROBRAS monthly lease payments, which may be subject to increase in the event that CRSec revenues are not sufficient to cover the commitments undertaken before its financing sponsors. From January 1 to December 31, 2004, lease amounts paid to CRSec totaled R\$ 93.933 (R\$ 88.499 in 2003), which includes R\$ 26.061 paid in January for a review of lease amounts for 2003, and R\$ 5.656 of monthly lease amounts paid from January to December 2004.

(f) Special purpose companies

Espadarte, Voador, Marimba EVM Project

Through the structured project finance of the EVM Project, PETROBRAS sought to acquire underwater equipment and related assets for the production of oil in the Espadarte, Voador, Marimba and seven other smaller fields located in the Campos Basin. The EVM Project involves the SPC EVM Leasing Co. (EVMLC), based on the Cayman Islands. With funds generated by its capital (US\$ 123 million) and by financing operations obtained in the financial market (US\$ 746 million), EVMLC acquired the project's assets from and leases these assets back to PETROBRAS. Of a total estimated US\$ 991 million, assets equivalent to US\$ 857 million had been consolidated in the leasing agreement by December 31, 2004. In 2004, PETROBRAS paid EVMLC US\$ 156 million in lease installments, which are payable half-yearly on June 16 and December 16.

Guarantees provided by PETROBRAS within the scope of the project are: (i) pledge on pre-defined volumes of oil and on proceeds arising from the sale of such volumes in guarantee of the payment of lease amounts made by PETROBRAS; (ii) PETROBRAS commitment to open a bank account pursuant to Resolution No. 2.644 issued by the Brazilian Central Bank (BACEN) to deposit lease amounts, in case reais may not be translated into dollars; and (iii) pledge on an account in reais to receive deposits related to lease payments, in case reais may not be translated into dollars or in the case of any events that prevent deposits in the account maintained in accordance with BACEN Resolution No. 2.644.

Marlim Project

For the purpose of boosting the production of oil in the Marlim field, PETROBRAS entered into a consortium with the SPC Companhia Petrolífera Marlim (CPM). CPM participates in the consortium by providing assets, in the amount of US\$ 1.500 million, relating to underwater equipment for the production of oil, and PETROBRAS' participation in the consortium includes operating and maintaining these assets and marketing the oil produced.

With funds obtained from own capital (equivalent to US\$ 200 million) and from financing operations in local and foreign financial markets, CPM acquired assets from PETROBRAS, which were transferred to CPM and included in the Instrument for the Allocation of Assets for Consortium Formation, signed from time to time by PETROBRAS and CPM. Revenues arising from the commercialization of the field production are shared between the consortium members and CPM is entitled to a percentage varying between 2% and 30%, depending on the amount of funds necessary to cover its financial obligations. Under the related agreements, PETROBRAS is committed to covering any CPM cash shortfalls, if the consortium revenues transferred to CPM are not sufficient to cover all of its financial obligations.

Additionally, with a view to guaranteeing its obligations under the consortium agreement, PETROBRAS provides CPM with a pledge on up to 70% of the oil produced from the Marlim field, limited to 720 production days. CPM informs PETROBRAS of its intended revenues on a monthly basis and the consortium transfers the necessary amounts to CPM according to its cash requirements. In 2004, shared consortium revenues to CPM totaled R\$ 560.248 (R\$ 629.112 in 2003), and the amount actually transferred by PETROBRAS to CPM by the end of the year was R\$ 607.107 (R\$ 510.000 in 2003). At December 31, 2004, the amount owed to CPM totaled R\$ 110.274 (R\$ 322.040 in 2003).

NovaMarlim Project

NovaMarlim Petróleo S.A. (NovaMarlim) was formed for the exclusive purpose of entering into a consortium with PETROBRAS with a view to further developing the Marlim field. NovaMarlim should allocate to the Project R\$ 2.164.000 in assets (underwater equipment for the production of oil) acquired from PETROBRAS, or through reimbursements to PETROBRAS for its operating expenses relating to the operation and maintenance of the field's assets, which are the responsibility of PETROBRAS.

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By December 31, 2004, assets of R\$ 49.465 were transferred to NovaMarlim and operating costs of R\$ 1.053.354 were incurred. With a view to guaranteeing its obligations under the consortium agreement, PETROBRAS provides CPM NovaMarlim with a pledge on up to 30% of the oil produced from the Marlim field, limited to 720 production days. NovaMarlim informs PETROBRAS of its intended revenues on a monthly basis and the consortium transfers the related amounts to NovaMarlim according to its cash requirements.

In 2004, shared consortium revenues owed to NovaMarlim totaled R\$ 731.801 (R\$ 850.778 in 2003), and the amount actually transferred by PETROBRAS to NovaMarlim during the year was R\$ 799.100 (R\$ 862.000 in 2003). At December 31, 2004, advances made to NovaMarlim totaled R\$ 27.516 (R\$ 39.782 owed in 2003).

In order to implement a pipeline network for the transportation of gas in the Southeast and Northeast regions (MALHAS Project), PETROBRAS, through its subsidiaries GASPETRO and TRANSPETRO, entered into a consortium with the SPCs Nova Transportadora do Sudeste (NTS) and Nova Transportadora do Nordeste (NTN). NTS and NTN will participate in the consortium by acquiring assets related to the transportation of natural gas (gas pipelines, citygates and accessories), in the amount of up to US\$ 1.000 million, to be integrated in the existing gas pipeline network of PETROBRAS. Funds to be allocated to the project by NTS and NTN will derive from own capital (10%) and from financing operations obtained from Japan Bank of International Cooperation, from a group of banks led by Bank of Tokyo-Mitsubishi, and from BNDES.

Malhas Project

In addition to NTS and NTN, the MALHAS consortium also includes the wholly-owned subsidiary of PETROBRAS Transportadora Nordeste Sudeste (TNS), to which existing gas transportation assets belong, and by TRANSPETRO, which is responsible for the activities involved in the operation and maintenance of the consortium assets. Upon commencement of operations, the consortium will transport the natural gas of PETROBRAS, which will pay the consortium a fee for the services provided. Revenues arising from this project will be shared among the consortium members in accordance with pre-defined contractual terms, and NTS and NTN will receive funds in an amount necessary to fulfill their financial obligations. PETROBRAS is committed to making prepayments for transportation capacity to cover any cash shortfalls of the consortium, so that it may transfer to NTS and NTN the funds necessary for the fulfillment of their financial obligations under the agreement. Although the MALHAS consortium was not operational as of December 31, 2004, approximately US\$ 290 million (R\$ 769.776) had been transferred to NTS and NTN.

Barracuda and Caratinga

In order to boost production in the Barracuda and Caratinga fields, located in the Campos Basin, a structured finance arrangement was established through the SPC Barracuda and Caratinga Leasing Company B.V. (BCLC), a limited partnership based in the Netherlands. With funds derived from its capital resources (US\$ 100 million) and from financing operations obtained in the financial market (US\$ 2.400 million), BCLC is responsible for acquiring all assets required by the project (wells, underwater equipment and production units). During the asset acquisition stage, PETROBRAS will participate in the project as the construction manager, as BCLC 's representative (Owner 's Representative) and as the subcontractor for drilling services. After the assets become operational, a stage initiated in the second half of 2004, PETROBRAS will participate in the project as operations manager and assets lessee, through lease and charter contracts, and will make monthly payments to BCLC under these agreements.

Additional obligations undertaken by PETROBRAS within the scope of the project are: (i) pledge on pre-defined volumes of oil and on proceeds arising from the sale of such volumes in guarantee of the payment of lease and charter amounts made by PETROBRAS; (ii) PETROBRAS ' commitment to open a bank account pursuant to Brazilian Central Bank Resolution No. 2.644 to deposit lease amounts, in case reais may not be translated into dollars; (iii) pledge on an account in reais to receive deposits related to lease payments, in case reais may not be translated into dollars or in the case of any events that prevent deposits in the account maintained in accordance with BACEN Resolution No. 2.644; (iv) to obtain a letter of credit at an amount equivalent to 10% of the total value of the drilling agreement, to be valid for the period the drilling services within its responsibility are guaranteed, to cover its obligations as a subcontractor to perform drilling services for KBR under the EPC (Engineering, Construction and Procurement) project agreement; (v) through its subsidiary Brasoil, PETROBRAS commits to purchase the assets belonging to BCLC in case of default by PETROBRAS in the project; (vi) through Brasoil, PETROBRAS commits to make payments owed by BCLC if this company is unable to fulfill any obligations assumed under the financing agreements; and (vii) during the construction stage, PETROBRAS commits to pay BCLC an amount, limited to US\$ 37 million, if the EPC contract is terminated.

Under an EPC turnkey contract, BCLC retained Kellogg Brown & Root (KBR), a Halliburton Group company, as the prime contractor with single point responsibility for all the work to construct the Barracuda/Caratinga Project assets, including Drilling activities, for which PETROBRAS has been subcontracted.

In December 2003, KBR filed a Pre-packaged Chapter 11 with the U.S. courts specifically limited to its asbestos business. As informed by KBR in its official announcements to the market (SEC included), and later (January 12, 2004) confirmed by the competent court, its bankruptcy protection proceedings would not directly impact the remaining businesses, including its obligations

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under the Barracuda/Caratinga Project EPC contract. According to official information provided by KBR and its parent company HALLIBURTON on a press release dated December 16, 2004, Chapter 11 proceedings are in the final stage and full completion is expected for the first quarter of 2005.

In the capacity of Owner's Representative under the project, on June 17, 2003, PETROBRAS, on behalf of BCLC, finalized negotiations with KBR involving some of the claims made by KBR for time extensions and project cost increases, in addition to the bankruptcy protection proceeding previously mentioned. After formal approval from the project sponsors, as contractually defined, such negotiations resulted in an amendment to the original agreement, as approved on October 31, 2003. The objectives of such amendment were to mitigate the risks involved, especially the risk related to the bankruptcy protection filed by KBR, and to ensure asset construction completion in the shortest period. Also, it should be stressed that the original package of guarantees provided by KBR has been maintained and new guarantees have been provided by KBR and its parent company HALLIBURTON.

After KBR and PETROBRAS signed the contractual amendment, the former sought the latter with a view to proceeding with the negotiations relating to outstanding claims that could not be resolved between them until then. As a result of this negotiation round, in April 2004, the parties entered into a preliminary agreement referred to as Term-Sheet. This document, which did not yet bind the parties to its terms and conditions, established the basic conditions to resolve all previous outstanding matters relating to the CLAIMS made by KBR, to the contra-claims filed by BCLC against KBR, to the liabilities due by KBR and its parent company (HALLIBURTON) and other issues relating to the EPC contract. The Term-Sheet aimed to define the basic guidelines relating to amendments to project contracts, binding the parties to all issues negotiated between KBR and PETROBRAS, with a view to minimizing the risks of project delays that might compromise the Company's goal to start the commercial operations of Barracuda and Caratinga fields in the shortest period possible and avoiding that legal disputes between the parties were to be settled through arbitration.

Similarly to the first round of negotiations, as previously described, after the required approval was obtained from the project's sponsors, the Term Sheet generated a set of contractual amendments signed by all parties involved on December 6, 2004. Thus, upon execution of this new amendment, the parties consider all outstanding items and disputes in connection with the claims to be extinguished, as well as other issues relating to delays in construction work, fines, liquidated damages, responsibilities for pending services and other outstanding issues relating to the project.

With regard to physical project works, it should be mentioned that one FPSO, P-43, installed in the Barracuda field, became operational on December 21, 2004, and the other FPSO, P-48, to be installed in the Caratinga field, was shipped from the Brasfells shipyard in Angra dos Reis on December 13, 2004 and is currently being prepared for the start-up of operations.

Cabiúnas Project

The Cabiúnas project intends to increase the gas flow capacity in the Campos Basin, and consists of an SPC, Cayman Cabiunas Investment Co. Ltd. (CCIC), located on the Cayman Islands. With funds derived from internal capital (US\$ 85 million) and from financing operations in the financial market (US\$ 765 million), CCIC acquires from PETROBRAS the assets required by the project and subsequently leases them back to PETROBRAS through a leasing agreement. Of a total estimated US\$ 721,2 million, assets amounting to US\$ 355 million had been transferred to CCIC by December 31, 2004 through contractual mechanisms (Provisional Acceptance) in order to be considered Leased Assets. From January 1 to December 31, 2004, lease amounts to CCIC totaled US\$ 161,9 million, and were fully paid to CCIC by PETROBRAS. Guarantees provided by PETROBRAS within the scope of the project are: (i) pledge on 10,4 billion m³ of gas and on the proceeds arising from the sale of such volumes in guarantee of the payment of lease installments by PETROBRAS; (ii) PETROBRAS' commitment to open an account pursuant to Brazilian Central Bank Resolution No. 2644 to deposit lease amounts, in case reais may not be translated into dollars; and (iii) pledge on an account in reais to receive deposits related to lease payments, in case reais may not be translated into dollars or in the case of any events that prevent deposits in the account maintained in accordance with BACEN Resolution No. 2.644.

CLEP Project

Through a financing structure that involves the SPC Companhia Locadora de Equipamentos Petrolíferos - CLEP, former Langstrand Holdings S.A, PETROBRAS will sell to this company assets related to the production of oil, located in the Campos Basin, and subsequently will lease such assets back through a leasing agreement. The funds necessary for CLEP to acquire the assets from PETROBRAS will be provided by shareholders' capital (equivalent to US\$ 180 million) and by the financing operations obtained in the international financial markets through the issuance of Medium Term Notes backed by CLEP receivables (lease payments to be made by PETROBRAS). CLEP's shares are equally held primarily by the pension institutions PREVI, PETROS, VALIA, FUNCEF, FAPES and REAL GRANDEZA. The project is expected to be operational for 10 (ten) years, after which PETROBRAS will have the right to acquire the SPC's shares or the project's assets.

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By December 31, 2004, CLEP had raised US\$ 1.700 million. The amount equivalent to this figure in Reais, plus previously mentioned own capital of R\$ 180.000, in a total of R\$ 5.143.010, were fully transferred to PETROBRAS as advances for the future sale of the assets by PETROBRAS to CLEP, classified as project financings under the Parent company's current liabilities. In December 2004, CLEP acquired from PETROBRAS assets amounting to R\$ 1.727.224.

CLEP revenues will arise solely from the semi-annual lease payments to be made by PETROBRAS for the use of the assets, and PETROBRAS also ensures the payment of additional lease installments if CLEP revenues are not sufficient to cover its financial obligations related to the project. In an event of default, PETROBRAS is committed to acquire the SPC for the remaining balance of its obligations.

9. Investments

(a) Information about subsidiaries, jointly-owned subsidiaries and affiliated companies

	Subscribed capital at December 31, 2004	Thousands of shares/quotas		Shareholders equity (unsecured liability)	Net income (loss) for the year
		Common shares/quotas	Preferred shares		
Subsidiaries					
PETROQUISA	817.363	10.098.347	9.702.334	1.504.478	317.712
PETROBRAS DISTRIBUIDORA	2.086.404	14.984.936	27.868.517	3.507.568	634.049
GASPETRO	1.104.012	827	206	1.318.415	102.646
TRANSPETRO	1.012.052	848.789		1.215.519	276.317
DOWNSTREAM	762.936	552.001		1.280.445	172.512
PIFCo	133	50		(207.991)	(141.208)
PETROBRAS COMERCIALIZADORA DE					
ENERGIA	10	10 (*)		220.705	158.701
E-PETRO	18.411	21.000		19.063	1.186
PIB BV	4.528	1.585		3.372.680	91.640
BRASOIL	399.222	121.364		2.073.392	(8.598)
BOC	133	50		(485.299)	(10.193)
PNBV	45	50		123.305	128.357
UTE PIRATININGA	10	10 (*)		10	
FAFEN ENERGIA	380.574	380.574		138.602	(3.226)
Jointly-owned subsidiaries					
TERMOGAÚCHA USINAS					
TERMOELÉTRICAS S.A.	287.064	2.972.001		269.666	
TERMOSERGIPE S.A.	1.000	1.000		999	
TERMOAÇU S.A.	298.400	298.400		298.400	
TERMORIO S.A.	1.904	1.904		(11.409)	(13.313)
IBIRITERMO S.A.	7.199	3.826		(24.262)	24.758
TERMOBAHIA LTDA.	5.930	3.000 (*)		19.157	20.554
USINA TERMOELÉTRICA NORTE					
FLUMINENSE S.A.	422.307	42.231		405.288	(17.020)
GNL DO NORDESTE LTDA.	510	3.499 (*)		510	
Affiliated company					
5283 PARTICIPAÇÕES	1.421.604	462.021 (*)		714.710	122.456
(*) Quotas					

Description of subsidiaries and affiliated company activities

PETROBRAS QUÍMICA S.A. - PETROQUISA

Petroquisa participates in companies whose activities include the manufacture, sale, distribution, transport, import and export of chemical and petrochemical products, and renders technical and administrative services related to those activities.

PETROBRAS DISTRIBUIDORA S.A. - BR

BR operates in the areas of distribution, sale and industrialization of oil products, oil product derivatives alcohol and other fuels.

PETROBRAS GÁS S.A. - GASPETRO

Gaspetro participates in companies that operate in transportation of natural gas, in transmission of data, voice and image signals through cable and radio telecommunication systems, and in rendering technical services relating to these activities. GASPETRO also has the joint control over several state-owned gas distribution companies, which are proportionally consolidated according to equity participation.

PETROBRAS TRANSPORTE S.A. - TRANSPETRO

Transpetro carries out, directly or through subsidiaries, the transport and storage of bunker, crude oil and oil products and gas through a series of pipelines, terminals and vessels owned by Transpetro or by third parties.

DOWNSTREAM PARTICIPAÇÕES LTDA.

Downstream participates, directly and indirectly, in companies operating in various sectors of the oil industry.

In 2004, this subsidiary's trade name was changed to Downstream Participações Ltda.

PETROBRAS INTERNATIONAL FINANCE COMPANY - PIFCo

PIFCo is involved in the commercialization of crude oil and oil products abroad, acting as an intermediary in the purchase and sale of crude oil, oil products and materials for PETROBRAS System companies, as well as raising funds abroad.

PETROBRAS COMERCIALIZADORA DE ENERGIA LTDA.

The objective of Petrobras Comercializadora de Energia Ltda. is to import and export thermo and hydro electricity, as well as other products of the electrical generation and cogeneration industries, and also to provide technical and administrative services related with the aforementioned activities; it may also hold interests in the capital of other companies.

E-PETRO

The purpose of E-PETRO is to hold interests in the capital of other companies whose business objectives involve activities related with the internet or electronic media.

PETROBRAS INTERNATIONAL BRASPETRO BV - PIB BV

Based in the Netherlands, PIB BV participates in companies engaged in the exploration, mining, processing, commercialization, transport, storage, import and export of oil and oil products, plus the provision of services and other activities related with the various sectors of the oil industry.

BRASPETRO OIL SERVICES COMPANY - BRASOIL

BRASOIL provides services in all areas of the oil industry, plus the commerce of oil and oil products.

BRASPETRO OIL COMPANY - BOC

BOC operates in the exploration, mining, processing, commercialization, transport, storage, import and export of oil and oil products, and also provides services and engages in other activities related to oil industry sectors.

PETROBRAS NETHERLANDS BV - PNBV

Petrobras Netherlands B.V. was constituted in the Netherlands in May 2001 by Petrobras International Finance Company - PIFCo and its main objectives involve the purchase, sale, lease and/or charter of materials, equipment and platforms used in the exploration and

production of oil and gas.

UTE NOVA PIRATININGA

The corporate objective of UTE Nova Piratininga Ltda., based in the city of São Paulo, is to develop, build, operate, maintain and explore a thermoelectric power plant in the city of São Paulo, and to provide services relating to its activities.

FAFEN ENERGIA S.A.

The objective of Fafen Energia is to implement and operate a thermoelectric power complex under a cogeneration process in the city of Camaçari, state of Bahia, to convert gas and demineralized water into electrical and thermal energy to be used by PETROBRAS nitrogen fertilizer plant as well as to sell the excess production to third parties.

PETROBRAS COLOMBIA

Petrobras Colombia performs activities in connection with the oil industry, especially those relating to oil and gas exploration and production, refining and rendering of specialized and technical assistance services in Colombia.

5283 PARTICIPAÇÕES LTDA.

A limited liability company with its head office in Rio de Janeiro, 5283 Participações Ltda. aims to participate in the capital of other companies. PETROBRAS and DOWNSTREAM hold 32,5% and 67,5% of this company's capital respectively.

Description of the activities of the jointly-owned subsidiaries

PETROBRAS shares control of the companies TERMORIO, TERMOGAÚCHA, TERMOSERGIPE, TERMOAÇU, IBIRITERMO, TERMOBAHIA, UTE NORTE FLUMINENSE and GNL DO NORDESTE, which were consolidated in proportion to PETROBRAS interest in total capital.

These thermoelectric plants generate electricity based on the transformation of thermal energy derived from burning natural gas, which can operate on an open or simple cycle, combined cycle, cogeneration or combined cycle cogeneration.

(b) Change in investments and discount

	Parent company										
	Subsidiaries										
	PETROBRAS										
	PETROQUISA	DISTRIBUIDORA	GASPETRO	BOC	TRANSPETRO	DOWNSTREAM	PCEL	E-PETRO	PIB BV	BRASOIL	PN
At the beginning of the year	1.249.509	1.801.782	1.036.678		1.128.265	1.000.723	61.384	16.272	2.238.170	2.700.029	
Acquisition and capital paid-in		885.761	202.956			105.000		1.799			
Discount on acquisition of investments											
Revaluation reserve	9.161										
Share acquisition through swap with minority interest holders											
Equity adjustments	314.660	714.770	101.611	(10.193)	271.293	173.957	157.114	1.185	116.948	(187.660)	104

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Corporate restructuring							568.971	(568.971)	
Exchange gains (losses) on shareholders equity of foreign subsidiaries			42.026				(267.163)	(134.254)	
Dividends	(83.837)	(234.837)	(24.117)	(203.891)			(203)		
Write-off Subsidiary merged/created			(31.833)						

At the end of the year	1.489.493	3.167.476	1.317.128	1.195.667	1.279.680	218.498	19.053	2.656.926	1.809.144	104
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Jointly-owned subsidiaries

Affiliated companies

UTE NORTE FLUMINENSE	TERMOGAÚCHA	TERMOSERGIPE	TERMOAÇU	TERMOBAHIA	TERMORIO NORDESTE	GNL DO 5283	PARTICIPAÇÕES O
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At the beginning of the year	3.146	55.182	200	78.000	2.324	952	255	192.483	1
Capital paid-in	39.084	18.950		38.400					
Equity adjustments	(1.702)	(6.715)			3.231	(952)		39.798	(
Write-off									
At the end of the year	40.528	67.417	200	116.400	5.555		255	232.281	

Subsidiaries, jointly-owned subsidiaries and affiliated companies
Other investments

Discount

At the beginning of the year

Discount

Discount on
the acquisition
of shares -
FAFEN
Energia
Amortization
of discount

**At the end of
the year**

**Total
investments**

(c) Transactions with subsidiaries and affiliated companies

The commercial operations between PETROBRAS and its subsidiaries are carried out under normal market prices and conditions. Operations involving the acquisition by PETROBRAS of oil and oil products from its subsidiary PIFCo have extended payment terms as PIFCo was specifically created for this short-term financing purpose; Petrobras incurs interest expenses during the extended payment period. The securitization of exports passed on and onlending of funds raised in the international market are performed at the same rates obtained by the subsidiary. The value of the remaining transactions, principally loans granted under intercompany loan agreements, income and/or charges, is established based on market conditions and/or according to specific legislation on the subject.

	Current assets		Non-current assets				Total assets
	Accounts receivable, mainly for sales	Dividends receivable	Advance for capital increase	Amounts referring to the construction of platforms and gas pipelines	Intercompany loans	Other operations	
PETROQUISA and subsidiaries	12.726	80.644			4		93.374
BR DISTRIBUIDORA and subsidiaries	627.398	201.672			190.226	1.883.069	2.902.365
GASPETRO and subsidiaries	12.244	24.117	217.642	1.631.511	181.629	15.359	2.082.502
PIFCo and subsidiaries	1.252.716		318.432		16.966.951		18.538.099
PNBV and subsidiaries	29.231		13.055			11.363	53.649
DOWNSTREAM and subsidiaries	61.072				1.208.441	5	1.269.518
TRANSPETRO and subsidiary	166.653	133.604			15.882	9.155	325.294
PIB-BV NETHERLANDS and subsidiaries	87.452					111.240	198.692
BRASOIL and subsidiaries	68.104			1.724.116	7.736.667		9.528.887
BOC and subsidiaries	32				35.406	7	35.445
PETROBRAS COMERCIALIZADORA DE ENERGIA LTDA.	72.715	203					72.918
Other subsidiaries	1.653		878				2.531
PETROBRAS NEGÓCIOS ELETRÔNICOS and subsidiary	1.631						1.631
UTE NOVA PIRATININGA			878				878
Others	22						22
Jointly-owned subsidiaries and affiliated companies	1.260.276		275.256		2.636.423	16	4.171.971

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December 31, 2004	3.652.272	440.240	825.263	3.355.627	28.971.629	2.030.214	39.275.245
December 31, 2003	3.011.684	474.458	695.551	3.885.297	16.724.150	2.000.071	26.791.211

	Current liabilities				Long-term liabilities				
	Suppliers, mainly for acquisition of oil and oil products	Advances from customers	Charter of platforms	Intercompany loans	Other operations	Intercompany loans	Export prepayment	Other operations	Total liabilities
PETROQUISA and subsidiaries	28.389								28.389
BR DISTRIBUIDORA and subsidiaries	239.265	10.833			8			32.316	282.422
GASPETRO and subsidiaries	96.869								96.869
PIFCo and subsidiaries	18.470.114	398.101					3.349.375		22.217.590
PNBV and subsidiaries	95.634		520.508						616.142
DOWNSTREAM and subsidiaries	5.422								5.422
TRANSPETRO and subsidiary	316.336								316.336
PIB-BV NETHERLANDS and subsidiaries	114.786	18.361			154.351			1.108	288.606
BRASOIL and subsidiaries	65.809	116.034	988.223			5.592			1.175.658
BOC				131.883					131.883
PETROBRAS COMERCIALIZADORA DE ENERGIA LTDA.	51.373								51.373
Other subsidiaries	1.795								1.795
PETROBRAS NEGÓCIOS ELETRÔNICOS and subsidiary	1.789								1.789
Others	6								6
Jointly-owned subsidiaries and affiliated companies	232.537	21.915			7.660	31.728			293.840
December 31, 2004	19.718.329	565.244	1.508.731	131.883	162.019	37.320	3.349.375	33.424	25.506.325
December 31, 2003	15.098.340		1.512.851	341.013		29.747	4.064.671	15.076	21.061.698

Income and expenses

Operating income, mainly for sales	Financial income (expenses), net	Monetary and exchange variation, net	Total
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PETROQUISA and subsidiaries	114.188	(724)		113.464
BR DISTRIBUIDORA and subsidiaries	27.219.742	154	269.418	27.489.314
GASPETRO and subsidiaries		105.261	(147.924)	(42.663)
PIFCo and subsidiaries	9.900.530	(1.005.485)	(1.672.420)	7.222.625
PNBV and subsidiaries		(327)	(64.808)	(65.135)
DOWNSTREAM and subsidiaries	875.464	158.538	(79.836)	954.166
TRANSPETRO and subsidiary	193	(2.535)	(757)	(3.099)
PIB-BV NETHERLANDS and subsidiaries	26.775	127.594	(2.261.744)	(2.107.375)
BRASOIL and subsidiaries	343.824	356.364	(1.102.975)	(402.787)
PETROBRAS COMERCIALIZADORA DE ENERGIA LTDA.	200.619			200.619
Others				
Jointly-owned subsidiaries and affiliated companies	1.623.936	70.132		1.694.068
<hr/>				
December 31, 2004	40.305.271	(191.028)	(5.061.046)	35.053.197
<hr/>				
December 31, 2003	34.844.298	334.611	109.124	35.288.033
<hr/>				

Intercompany loans

Index	2004	2003
TJLP + 5% p.a.	2.745.984	2.410.770
LIBOR + 1 to 3% p.a.	24.739.357	12.542.248
101% of CDI	1.208.441	1.462.454
IGPM + 6% p.a.	71.987	66.001
Other indices	205.860	242.677
	<hr/>	<hr/>
	28.971.629	16.724.150
	<hr/>	<hr/>

Bolivia-Brazil Gas pipeline

The Bolivian section of the gas pipeline is the property of GÁS TRANSBOLIVIANO S.A. - GTB, in which PETROBRAS GÁS S.A. - GASPETRO holds an (11%) interest.

A turnkey contract in the amount of US\$ 350 million was signed with Yacimientos Petrolíferos Fiscales - YPF, which assigned its rights under such contract to GTB, for the construction of the Bolivian section, with payments to be rendered in the subsequent 12 years as from January 2000 in the form of transportation services. At December 31, 2004, the value of the rights to future transportation services, on account of costs already incurred in the construction to that date, including interest of 10,07% p.a., was R\$ 1.101.594 (R\$ 1.172.631 in 2003), with R\$ 958.692 (R\$ 1.021.751 in 2003) shown under noncurrent assets as advances to suppliers. This amount also includes R\$ 197.685 (R\$ 205.203 in 2003) related to the pre-acquisition of the right to transport 6 million cubic meters of gas over a 40-year period (TCO - Transportation Capacity Option).

The Brazilian section of the gas pipeline is the property of TRANSPORTADORA BRASILEIRA GASODUTO BOLÍVIA-BRASIL S.A. - TBG, a GASPETRO subsidiary. At December 31, 2004, the total receivables of PETROBRAS from TBG for management, recharge of costs and financing relating to the construction of the gas pipeline and pre-acquisition of the right to transport 6 (six) million cubic meters of gas over a 40-year period (TCO) amounted to R\$ 1.631.511 (R\$ 2.154.846 in 2003) shown under noncurrent assets as accounts receivable, net.

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(d) Information for December 31, 2004 on the jointly owned subsidiaries included in the consolidation

								Indirect jointly-owned subsidiaries		
	Termogaúcha	Termosergipe	Termoaçu	Termorio	Termobahia	UTE Norte Fluminense	GNL do Ibiritermo Nordeste	Gas Distributors	Other	
Current assets	1.796		3.597	31.311	48.952	157.200	93.190	78	537.385	376.333
Noncurrent assets	28	495	13	1.142	19.628	6.340	52.794		831.489	165.021
Permanent assets	290.258	505	456.838	2.758.748	666.886	1.491.260	398.812	432	665.694	3.374.007
Current liabilities	56		50.845	41.047	34.117	574.650	63.840		485.020	419.126
Long-term liabilities	22.360		111.203	2.763.200	682.190	674.860	505.218		1.025.009	1.629.953
Shareholders (unsecured) liabilities	269.666	1.000	298.400	(13.046)	19.159	405.290	(24.262)	510	524.539	1.866.282
Net operating revenue					137.628	308.790	151.186		1.708.156	1.205.549
Net income (loss) for the year				(14.950)	20.562	(17.020)	24.758		165.114	226.790
Ownership percentage - %	25%	20%	39%	50%	29%	10%	50%	50%	23,50% to 83,00%	16,67% to 50,00%

Companies with shared management, consolidated in proportion to participation in total capital.

(e) Goodwill and discount

The goodwill recorded in the acquisition of Petrobras Energia Participaciones S.A. PEPSA and Petrolera Entre Lomas S.A. PELSAs, on the date of acquisition, amounted respectively to R\$ 1.904.114 and R\$ 110.945, representing a R\$ 46.011 discount in current assets, and goodwill of R\$ 598.056 and R\$ 1.463.014 recorded under permanent assets as investments and property, plant and equipment, respectively. These amounts have been amortized in accordance with the economic basis on which they were recorded.

The discount recorded by PETROBRAS as a result of the operation to acquire the shares of BR, in the amount of R\$ 62.821, has been amortized over the period established in the appraisal report (10 years), and the discount recorded as a result of the acquisition of the controlling interest in FAFEN Energia (80,20%), in the amount of R\$ 15.159, has been amortized over a period of up to 25 years, as defined in the appraisal report.

The discount recorded on the acquisition of Petrolera Santa Fe in December 2002, amounting to R\$ 151.843, was reclassified to property, plant and equipment, based on the company's fair value of assets, as determined by CVM Instruction No. 285/98.

Movements in the discount balance:

	Consolidated	Parent Company
Balance at December 31, 2003	289.348	55.762
Discount on the acquisition of FAFEN ENERGIA	15.159	15.159
Amortization of discount	(33.811)	(16.584)

Balance at December 31, 2004

270.696

54.337

The balance of the consolidated discount, amounting to R\$ 270.696, is presented as deferred income in the balance sheet.

(f) Acquisition of Triunfo's shares by Petroquisa

Petrobras Química S.A. PETROQUISA decided to exercise its preemptive right in the acquisition of shares held by PRIMERA Indústria e Comércio Ltda. in the capital of Petroquímica Triunfo S.A. in response to the put option. After its preemptive right was exercised on May 14, 2004, PETROQUISA, which had held 45,22% of voting capital and 59,92% of capital stock of Petroquímica Triunfo until then, increased its interest to 70,45% of voting capital and 85,04% of the company's capital stock, which has been included in PETROBRAS consolidation as from that date. Petroquímica Triunfo, located at the petrochemical complex of Rio Grande do Sul, produces low-density polyethylene and has an installed capacity of 160.000 tons per year.

(g) Acquisition of Liqueigás Distribuidora S.A. (former Agip do Brasil S.A.)

On August 9, 2004, through its subsidiary PETROBRAS DISTRIBUIDORA S.A. BR, PETROBRAS acquired 100% interest in Agip do Brasil S.A., currently Liqueigás Distribuidora S.A., thus assuming the share control of this company as of that date.

Liqueigás is a liquefied petroleum gas (LPG), fuel and lubricant distributor. Liqueigás has a 21% share in the LPG market in Brazil, operating under the "Liqueigás", "Novogás" and "Tropigás" brands. Fuel distribution is represented by approximately 3,7% of total local market, with a network of more than 1.500 service stations operating under the Agip, Companhia São Paulo de Petróleo and Ipê brands. Lubricant distribution activities account for around 3% share in the Brazilian market.

(h) Acquisition of shareholdings in GASMIG

On August 25, 2004, PETROBRAS, through its subsidiary GASPETRO, formalized the intension to acquire 40% of capital of Companhia de Gás de Minas Gerais GASMIG, provided for in the Association Agreement with Companhia Energética de Minas Gerais CEMIG, dated August 11, 2004, as approved by the Minas Gerais State Legislature through Law No. 15.404/2004, of December 3, 2004. The operation was concluded on December 15, 2004 by GASPETRO and its subsidiary TSS Participações S.A., for R\$ 154.000.

PETROBRAS, GASPETRO, CEMIG and GASMIG have jointly performed a research with the objective of setting up a partnership to increase their coverage of the natural gas market. These researches lead them to the design of a Master Plan (Plano Diretor) covering the markets in the State of Minas Gerais. The Plan also defines the investments necessary for the development and expansion of the gas pipeline for transportation and distribution in Minas Gerais.

The main objective of this operation is to significantly increase piped gas supply in Minas Gerais State, to increase the volume of natural gas distributed by GASMIG from the current 3,5 million m³/day to 4,5 million m³/day by the end of 2006, and to reach 11,11 million m³/day in 2023.

(i) Acquisition of Eletrobolt Thermoelectric Plant

On August 13, 2004, the Board of Directors of PETROBRAS approved the financial conditions previously agreed with a consortium of 17 commercial banks, necessary for the definitive transfer of property to the Eletrobolt Thermoelectric plant, located in Seropédica, Rio de Janeiro State, to PETROBRAS. This plant, with nominal capacity of 388 MW, is one of the three merchant type plants with which PETROBRAS executed agreements between 2001 and 2002, containing a contingent payment clause referring to taxes, charges, operating and maintenance costs, and investment (capacity), in case the plant does not generate sufficient revenue to cover these items.

On December 17, 2004, the Board of Directors of PETROBRAS approved the terms and conditions for the completion of the acquisition of Sociedade Fluminense de Energia SFE, owner of Termoeletrica Eletrobolt's assets, for R\$ 164 million to be paid in one lump sum. The related documentation is expected to be signed in the first quarter of 2005, when SFE's quotas will be actually transferred to PETROBRAS and the related payment will be made.

The termination of Eletrobolt consortium and all contracts arising therefrom caused all the contingency payments in connection with Contingency Contributions to be ceased.

(j) Acquisition of Thermoelectric Power Plant - FAFEN Energia S.A.

On December 17, 2004, PETROBRAS informed the market of the approval, from its Executive Board, of the acquisition of all of the shares held by EDP Brasil S.A. in the thermoelectric power plant FAFEN Energia S.A., located in the city of Camaçari, state of Bahia, with an installed capacity of 133 MW for electricity generation and 42 ton/hour for steam generation. PETROBRAS already owned a 20% interest in the capital of FAFEN Energia. PETROBRAS will pay EDP Brasil R\$ 96.000 for the acquired 80% interest in the plant, payable as follows: 50% 30 days after the closing of the operation, 25% one year thereafter and the remaining 25% two years thereafter.

The first stage of the plant has been operational since September 2001, generating 22 MW of electricity and 42 ton/hour of steam power to PETROBRAS Fertilizer Plant, in the Camaçari Complex. Having construction and tests been recently concluded, the plant will supply, as of 2005, 100 MW of energy to Bandeirantes Energia, as previously agreed.

(k) Resumption of the Termoçu Thermoelectric Plant Project (Rio Grande do Norte State)

On September 16, 2004, PETROBRAS entered into a Commitment Agreement with Guaraniana S.A. (currently Neo Energia), its partner in the Vale do Açú Thermoelectric Plant (Termoçu), located in Rio Grande do Norte state, in order to resume the construction of the plant, with a nominal capacity of 340 MW and steam production of 610 t/h.

The project had been interrupted due to the divergences between the electricity purchase agreement (PPA) originally negotiated and that approved by the National Electric Power Agency (ANEEL), which required negotiation among the partners to establish a new project development model.

PETROBRAS will assume project management and will make new capital contributions to the company, increasing its participation in voting capital to approximately 80% by the time the project is completed.

(l) Acquisition of Baixada Santista Energia Ltda. - BSE

On December 23, 2004, the Executive Board approved the acquisition of quotas held by Marubeni Corporation in Baixada Santista Energia Ltda. BSE, a special purpose company incorporated within the UTE Cubatão Project. This operation involves approximately US\$ 90 million, and project resumption will meet the present requirements for the energy and steam power generation system renewal for the Cubatão Refinery (RPBC). Upon conclusion, this plant will have an installed capacity of 200 MW for electricity generation and 400 ton/hours for steam generation.

(m) Acquisition of interest in CEG-RIO

On October 4, 2004, through its subsidiary PETROBRAS GÁS S.A. GASPETRO, PETROBRAS exercised the option of purchasing shares of CEG-RIO, agreed with the company GÁS NATURAL SGD, comprising 65.580 thousand common shares (9,86% of total common shares) and 181.920 thousand preferred shares (13,68% of total preferred shares), in the total amount of approximately US\$ 16,5 million, equivalent to R\$ 46.750.

As a result of this operation, GASPETRO has increased its interest in CEG-RIO, and now holds 26,19% of its total common shares and 43,01% of its total preferred shares.

(n) Dissolution of the Termocorumbá Project

On December 23, 2004, PETROBRAS and Duke Energy signed the Articles of Dissolution regarding TermocorumbáLtda., a project aimed at implementing a thermoelectric power plant in the city of Corumbá, state of Mato Grosso do Sul. The parties opted to terminate the project after the related financial viability analyses indicated a return on investment lower than expected. PETROBRAS recorded a loss of R\$ 861.

(o) Acquisition of interest in TermoRio

On December 15, 2003, PETROBRAS informed the market of its acquisition of the share control of TermoRio, as a result of the acquisition of a 7% share in PRS Energia, added to its previously owned 43% share. In order to conclude the financial recovery process of TermoRio, a 50% interest in NRG, which ceased to contribute capital to TermoRio in April 2002, had to be acquired. The corporate relationship between NRG and PETROBRAS was under an arbitration process, which was defined at the beginning of 2005, when PETROBRAS has held 100% of TermoRio's share control as of the date of payment of some US\$ 72 million to NRG, as stipulated by the arbitral award. Upon assuming full control over TermoRio, PETROBRAS has become exempt from the obligation to

pay for the capacity provided, regardless of the electric power that might be generated by the plant.

(p) Corporate restructuring of the international area

In June 2002, the Board of Directors of PETROBRAS approved the merger of Petrobras International S.A. Braspetro into PETROBRAS and the incorporation of a subsidiary company in the Netherlands, to operate as an international holding company, setting out a corporate restructuring process implemented by PETROBRAS in its International Area, aiming principally to align an international corporate framework to its current organization and management model.

In this context, during 2004, interest held by the PETROBRAS Group in Argentine companies was transferred to PETROBRAS PARTICIPACIONES S.L. (PP SL), an indirect subsidiary based in Spain, which now concentrates all investments held in that country, except for the 34% interest Brasoil Alliance Co. holds in Compañía Mega S.A., the transfer of which is still being considered.

Some changes in equity interests held by PETROBRAS Group companies were necessary for the completion of this stage of the corporate reorganization process:

(a) Braspetro Oil Company (BOC) exchanged its interest in Petrobras Argentina S.A. (PAR) and in Petrolera Santa Fe Southern Cone, Inc. to Braspetro Oil Services Co. (BRASOIL) for part of intercompany payables.

(b) Braspetro Oil Services Co. (BRASOIL) acquired interest held by Petrolera Santa Fe Southern Cone, Inc. in Petrolera Santa Fe SRL (PSF).

(c) Braspetro Oil Services Co. (BRASOIL) transferred its interest in Petrobras Argentina (PAR) and in Petrolera Santa Fe SRL (PSF) to PETROBRAS, in the form of capital return.

(d) PETROBRAS transferred its interest in Petrobras Argentina (PAR) and in Petrolera Santa Fe SRL (PSF) to Petrobras Participaciones S.L. (PP SL), as capital contribution for the subscription of this company's shares.

(e) 5283 Participações Ltda. transferred its interest in EG3 S.A. and in EG3 RED S.A. to Petrobras Participaciones S.A. (PP SL), as capital contribution for the subscription of this company's shares.

(f) PETROBRAS and 5283 Participações Ltda. transferred their interest in Petrobras Participaciones S.L. (PP SL) to Petrobras International Braspetro B.V. (PIB BV), as capital contribution for the subscription of this company's shares.

These changes did not affect the Company's financial position.

As a result of these changes, interest held by PETROBRAS and by 5283 Participações Ltda. in Petrobras International Braspetro BV (PIB BV) is now 78,80% and 21,20% respectively. Petrobras International Braspetro BV (PIB BV) still holds 100% interest in Petrobras Participaciones S.L. (PP SL).

On November 12, 2004, PETROBRAS Board of Directors approved the absorption of some Argentine subsidiaries of PETROBRAS by Petrobras Energia S.A. (PESA). In this operation, Petrobras Participaciones S.L. (PP SL) will transfer to Petrobras Energia S.A. (PESA) its interest in EG3 S.A., Petrobras Argentina S.A. (PAR) and Petrolera Santa Fe SRL (PSF), in exchange for 230.194.137 new shares issued by Petrobras Energia S.A. (PESA), representing 22,8% of this company's capital. This transaction is subject to approval from the shareholders' meeting of Petrobras Energia S.A. (PESA) and from Argentine regulatory agencies, with conclusion being expected for the second quarter of 2005.

Release agreement between Petrobras Energia S.A. (PESA) and ENRON CORP. on investments in Companhia de Inversiones de Energia S.A. (CIESA)

Companhia de Inversiones de Energia S.A. CIESA is an entity jointly controlled by PESA and ENRON. Aiming at restructuring CIESA's debt, its shareholders signed an agreement on April 30, 2004 which, subject to the fulfillment of certain conditions, sets forth the following share transfers:

- ◇ At a first stage ENRON will transfer, to a trust or to an alternative entity, 40% of CIESA's shares from the total 50% owned by ENRON;
- ◇ PESA will transfer to ENRON its 7,35% direct interest in the capital of TGS;

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◇ In accordance with CIESA's debt restructuring, at a second stage, ENRON will transfer its remaining 10% interest in CIESA's capital to the trust or alternative entity. In turn, ENRON will receive 4,3% of TGS shares. The approval of such operation by ENER GAS, the regulatory body of the gas market in Argentina, is a condition for the agreement to become effective. Under no circumstances will PESA hold direct or indirect control of CIESA.

For operating under long-term restrictions that significantly impair its capacity to transfer funds to investors, CIESA is excluded from the consolidation process of PESA and, therefore of PETROBRAS, in accordance with CVM Instruction 247/96.

Additionally, on December 31, 2004, CIESA's debt amounts to US\$ 220 million, with an original maturity in April 2002, which has not been settled as a consequence of the macro-economic scenario in Argentina. CIESA's management has currently been negotiating an extension for the debt settlement with debtors.

With a view to obtaining an extension for the payment term of its short-term debt and to extending its debt profile as well as to amending certain financial covenants included in the agreements, on February 24, 2003, TGS, a subsidiary of CIESA, implemented a debt restructuring process covering almost all of its debt in the amount of US\$1.027 million.

In December 2004, TGS completed its debt restructuring process and obtained approval for the proposal submitted by 99,76% of creditors. The restructuring consisted in exchanging existing debt securities for payments made and for the issuance of new notes (to creditors holding this type of instrument) or private debt securities (intended to extend the term of short-term financial liabilities). With regard to loans granted by the IDB, not only did TGS pay part of the debt but also signed new loan agreements.

The terms and conditions of the debt restructuring subject the company to certain restrictions, especially with regard to new loan agreements, capital investments, payment of dividends, granting of guarantees on assets and results and sale of assets.

(q) Foreign incorporation and acquisition of companies

In 2004, the Board of Directors approved the incorporation or acquisition of the following companies abroad:

PETROBRAS MIDDLE EAST B.V. (PEMID)

Petrobras Middle East B.V. (PEMID) was established in the Netherlands as a subsidiary of Petrobras International Braspetro B.V. (PIB BV), with a branch office in Iran (PEMID IRAN BRANCH OFFICE), as a result of an agreement entered into with the state-owned company National Iranian Oil Company (NIOC) for the exploration of Tusan Block, in the Persian Gulf.

PETROBRAS TANZANIA

Petrobras Tanzania is a subsidiary of Petrobras International Braspetro B.V. (PIB BV), established in connection with an agreement with the government of Tanzania and the state-owned company Tanzania Petroleum Development Corporation TPDC for the exploration of Block 5 in the Mafia Basin.

CONECTA S.A.

Petrobras International Braspetro B.V. (PIB BV) acquired the majority interest in CONECTA S.A., a natural gas distribution concession company in inner Uruguay, through the acquisition of 100% of shares and rights of Gaufil S.A. and Lufirel S.A., special purpose entities holding 35% and 20%, respectively, interest in CONECTA.

(r) Information on affiliated companies

	Ownership of subscribed capital - %	Shareholders equity (adjusted)	Net income (loss) for the year	2004		2003	
				Noncurrent assets	Permanent assets	Noncurrent assets	Permanent assets
Affiliates of PETROQUISA:							
Petroquímica União S.A. PQU	17,44	607.950	186.537		105.086		95.793

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Companhia Petroquímica do Sul S.A. - COPEL	15,63	1.161.017	546.676		181.124		169.216
BRASKEM S.A.	8,45	4.271.829	695.000	267.182	93.917	179.469	62.962
Petroquímica Triunfo S.A.							93.349
Deten Química S.A. DETEN	27,66	218.879	27.467	61.069		60.922	
Other				1.862	191	1.862	12.189
				330.113	380.318	242.253	433.509
Other investments				1.476	3.509	2.500	25.876
				331.589	383.827	244.753	459.385

(s) Investments in quoted companies

Investments in quoted companies whose shares are traded on the stock market are as follows:

Company	In lots of one thousand shares		Stock Market - R\$ per lot of one thousand shares		Market value
	Common	Preferred	Common	Preferred	
Consolidated					
BRASKEM	3.027.735	4.630.565	94,00	134,00	905.103
COPEL	2.348.201		380,00		892.316
PQU	8.738	8.738	17.500,00	17.500,00	305.834
Parent company					
PETROQUISA	10.098.083	9.505.390	(*)	179,11	3.511.178
PEPSA	1.249.717		3,17		3.961.814

The market values of these shares do not necessarily reflect the net realizable values at liquidation of a major block of shares.

(*) As the common shares of the subsidiary PETROQUISA traded on the stock market do not have liquidity, the price for preferred shares was used for purposes of determining market values.

10. Property, plant and equipment

(a) By operating segment

	Consolidated				Parent Company			
	2004		2003		2004		2003	
	Cost	Accumulated depreciation	Net	Net	Cost	Accumulated depreciation	Net	Net
Exploration and production	68.629.871	(31.956.157)	36.673.714	29.150.574	58.174.817	(30.276.542)	27.898.275	22.210.653
Supply	26.946.319	(11.856.959)	15.089.360	12.786.614	22.679.845	(10.944.641)	11.735.204	10.168.807
Distribution	3.515.603	(1.321.415)	2.194.188	1.296.562				
Gas and energy	8.610.033	(1.335.800)	7.274.233	6.548.939	1.245.867	(243.048)	1.002.819	1.234.404
International	23.487.450	(9.908.157)	13.579.293	14.958.305	20.794	(8.901)	11.893	6.414
Corporate	2.619.797	(685.268)	1.934.529	1.205.655	2.619.064	(685.179)	1.933.885	1.205.518

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133,809,073 (57,063,756) 76,745,317 65,946,649 84,740,387 (42,158,311) 42,582,076 34,825,796

(b) By type of asset

	Estimated useful life (years)	Consolidated				Parent Company			
		2004		2003		2004		2003	
		Cost	Accumulated depreciation	Net	Net	Cost	Accumulated depreciation	Net	Net
Buildings and leasehold improvements	25 a 40	3,880,351	(1,931,562)	1,948,789	2,594,884	1,993,365	(1,224,938)	768,427	711,439
Equipment and other assets	3 a 30	56,570,259	(29,297,633)	27,272,626	23,991,830	31,649,872	(20,999,842)	10,650,030	10,108,782
Rights and concessions		2,600,945	(417,866)	2,183,079	1,357,272	2,295,171	(331,611)	1,963,560	1,234,636
Land		678,455		678,455	532,900	305,810		305,810	263,592
Materials		1,529,349	(7,699)	1,521,650	843,072	1,444,345		1,444,345	828,614
Advances to suppliers		970,070	(18)	970,052	373,597	353,658		353,658	131,233
Expansion projects		13,296,854	(3,281)	13,293,573	9,811,543	8,575,024		8,575,024	6,982,878
Oil and gas exploration and production development costs (E&P)		54,282,790	(25,405,697)	28,877,093	26,441,551	38,123,142	(19,601,920)	18,521,222	14,564,622
		133,809,073	(57,063,756)	76,745,317	65,946,649	84,740,387	(42,158,311)	42,582,076	34,825,796

Depreciation of equipment and installations related to oil and gas production is based on the volume of monthly production in relation to the proven developed reserves of each production field. Assets whose estimated useful lives are shorter than the related field are depreciated on a straight-line basis. Depreciation of other equipment and assets not related to the production of oil and gas is based on their estimated useful lives.

(c) Oil and gas exploration and development costs

	Consolidated		Parent Company	
	2004	2003	2004	2003
Capitalized costs	54,282,790	50,330,099	38,123,142	32,832,233
Accumulated depreciation	(25,332,597)	(23,840,782)	(19,576,089)	(18,235,828)
Amortization of/provision for abandonment costs	(73,100)	(47,766)	(25,831)	(31,783)
Net investment	28,877,093	26,441,551	18,521,222	14,564,622

In 2004, the Company reviewed the estimated costs associated with well abandonment and the demobilization of oil and gas production areas, considering the useful economic life of the fields and expected cash flows at present value discounted at a free-risk

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rate, adjusted by PETROBRAS risk. This review resulted in a decrease in the related provision of R\$ 412.033, credited to net income for the year, recorded as exploratory costs for oil and gas exploration.

In order to reasonably estimate its liabilities relating to future abandonment of wells and dismantling of production areas in view on the long productive period of each field, the Company adopted a scenario model for the international Brent price, with different probabilities. The adoption of more realistic scenarios in relation to the Brent price generated, in most cases, longer periods to use the fields than those estimated in 2003.

(d) Depreciation

Depreciation expenses for the year ended December 31 are shown below:

	Consolidated		Parent Company	
	2004	2003	2004	2003
Portion absorbed in costing:				
Of assets	3.430.195	3.118.666	1.678.474	1.416.604
Of exploration and production costs	1.674.071	1.285.360	1.656.215	1.029.607
Of capitalization of/provision for well abandonment	80.803	4.087	21.607	4.087
	5.185.069	4.408.113	3.356.296	2.450.298
Portion recorded directly in income	642.068	553.579	368.398	315.540
Other	390			
	642.458	553.579	368.398	315.540
	5.827.527	4.961.692	3.724.694	2.765.838

(e) Leasing of platforms and ships

As of December 31, 2004 and 2003, direct and indirect subsidiaries had leasing contracts for offshore platforms chartered to PETROBRAS, and the commitment assumed by the parent company is equivalent to the amount of the contracts. As of December 31, 2004 and 2003, PETROBRAS also had leasing contracts with third parties for other offshore platforms.

The balances of property, plant and equipment, net of depreciation, and liabilities relating to offshore platforms which, if recorded as assets purchased under capital leases, would have represented financed acquisition of fixed assets, are shown below:

	Consolidated		Parent Company	
	2004	2003	2004	2003
Property, plant and equipment, net of depreciation	1.547.952	1.872.610	353.981	416.979

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Financing				
Short-term	770.242	875.174	89.305	60.306
Long-term	3.250.506	3.961.792	554.607	712.530
	4.020.748	4.836.966	643.912	772.836

Expenditures on platform charters incurred in periods prior to the operational start-up are recorded by PETROBRAS as prepaid expenses and totaled R\$ 1.042.818 at December 31, 2004 (R\$ 763.902 in 2003), R\$ 924.535 of which are recorded as noncurrent assets (R\$ 675.806 in 2003).

BRASOIL participates in several contracts relating to the conversion and acquisition of P-36 Platform, which suffered a total loss in 2001 accident. Under these contracts, BRASOIL has committed to depositing any insurance reimbursement, in case of an accident, in favor of a Security Agent for the payment of creditors, in accordance with contractual terms. A legal action brought by companies that claim part of these payments is currently in progress in a London Court, since BRASOIL and PETROBRAS understand to be entitled to such amounts in accordance with the distribution mechanism established in the contract.

In April 2003, BRASOIL provided the Court with a bank guarantee obtained from a financial institution for the payment of insurance indemnity to the Security Agent. In order to facilitate the issue of the bank guarantee, BRASOIL provided the financial institution with counter-guarantees in the amount of US\$ 175 million.

The leasing operations relating to project financing are mentioned in Note 8 (e)

The trial has been divided into two stages. The first stage was initiated in October 2003 with a decision being handed down on February 2, 2004. The terms of the decision are complex and subject to appeal. In summary: (a) neither PETROBRAS nor BRASOIL have been considered to have defaulted their obligations; (b) PETROMECC and MARITIMA are subject to reimbursing BRASOIL for approximately US\$ 58 million plus interest; and (c) PETROMECC and MARITIMA are not liable for delays or unfinished work.

Not only PETROMECC but also PETROBRAS and BRASOIL have been allowed to appeal against the decision at a superior court, which should be carried out in the next months.

Following the trial in February 2004, PETROMECC amended the legal suit claiming the amount of US\$ 131 million in additional costs for upgrading procedures, or alternatively for damages for perjury, with no claimed amount being determined. The date of the trial of these two claims has not yet been defined.

The final outcome is therefore uncertain.

Pursuant to the construction and conversion of vessels into FPSO - Floating Production, Storage and Offloading and FSO - Floating, Storage and Offloading, considering the contractual default of the constructors, by December 31, 2004, BRASOIL contributed financial resources in the amount of R\$ 590 million, equivalent to R\$ 1.566.180 (R\$ 1.680.098 in 2003) on behalf of the constructors directly to the suppliers and subcontractors in order to avoid further delays in the construction/conversion activities and consequent losses to BRASOIL.

Based on the opinion of BRASOIL's legal advisers, these expenses can be reimbursed, since they represent a right of BRASOIL with respect to the constructors, for which reason judicial action was filed with international courts to obtain financial reimbursement. However, as a result of the litigious nature of the assets and the uncertainties as regards the probability of receiving all the amounts disbursed, the company conservatively recorded a provision for uncollectible accounts for all credits that are not backed by collateral, in the amount of R\$ 518 million, equivalent to R\$ 1.374.953 at December 31, 2004 (R\$ 1.471.955 in 2003).

(f) Lawsuit in the United States

On July 25, 2002, BRASOIL and PETROBRAS won a lawsuit filed with an American Court by the insurance companies United States Fidelity & Guaranty Company and American Home Assurance Company, which had attempted to obtain since 1997, a legal judgment in the United States to exempt them from the obligation to indemnify BRASOIL for the construction (performance bond) of platforms P-19 and P-31, and from PETROBRAS, the refund of any amounts that they might be ordered to pay in the performance bond proceeding. A court decision by the first level of the Federal Court of the District of New York recognized the right of BRASOIL and PETROBRAS to receive indemnity for losses and damages in the amount of US\$ 237 million, plus interest and reimbursement of

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legal expenses on the date of effective payment, relating to the performance bond in a total US\$ 370 million.

The insurance companies have filed appeals against the decision with the United States Court of Appeals for the Second Circuit. A decision was handed down on May 20, 2004, when the Court partly maintained the verdict, confirming the insurance companies liability to pay the performance bonds and exempting the insurance companies from the obligation to pay liquidated damages, attorney's fees and expenses, reducing the indemnity by BRASOIL and PETROBRAS to approximately US\$ 245 million.

The insurance companies appealed against this decision to the full court, which rejected the appeal, thus confirming the unfavorable verdict as mentioned. The parties involved (Insurance companies and BRASOIL) have adopted procedures with a view to actually settling BRASOIL's credit. No contingent amount receivable was recorded by the Company.

(g) Return of exploration areas to the ANP

During 2004, PETROBRAS returned to the National Petroleum Agency - ANP the rights associated with one exploratory concession BM-ES-9 (fully returned) and 15 exploratory concessions referring to the completion of the first exploration phase (partially returned) as established in the agreements, all in connection with BID 3. Of the total sixteen concessions and exploratory areas, PETROBRAS had exclusive rights over 9 (nine) concessions, and the other 7 (seven) were operated in partnership with other companies.

The rights to POT-T-655 Block, referring to BT-POT-22 Exploratory Block, BID 5, in which PETROBRAS was the sole concession holder, were fully returned to ANP.

Three areas - BM-C-14/BM-S-14/BM-S-22 - explored by PETROBRAS in partnership with other companies, the concession of which was not operated by the Company, were partially returned to ANP.

The area relating to 1-RJS-144 well, originating in BC-200 block, maintained in connection with the assessment of the related discovery was returned. Considering that PETROBRAS was not interested in declaring its marketability, the area was fully returned.

Thus, total concessions returned are as follows:

- (a) 113 (one hundred and thirteen) of the 115 (one hundred and fifteen) concessions granted to the Company on August 6, 1998.
- (b) 2 (two) of the 5 (five) concessions acquired under the BID 1 in June 1999, the contracts for which were signed on September 23, 1999.
- (c) partial return of 8 (eight) areas acquired under the BID 2, which formalizes the completion of the 1st Exploratory Period of the Exploration Phase, the contracts for which were signed on September 15, 2000.
- (d) partial return of 17 (seventeen) blocks, which formalizes the completion of the 1st Exploratory Period of the Exploration Phase, and full return of one block, all acquired under the BID 3.
- (e) full return of the area in one of the cells comprising BT-ES-22 Block, which is one of the seventeen areas acquired under the BID 5.

(h) 6th ANP auction of exploratory blocks

PETROBRAS acquired 107 (one hundred and seven) new exploratory concessions of the 154 (one hundred and fifty-four) bid upon in the 6th bid for exploratory blocks held in August 2004. ANP offered a total 913 (nine hundred and thirteen) blocks, 294 (two hundred and ninety-four) of which onshore and 619 (six hundred and nineteen) offshore.

PETROBRAS has exclusive rights over 55 (fifty-five) of these concessions and the other 2 (two) were acquired under a consortium. PETROBRAS is the operator of thirty-two of these concessions.

The costs incurred by PETROBRAS in subscription bonus totaled R\$ 437.490.

The concession agreements referring to the 6th bid were signed on November 24, 2004.

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	Consolidated				Parent Company			
	Current		Noncurrent		Current		Noncurrent	
	2004	2003	2004	2003	2004	2003	2004	2003
Foreign								
Financial institutions	3,136.742	5,537.374	8,448.441	7,955.928	1,010.071	887.372	3,846.012	4,929.033
Bearer bonds (Notes)	1,317.076	1,636.183	14,764.868	15,845.367	19.066	351.681	1,149.622	1,212.498
Structured finance of exports	398.101	178.449	3,349.375	4,910.629				
Suppliers	185.760	191.141	1,024.274	351.219				
Other	51.920	120.763	29.478	1,016.238				
Subtotal	5,089.599	7,663.910	27,616.436	30,079.381	1,029.137	1,239.053	4,995.634	6,141.531
Local								
National Bank for Economic and Social Development - BNDES	126.306	157.934	400.614	448.130	8.970	11.815	4.477	14.618
Debentures	159.176	131.801	2,778.833	2,598.031	158.623	131.386	2,760.615	2,581.436
FINAME - Financing for the construction of Bolívia-Brasil gas pipeline	110.919	120.559	708.754	890.133	110.918	120.559	708.754	890.133
Other	9.201	57.867	216.758	100.203	2.590	29.382	119.640	94.795
Subtotal	405.602	468.161	4,104.959	4,036.497	281.101	293.142	3,593.486	3,580.982
	5,495.201	8,132.071	31,721.395	34,115.878	1,310.238	1,532.195	8,589.120	9,722.513
Interest on financing	(355.596)	(554.183)			(165.265)	(185.031)		
Principal	5,139.605	7,577.888			1,144.973	1,347.164		
Current portion of long-term debt	(3,337.496)	(3,391.802)			(1,144.973)	(1,347.164)		
Total short-term debt	1,802.109	4,186.086						

(a) Long term debt maturity dates

	2004	
	Consolidated	Parent Company

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2006	3,736,671	1,709,419
2007	5,440,898	1,416,688
2008	3,801,246	867,249
2009	2,725,179	616,408
2010 and thereafter	16,017,401	3,979,356
Total	31,721,395	8,589,120

(b) Long-term debt interest rates

	Consolidated		Parent Company	
	2004	2003	2004	2003
Foreign				
Up to 6%	10,501,207	11,181,889	3,339,265	4,034,265
From 6 to 8%	4,945,600	5,121,671	959,574	1,322,979
From 8 to 10%	11,836,562	13,413,126	696,795	784,287
From 10 to 12%	270,211	331,692		
Other	62,856	31,003		
	27,616,436	30,079,381	4,995,634	6,141,531
Local				
Up to 6%	328,664	2,056,881		1,658,107
From 6 to 8%	832,871		832,871	
From 8 to 10%	606,252		599,145	
From 10 to 12%	2,251,471	1,922,875	2,161,470	1,922,875
Other	85,701	56,741		
	4,104,959	4,036,497	3,593,486	3,580,982
	31,721,395	34,115,878	8,589,120	9,722,513

(c) Long-term balances per currency

	Consolidated		Parent Company	
	2004	2003	2004	2003

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U.S. dollar	25.843.078	29.079.668	3.247.769	4.909.053
Japanese yen	1.190.003	1.527.365	1.190.003	1.527.365
Euro	681.704	609.864	562.338	609.864
Real	3.716.117	2.716.377	3.589.010	2.676.231
Other	290.493	182.604		
	31.721.395	34.115.878	8.589.120	9.722.513

The parent company's long-term debt at December 31, 2004 amounting to R\$ 8,589.120, has estimated fair values of approximately R\$ 8,757.000, calculated based on market interest rates, considering loans and financing with same nature, mature timing, and risks.

The derivative financial instrument operations contracted in connection with Notes issued abroad in foreign currency are disclosed in Note 21.

(d) Structured finance of exports

PETROBRAS and PETROBRAS FINANCE LTD. have contracts ("Master Export Contract" and "Prepayment Agreement") between themselves and a special purpose entity not related with PETROBRAS, PF Export Receivables Master Trust (PF Export), relating to the prepayment of export receivables to be generated by PETROBRAS FINANCE LTD. by means of sales on the international market of fuel oil and other products acquired from PETROBRAS.

As stipulated in the contracts, PETROBRAS FINANCE LTD. assigned the rights to future receivables in the amount of US\$ 1.800 million (1st and 2nd tranches) to PF Export, which, in turn, issued and delivered to PETROBRAS FINANCE LTD. the following securities, also in the amount of US\$ 1.800 million:

- ◇ US\$ 1.500 million in Senior Trust Certificates, which were negotiated by PETROBRAS FINANCE LTD. on the international market at face value, and the amount was transferred to PETROBRAS as prepayment for exports to be made to PETROBRAS FINANCE LTD., according to the Prepayment Agreement.
- ◇ US\$ 300 million in Junior Trust Certificates, which are held in the portfolio of PETROBRAS FINANCE LTD. If PF Export incurs any losses on the receipt of the exports, transferred by PETROBRAS FINANCE LTD., these losses will be compensated by the securities linked to export prepayments. In May 2004, a contractual amendment was made to allow the presentation of the securities linked to the export prepayment, offsetting the debt balance (Junior Trust Certificates) in the balance sheet.

At December 31, 2004, the balance of export prepayments, including amortization for the period, totaled R\$ 3,747.476, being the amount of R\$ 3,349.375 classified as long-term liabilities.

The assignment of rights to future export receivables represents a liability of PETROBRAS FINANCE LTD., which will be settled by the transfer of the receivables to PF Export as and when they are generated. This liability will bear interest on the same basis as the Senior and Junior Trust Certificates, as described above.

(e) Funding by PIFCo

On September 15, 2004, the subsidiary PETROBRAS INTERNATIONAL FINANCE COMPANY (PIFCo) concluded placement in the international capital market of Global Notes amounting to US\$ 600 million for 98,638% of their face value, with coupon of 7,75% per year, and maturity of 10 years. The Company intends to use the funds raised with this security issue for corporate purposes and meet its strategy of extending terms and reducing the cost of its debt.

(f) Financing for P-52 Platform

On November 25, 2004, the Board of directors of PETROBRAS approved the execution of a contract in the amount of up to US\$ 378,5 million between the National Bank for Economic and Social Development (BNDES) and the wholly-owned subsidiary PETROBRAS NETHERLANDS B.V. PNBV for the financing of Brazilian assets and services to be used in the construction of the P-52 production platform, the construction contract for which was signed on December 19, 2003 with FSTP Pte. Ltd. (Consortium FelsSetal/Technip).

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The amount will be provided by BNDES within the BNDES-Exim post-shipment program, in the buyer credit mode. The financing will be amortized over a 10-year period after conclusion of the platform construction work, expected for 2006. The interest rate will be the 36-month LIBOR plus 2% during the grace period and the 60-month LIBOR plus 2% thereafter. Other credit lines are also being negotiated with Banco BNP Paribas, the agent bank of the financing obtained from the BNDES, and with European and North-American export credit agencies, for the financing of imported platform assets.

(g) Other information

The loans and financing are principally intended to fund purchases of raw materials, development of oil and gas production projects, construction of vessels and pipelines and the expansion of industrial plants.

The debentures issued through BNDES - National Bank for Economic and Social Development, for the pre-acquisition of the right to use the Bolivia-Brazil pipeline, over a 40-year period, to transport 6 million cubic meters of gas per day (TCO - Transportation Capacity Option), totaled R\$ 430.000 (43.000 notes with par value of R\$ 10) maturing February 15, 2015. GASPETRO, as the intermediary in the transaction, provided a guarantee to the BNDES, secured on common shares issued by TBG and held by GASPETRO, in respect of these debentures.

PETROBRAS is not required to provide guarantees to foreign financial institutions. Financing obtained from the BNDES - National Bank for Economic and Social Development - is secured by the assets being financed (carbon steel tubes for the Bolívia-Brasil pipeline and vessels).

Respective to the guarantee contract issued by the Federal Government in favor of the Multilateral Credit Agencies, as a result of the loans raised by TBG, counter-guarantee contracts have been signed by the Federal Government, TBG, PETROBRAS, PETROQUISA and Banco do Brasil S.A., whereby TBG undertakes to tie the National Treasury order to its revenues until the liquidation of the obligations guaranteed by the Federal Government.

12. Financial income (expenses), net and other operating income (expenses), net

(a) Financial income (expenses), net

Financial charges and net monetary and exchange variation, allocated to income for the years ended 2004 and 2003, are as follows:

	Consolidated		Parent Company	
	2004	2003	2004	2003
Financial expenses				
Loans and financing	(2.649.630)	(2.506.752)	(710.095)	(763.684)
Suppliers	(238.459)	(97.089)	(1.441.428)	(1.069.957)
Capitalized interest	13.267	17.522	13.267	17.522
Other	(1.227.022)	(608.813)	(114.585)	(164.672)
	(4.101.844)	(3.195.132)	(2.252.841)	(1.980.791)
Financial income				
Short-term investments	641.817	971.377	30.465	500.432
National Treasury Bonds		47.858		
Subsidiaries and affiliated companies		(44.697)	888.879	1.413.753
Advances to suppliers	93.127	112.334	93.127	112.334
Advances for migration costs - Pension Plan	73.959	61.388	73.959	61.388
Other	121.886	669.096	146.510	204.518

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	930.789	1.817.356	1.232.940	2.292.425
Net monetary and exchange variation	753.178	2.727.906	328.870	1.009.483
	(2.417.877)	1.350.130	(691.031)	1.321.117

PETROBRAS and its subsidiaries have close commercial and financial relations with the international market, including foreign currency transactions that suffered the impacts of the appreciation of the real in 2004 (8,13%) and 2003 (18,23%) in relation to the U.S. dollar, fully recognized in the income statement.

Therefore, in the income statement for the 2004 financial year, net exchange variation gains amounting to R\$ 117,250 (R\$ 744,933 in 2003) were recorded corresponding to the appreciation of the real on credits and liabilities contracted in foreign currency.

(b) Other operating income (expenses)

	Consolidated		Parent Company	
	2004	2003	2004	2003
Pension and health care benefit costs - pensioners and retirees	(1.319.801)	(812.750)	(1.240.026)	(884.263)
Proceeds from the lease of assets and facilities			(661.490)	(457.696)
Institutional relations and cultural projects	(757.650)	(595.018)	(651.088)	(509.832)
Gains (losses) on thermoelectric business			49.523	(481.961)
Contractual losses on transportation services (Ship or Pay)	(169.045)	(292.659)	(338.637)	(322.491)
Unscheduled stoppages - plant and equipment	(245.190)	(556.343)	(237.855)	(326.504)
Losses and contingencies - legal cases	(366.384)	(2.678.931)	(104.216)	(2.282.272)
Gains (losses) on derivative financial instrument transactions	(22.310)	(142.392)	(21.588)	(142.392)
Others	14.753	(513.102)	(389.774)	(541.039)
	(2.865.627)	(5.591.195)	(3.595.151)	(5.948.450)

13. Taxes, contributions and participations

Current assets	Consolidated		Parent company	
	2004	2003	2004	2003
Local:				
ICMS recoverable	1.766.034	1.348.596	1.381.591	946.935
PASEP/COFINS recoverable	410.144	432.866	182.760	329.242
CIDE recoverable	17.919		17.919	
Income tax recoverable	502.100	258.864	253.367	195.198

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Social contribution recoverable	96.735	16.898	11.244	
Deferred income tax and social contribution	941.898	1.462.139	848.681	1.448.054
Other recoverable taxes	299.256	100.810	270.445	46.170
	4.034.086	3.620.173	2.966.007	2.965.599
Foreign:				
Tax on value added IVA	382.244	132.340		
Presumed income tax	72.949	75.167		
Other recoverable taxes	5.458	212.452		
	460.651	419.959		
	4.494.737	4.040.132	2.966.007	2.965.599
	Consolidated		Parent company	
Current liabilities	2004	2003	2004	2003
ICMS - Value Added Tax on Sales and Services	1.859.099	2.513.414	1.721.904	2.386.421
COFINS - Tax for Social Security Financing	503.098	103.277	393.521	62.295
CIDE- Contribution on Intervention in Economic Domains	653.222	1.445.950	608.264	1.341.541
PASEP- Public Service Employee Savings	111.467	26.263	87.043	15.912
Special participation program/royalties	2.045.052	1.530.115	2.007.969	1.496.109
Withholding income tax	65.999	146.693	62.599	6.614
Income tax and social contribution payable	959.934	630.398	470.897	337.721
Deferred income tax and social contribution	1.000.695	697.421	957.908	686.118
Other taxes	490.421	230.232	273.458	73.558
	7.688.987	7.323.763	6.583.563	6.406.289

The changes introduced in tax legislation from February to May 2004 increased the COFINS rate from 3% to 7,6%. These changes, together with the introduction of withholding contribution on net income (CSLL), COFINS and PIS/PASEP on payments for goods and services sold by mixed capital entities, as well as the levy PIS/PASEP and COFINS on the import of assets and services and the exclusion of CIDE as a reducing item from the basis of tax calculation, increased the related tax amounts payable, having been partly compensated by the decrease in credits in view of the new noncumulative system. The decrease in liabilities in connection with CIDE-fuel is related to the decrease in rates.

(a) Deferred taxes and social contribution - Long-term

Consolidated		Parent Company	
2004	2003	2004	2003

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Noncurrent assets

Deferred income tax and social contribution	2,608,718	1,948,954	860,433	862,829
Deferred ICMS	1,396,600	1,351,945	1,169,835	1,160,202
	<u>4,005,318</u>	<u>3,300,899</u>	<u>2,030,268</u>	<u>2,023,031</u>

Long-term liabilities

Deferred income tax and social contribution	6,747,084	6,044,032	5,263,660	4,444,930
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(b) Deferred income tax and social contribution

The basis and expectations for the realization of deferred tax assets and liabilities are presented as follows:

Deferred income tax assets

Nature	2004		Basis for realization
	Consolidated	Parent Company	
Provisions for contingencies and uncollectible accounts	555,865	256,832	By realization of losses in view of the outcome of legal suits and overdue credits.
Programmed maintenance	130,668	112,193	Through the effective maintenance.
Pension plan - (Sponsor's portion)	474,508	463,745	By payment of the contributions.
Tax losses	368,058		Future taxable income.
Unrealized profits	802,411		
Provision for profit sharing	293,822	242,617	By payment.
Return to shareholders - interest on shareholders' equity	372,822	372,822	Through credit to individual shareholders.
Other	552,462	260,905	
	<u>3,550,616</u>	<u>1,709,114</u>	
Total			
Long-term	<u>2,608,718</u>	<u>860,433</u>	
Current	<u>941,898</u>	<u>848,681</u>	

Deferred income tax liabilities

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2004

Nature	2004		Basis for realization
	Consolidated	Parent Company	
Cost of prospecting and drilling activities for oil extraction (net of depreciation)	6,982,111	5,960,105	Depreciation based on the unit-of production method in relation to the proven developed reserves on the oil fields.
Income tax and social contribution - foreign operations	267,987	219,483	Through occurrence of triggering events that generate income.
Special accelerated depreciation	85,739	38,437	By means of depreciation according to the asset's useful life or disposal.
Investments in subsidiary and affiliated companies	230,445		Through occurrence of triggering events that generate income.
Other	181,497	3,543	
Total	7,747,779	6,221,568	
Long-term	6,747,084	5,263,660	
Current	1,000,695	957,908	

Realization of deferred income tax and CSLL

At the parent company, realization of deferred tax credits amounting to R\$ 1,709,114 does not depend on future income since these credits will be absorbed annually by realizing the deferred tax liability. Based on forecasts, the management of subsidiaries expect to offset the consolidated credit amounts in excess of the balance recorded by the parent company where applicable within a 10-year period.

Realization of deferred income tax and CSLL

	Realization expectation			
	Consolidated		Parent Company	
	Deferred income tax assets	Deferred income tax liabilities	Deferred income tax assets	Deferred income tax liabilities
2005	941,898	1,000,696	848,681	957,908
2006	788,316	968,793	147,448	778,946
2007	239,533	951,736	129,230	778,751
2008	200,308	831,255	53,509	778,751

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2009	366.748	869.127	307.213	778.751
2010	168.218	875.509	53.509	778.751
2011	105.912	878.288	53.509	778.278
2012 and thereafter	739.683	1.372.375	116.015	591.432
Amount accounted for	3.550.616	7.747.779	1.709.114	6.221.568
Amount not accounted for	1.677.019		75.455	
Total	5.227.635	7.747.779	1.784.569	6.221.568

At December 31, 2004, TBG, a subsidiary of GASPETRO, had accumulated income tax losses carryforwards amounting to R\$ 405.540 (R\$ 460.439 in 2003), which may be offset against taxes up to a limit of 30% of annual taxable income, based on Law No. 9.249/95, which, in the opinion of TBG management, will occur within the useful life of the Bolivia-Brazil Gas Pipeline project. However, considering the accounting for deferred tax assets in accordance with CVM Instruction No. 371 insofar as it relates to the determination of taxable income in three of the past five financial years and the long term estimate for utilization, these credits are not recorded in the consolidated financial statements for December 31, 2004 and 2003. The accounting recognition of these credits will be reviewed annually.

The subsidiary Petrobras Energia Participações S.A. has tax credits arising from accumulated tax losses amounting to approximately R\$ 1.196.000, which were not recorded in asset accounts. In accordance with specific legislation in Argentina, these credits may be offset against future taxes payable until 2007.

(c) Reconciliation of income tax and social contribution

The reconciliation of income tax and social contribution determined in accordance with statutory rates and the related amounts recorded in 2004 and 2003 is summarized below:

	Consolidated		Parent Company	
	2004	2003	2004	2003
Income before social contributions and income tax and after employees participation	25.937.062	26.494.675	24.645.625	24.490.781
Income tax and social contribution at nominal rates (34%)	(8.818.601)	(9.008.190)	(8.379.513)	(8.326.866)
Adjustments to determine effective rate:				
Permanent additions, net	(344.892)	(333.295)	(561.082)	(437.122)
Equity pickup	(66.000)	(255.250)	457.421	237.645
Discount amortization	7.395	2.400	1.537	2.400
Tax incentives	131.623	224.805	130.858	222.529
Additional IRPJ and CSLL for 2003	43.208		43.208	
IRPJ and CSLL adjustments to the abandonment provision for 2002	581	(185.650)		(185.650)
Tax losses not recorded in the year	50.210	338.564		
Net effect of the deduction of interest on shareholders equity	1.416.117	1.520.989	1.416.117	1.520.989
Reversal of income from foreign operations, net of taxes	179.924	30.288		

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Other items	150.741	(150.358)		
Provision for income tax and social contribution	(7.249.694)	(7.815.697)	(6.891.454)	(6.966.075)
Deferred income tax and social contribution	(979.725)	338.017	(1.692.288)	85.902
Current income tax and social contribution	(6.269.969)	(8.153.714)	(5.199.166)	(7.051.977)
	(7.249.694)	(7.815.697)	(6.891.454)	(6.966.075)

14. Employee benefits

(a) Pension Plan - Fundação Petrobras de Seguridade Social - PETROS

Fundação Petrobras de Seguridade Social - PETROS and the current benefits plan (PETROS Plan)

Fundação Petrobras de Seguridade Social - PETROS, was established by PETROBRAS, as a private legally separate nonprofit pension entity with administrative and financial autonomy. As such, Petros has the following principal objectives:

- (i) institute, manage and execute benefit plans for the companies or entities with which it has signed agreements;
- (ii) provide administration and execution services for benefit plans focused on post-retirement payments; and
- (iii) promote the well-being of its members, especially with respect to post-retirement payments.

The PETROS plan is a defined-benefit pension plan and was introduced by PETROBRAS in July of 1970 to ensure members a supplement to the benefits provided by Social Security. In 2001, subsequent to a process of separating participant groups, the PETROS Plan was transformed into several distinct defined benefit plans.

As of December 31, 2004, the following sponsor companies formed part of the Petrobras System PETROS plan: PETRÓLEO BRASILEIRO S.A. - PETROBRAS, the subsidiaries Petrobras Distribuidora S.A. - BR, Petrobras Química S.A. - Petroquisa, and Alberto Pasqualini - REFAP S/A, a subsidiary of Downstream Participações S.A.

PETROS receives monthly contributions from the sponsoring companies of the PETROS Plan amounting to 12,93% of the salaries of employees participants in the plan and contributions from employees and retirees, as well as the income from the investment of these contributions.

The provision for actuarial liabilities related to pension and retirement benefit plans and to post-retirement health care life benefits is recorded in the Company's balance sheet accounts based on calculations prepared by an independent actuary according to the projected credit unit method, net of plan assets. The actuarial liabilities increase from one year to another, on a pro rata basis in relation to the employees' length of service during their working life. The assets that guarantee the pension plan are presented as a reducing balance of the net actuarial liabilities.

The projected credit unit method considers each service period as a triggering event of additional benefit units and the units are accumulated to calculate the liability upon each new analysis. In addition, actuarial assumptions are used, such as an estimate of the evolution of costs with medical assistance, biometric and economic hypotheses regarding active and inactive service periods and also historical data on expenses incurred and employee contributions.

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Gains and losses arising from the difference between the actuarial assumptions and the fair value of plan assets are respectively included or excluded when defining the net actuarial liability, and are not therefore immediately recognized. These unrecognized gains and losses are amortized during the average remaining service period of the active employees.

The relation between contributions by the sponsors and participants of the PETROS Plan, considering only those attributable to PETROBRAS and subsidiaries in the 2004 financial year, was 1,00 (1,01 in 2003).

Evaluation of the PETROS costing plan is performed by independent actuaries based on a capitalization system on a general basis.

Any deficit determined in the defined-benefit plan in accordance with the actuarial costing method currently adopted by Petros exclusively to determine PETROBRAS liabilities to Petros, as determined in CVM Resolution No. 371/00, must be equally shared between the sponsor and the participants, as established in Constitutional Amendment No. 20.

In this way, if the net liability computed for December 31, 2004 in accordance with the projected credit unit method, amounting to R\$ 1.113.647 in consolidated and R\$ 1.016.212 in Parent Company, is reflected as a technical deficit in the method adopted by the PETROS Plan, resulting in additional financial contributions, these shall be equally divided among the participants.

New benefits plan

In October of 2001, the Board of Directors of PETROBRAS approved the creation of a mixed social security plan, for current and new employees, based on a defined contribution formula for programmable benefits and a defined benefit formula for risk benefits.

The joining process of members and beneficiaries of the PETROS Plan to the new plan, PETROBRAS VIDA, was suspended on November 27, 2001 as a result of an injunction granted as a result of a writ of security filed by unions. On January 13, 2003, after several court rulings on the continuity of the new Plan, the Regional Federal Court of the 1st Region granted PETROBRAS relief suspending the effects of the injunction that prevented joining the new plan. In addition to this case, on January 17, 2003, the judge of the 7th Federal Court of Rio de Janeiro granted another injunction to suspend the joining process, as a result of a class action filed by another union.

On April 30, 2004, the judge of the 14th Federal Court of the Federal District, who had granted the aforementioned injunction (later cancelled by the Federal Regional Court of the 1st Chapter), granted a writ of security nullifying the legal act performed by the Supplementary Pension Secretariat of the Ministry of Social Security (MPAS) that authorized the new Plan, and annulled any changes made to the PETROS Plan based on that approval. This decision is subject to appeals by the Federal Government, PETROBRAS and PETROS. The sentence is under appeal at a second instance.

At December 31, 2004, the balance of advances for the pension plan recorded by PETROBRAS amounted to R\$ 1.217.612 (R\$ 1.193.322 in 2003). The impact of joining the new plan and the cost of the benefits stipulated in the new plan will be valued according to the standards established in CVM Resolution No. 371/00 and will only be computed and recognized in the accounts when the litigation has been resolved.

The PETROS Plan still does not accept new employees of PETROBRAS. Pursuant to the closure of the PETROS Plan, PETROBRAS took out a group life insurance policy to cover all employees beginning employment with the Company subsequent to the closure of the PETROS plan, this policy will remain in effect until a new private pension scheme is implemented.

In 2003, PETROBRAS formed a task force with representatives of the National Union of Oil Workers (FUP), unions and PETROS, among others, in order to technically evaluate alternatives to a new model for the Company's supplementary pension plan, including analyses of negotiated schemes for the settlement of actuarial deficits.

TRANSPETRO

TRANSPETRO maintains a defined-contribution private pension scheme with PETROS called Plano TRANSPETRO, which receives monthly contributions equivalent to 5,32% of the payroll of the members and is equal to the contributions made by the participants.

PETROBRAS ENERGIA PARTICIPAÇÕES S.A.

Defined contribution plan

PEPSA sponsors a defined contribution plan applicable to all of its employees with salaries above a specified level. Through this plan, PEPSA provides additional funds at amounts equivalent to contributions made by employees which are in excess of legally required amounts. These funds are recognized in accordance with the accrual method of accounting. Due to significant changes in the macroeconomic scenario in 2002 and the uncertainties with regard to the Argentine economic conditions, the company has temporarily suspended this benefit as from January 2002. This benefit will be reinstated when a provisional savings means considered adequate to this end is identified.

Defined benefit pension plan

All PEPSA's employees joining the company prior to May 31, 1995 that have participated in the defined contribution plan without interruption and that have worked for a required number of years are entitled to this benefit.

The benefit is based on the latest salary amount paid to the employees that participate in the plan, considering the number of years worked.

The plan is of a supplemental nature: the benefit received by the employee corresponds to an amount defined in conformity with the plan's provisions, after deducting the benefits vested in accordance with the contribution plan and the government-sponsored pension scheme, so as the aggregate amount of benefits granted to each employee under the three plans is equivalent to that defined in the plan.

As from retirement, the employees are entitled to a fixed monthly payment.

The plan requires contributions to a fund, payable by the company and not by the employees, who must contribute to the social security system based on their total salary. The fund's assets have been transferred to a trust and invested mainly in bonds, notes, mutual investment funds and fixed term deposits. The Bank of New York is the trustee and Watson Wyatt is the managing agent. The company determines the liability relating to this plan using actuarial calculation methods. The assumptions used in actuarial calculations differ from those used by other PETROBRAS Group companies.

(b) Health care benefits - Assistência Multidisciplinar de Saúde (AMS)

PETROBRAS and its subsidiaries maintain a health care benefit plan (AMS), which offers defined benefits and covers all employees of the companies in Brazil (active and inactive) together with their dependents. The plan is managed by the Company, with the employees contributing a fixed amount to cover the principal risks and a portion of the costs relating to other types of coverage in accordance with participation tables defined by certain parameters including salary levels.

The Company's commitment related to future benefits to plan participants is calculated on an annual basis by an independent actuary, based on the Projected Unit Credit method.

The health care plan is not funded by collateral assets. Payment of benefits is made by the Company based on costs incurred by the plan participants.

Gains and losses arising from the difference between the actuarial assumptions and the costs effectively incurred are respectively included or excluded when defining the net actuarial liability. These gains and losses are amortized over the average remaining service period of the active employees.

LIQUIGÁS DISTRIBUIDORA S.A.

At December 31, 2004, Liquigás recorded liabilities in connection with future post-retirement health care benefit costs, in the amount of R\$ 35.238, directly charged to profit and loss accounts for the year.

(c) The balance of the provision for expenses associated with post-retirement benefits, calculated by an independent actuary, shows the following movements:

Consolidated		Parent Company	
2004	2003	2004	2003
Health care	Health care	Health care	Health care

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Change in benefit obligation	Pensions		benefits		Pensions		benefits	
Present value of the actuarial liability at the beginning of the year	22,394,259	8,879,781	18,359,913	6,616,974	21,230,354	8,329,509	17,362,445	6,100,830
Interest cost	2,532,496	1,003,884	2,082,125	747,252	2,399,030	940,789	1,961,956	687,996
Current service cost	391,063	131,065	296,932	110,673	365,013	116,971	272,521	98,764
Benefits paid	(1,272,463)	(300,936)	(1,231,518)	(236,975)	(1,211,790)	(285,761)	(1,175,162)	(225,755)
Actuarial loss on actuarial liability at the beginning of the year	6,452,520	934,770	2,820,833	1,641,857	5,995,410	879,305	2,746,508	1,665,687
Other	50,386	35,239	65,974				62,086	1,987
Present value of the actuarial liability at the end of the year	30,548,261	10,683,803	22,394,259	8,879,781	28,778,017	9,980,813	21,230,354	8,329,509
Change in plan assets								
Plan assets at the beginning of the year	18,378,629		16,216,576		17,463,696		15,431,902	
Expected return on plan assets	2,041,736		1,766,127		1,937,422		1,672,706	
Contributions received by the fund	596,343	300,936	593,550	236,975	561,092	285,761	552,069	225,755
Benefits paid	(1,272,463)	(300,936)	(1,231,518)	(236,975)	(1,211,790)	(285,761)	(1,175,162)	(225,755)
Actuarial gain on plan assets at the beginning of the year	1,314,153		951,836		1,229,299		924,120	
Other	42,403		82,058				58,061	
Fair value of plan assets at the end of the year	21,100,801		18,378,629		19,979,719		17,463,696	

Amounts recognized in the financial statements	Consolidated				Parent Company			
	2004		2003		2004		2003	
	Pensions	Health care benefits	Pensions	Health care benefits	Pensions	Health care benefits	Pensions	Health care benefits
Present value of liabilities in excess fair value of assets	9,447,460	10,683,803	4,015,630	8,879,781	8,798,298	9,980,813	3,766,658	8,329,509
Unrecognized actuarial losses	(8,309,813)	(5,010,153)	(3,207,883)	(4,315,955)	(7,782,086)	(4,766,403)	(3,043,742)	(4,112,992)
Net actuarial liability	1,137,647	5,673,650	807,747	4,563,826	1,016,212	5,214,410	722,916	4,216,517
Current liabilities	441,374		462,349		414,865		434,667	
Long-term liabilities	696,273	5,673,650	345,398	4,563,826	601,347	5,214,410	288,249	4,216,517

Consolidated

Parent Company

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	2004		2003		2004		2003	
	Pensions	Health care benefits	Pensions	Health care benefits	Pensions	Health care benefits	Pensions	Health care benefits
Balance at January 1								
Liabilities upon adoption of NPC 26	807.747	4,563.826	778.478	3,744.671	722.916	4,216.517	711.894	3,472.557
(+) Incorporation of employees of subsidiaries		35.238						1.987
(+) Costs incurred during the period	686.896	1,375.522	323.171	1,056.130	622.465	1,283.654	291.646	967.728
(-) Payment of contributions	(356.996)	(300.936)	(310.032)	(236.975)	(329.169)	(285.761)	(284.011)	(225.755)
(-) Reduction of deficit - PETROS Plan			(119.141)				(115.345)	
(-) Actuarial review			135.271				118.732	
Balance at December 31	1,137.647	5,673.650	807.747	4,563.826	1,016.212	5,214.410	722.916	4,216.517

The net expense associated with the pension and retirement benefits granted and to be granted to employees, retirees and pensioners for the period January to December, according to the actuarial calculation made by an independent actuary, includes the following components:

	Consolidated				Parent Company			
	2004		2003		2004		2003	
	Pensions	Health care benefits	Pensions	Health care benefits	Pensions	Health care benefits	Pensions	Health care benefits
Current service cost	391.063	131.065	296.932	110.673	365.013	116.971	272.521	98.764
Interest cost	2,532.496	1,003.884	2,082.125	747.252	2,399.030	940.789	1,961.956	687.996
Estimated return on plan assets	(2,041.736)		(1,766.127)		(1,937.422)		(1,672.706)	
Amortization of unrecognized losses	88.232	240.573		198.205	83.700	225.894		180.968
Contributions from participants	(307.465)		(293.784)		(287.856)		(274.150)	
Other	24.306		4.025				4.025	
Net cost for the year	686.896	1,375.522	323.171	1,056.130	622.465	1,283.654	291.646	967.728

The restatement of the provisions was recorded under income for the year, as described below:

	Consolidated				Parent Company			
	2004		2003		2004		2003	
	Pensions	Health care benefits	Pensions	Health care benefits	Pensions	Health care benefits	Pensions	Health care benefits

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Related with active employees:

Absorbed in the cost of operating activities	181.951	271.687	74.815	226.949	174.980	264.975	70.015	219.580
Directly to income	109.126	178.032	55.958	173.768	92.461	141.492	44.931	124.152

Related with inactive members

(recorded under other operating income and expenses)	395.819	925.803	192.398	655.413	355.024	877.187	176.700	623.996
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	686.896	1.375.522	323.171	1.056.130	622.465	1.283.654	291.646	967.728
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(d) Changes in health care costs

Assumed health care costs trend rates have a significant effect on the amounts provided for and related recognized costs. A 1% change in assumed health care costs rates would have the following effects:

	Consolidated		Parent Company	
	1% increase	1% decrease	1% increase	1% decrease
Actuarial liability	1.950.363	(1.549.138)	1.812.750	(1.441.438)
Service cost and interest	225.259	(176.182)	207.931	(162.871)

(e) Assumptions

On February 4, 2005, the Executive Board of PETROBRAS approved a review of the actuarial assumptions of the pension and healthcare plans in Brazil with a view to monitoring the changes in the profile of employees, retirees and pensioners, based on longevity, age of invalidity and invalid mortality tables. The purpose of this review is principally to strengthen benefit plans in order to align them to a greater beneficiary life expectancy.

The change in longevity tables had no direct impact on the balance of Pension and Health Care liabilities nor has it impacted net income for the year ended December 31, 2004. The amount referring to unrecognized actuarial losses, which absorb the increase in actuarial liabilities, will be amortized and recorded in income for subsequent years over the average life expectancy of plan participants.

The main assumptions adopted by the Brazilian companies in the actuarial calculation were the following:

Type	Prior assumption	Current assumption
Benefit plan	Defined benefit	Defined benefit
Actuarial valuation method	Projected credit unit	Projected credit unit
Mortality table	GAM-71	AT 2000 *
Disability	Álvaro Vindas	ZIMMERMANN adjusted by GLOBALPREV
Disabled pensioners table	STEA Experience	AT 49 *
Average turnover up to age 47	0,82 % p.a.	0% p.a.
Average turnover after age 47	0% p.a.	0% p.a.
Discount rate for actuarial liability	Interest: 6% p.a. + inflation: 5% p.a.	Interest: 6% p.a. + inflation: 5% p.a.
Expected return on plan assets	Interest: 6% p.a. + inflation: 5% p.a.	Interest: 6% p.a. + inflation: 5% p.a.
Salary growth	2,11% p.a. + inflation: 5% p.a.	2,01% p.a. + inflation: 5% p.a.

* Unisex mortality assumptions: 85% male; 15% female.

15. Profit sharing for employees and management

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According to the provisions of current legislation, employees' participation in income or results of operations may be based on voluntary programs instructed by companies or by agreements signed with employees or unions.

In 2004, PETROBRAS provided for an amount of R\$783.224 in the consolidated financial statements (R\$894.442 in 2003) and R\$660.000 in Parent Company financial statements (R\$777.051 in 2003), for profit sharing of employees and management. The value of the provision complies with the terms established by Resolution No. 10 issued by the State Company Control Council - CCE on May 30, 1995.

Management's participation in income or results of operations will be subject to approval at the Ordinary General Meeting to be held on March 31, 2005, in accordance with articles 41 and 56 of the Company's by-laws and specific federal regulations.

16. Accounts payable – temporary agreement on price stabilization in Argentina

In January 2003, pursuant to government actions seeking to stabilize the economic environment in Argentina, the hydrocarbon producing and refining companies signed a temporary agreement aimed at stabilizing the prices of crude oil, gasoline and diesel oil in the Argentine market. Under this agreement, deliveries of crude oil must be billed and paid based on a reference WTI (West Texas Intermediate) price of US\$28,50 per barrel. Positive or negative differences between 90% of actual WTI, up to the limit of US\$36,00 per barrel, and the reference price are to be realized based on amounts generated in periods during which the actual WTI price is lower than US\$28,50 per barrel. After several renewals, the agreement terminated in May 2004. After that date, producers and refiners entered into a new agreement, valid until June 2004, whereby as long as the actual WTI price is between US\$32,00 and US\$42,00, the related deliveries will be billed and paid at an amount equivalent to 86% of actual WTI price up to a limit of US\$36,00 per barrel, thus characterizing a discount over international prices. In August 2004, as the WTI price exceeded US\$42,00 per barrel, the Argentine government established a ceiling price in the local market based on international prices, net of withholding amounts for export. After October 2004, hydrocarbon manufacturers and refiners have freely negotiated oil prices, considering the export parity as the reference price.

17. Shareholders' equity

(a) Capital

At an Extraordinary General Meeting held on March 29, 2004, the shareholders of PETROBRAS approved an increase in the Company's capital to R\$32.896.138, through the capitalization of revenue reserves accrued during previous financial years, in the amount of R\$13.033.504, and without the issuance of new shares, in accordance with article 169, paragraph 1, Law No. 6.404/76. This capitalization aimed to bring the Company's capital in line with the investments of an oil company given intensive use of capital and extended operating cycles.

The Extraordinary General Meeting held on March 29, 2004 also approved an increase in the Company's authorized capital (paragraph 1, article 4, of the Company's by-laws) from R\$30.000.000 to R\$60.000.000, through the issuance of up to 200.000.000 (two hundred million) preferred shares for payment in cash, assets and credit capitalization.

At December 31, 2004 and 2003, the Company's subscribed and paid in capital is comprised of 634.168.418 common shares and 462.369.507 preferred shares, all book entry shares without par value.

Preferred shares shall be given priority in the case of repayment of capital and distribution of dividends of, at least 3% of the book value of the shares, or 5% calculated on the portion of capital represented by this class of shares, whichever is larger, and shall participate equally with common shares in capital increases resulting from the incorporation of reserves and income. Preferred shares are not entitled to voting rights and are not convertible into common shares and vice versa.

(b) Reserves

Subsidy reserve - AFRMM

This reserve represents funds received from freight surcharges levied for the renewal of the Merchant Marine (AFRMM). These funds are used to purchase, enlarge or repair vessels of the fleet, pursuant to Administrative Instruction No. 188 of the Ministry of Finance, dated September 27, 1984.

Tax incentive reserve

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This reserve consists of investments in tax incentives in the Northeast Investment Fund (FINOR), arising from allocations of part of the Company's income tax.

Revaluation reserve

This reserve is established in the amount of revaluation of property, plant and equipment (R\$9.161 in 2004) recorded by a jointly-owned subsidiary and by affiliated companies of a subsidiary, based on independent appraisals.

Realization of this reserve totaled R\$12.096 in 2004 (R\$21.727 - 2003), in proportion to depreciation of the revalued assets, and was fully transferred to retained earnings.

Legal reserve

The legal reserve is constituted through an appropriation of 5% of net income for the year, as required by article 193 of Brazilian Corporate Law.

Statutory reserve

This is an appropriation of net income of each year in an amount equivalent to a minimum of 0,5% of paid-in capital at year-end. This reserve is used to fund research and technological development programs. The accumulated balance of the reserve cannot exceed 5% of paid-in capital, according to article 55 of the Company's by-laws.

Reserve for retention of earnings

The purpose of this reserve is to be used in capital budget investments, principally in exploration and domestic oil production development, according to Federal Government policies and article 196 of Brazilian Corporate Law.

The proposal for appropriation of income for the year ended December 31, 2004 includes retained earnings in the amount of R\$11.670.003, R\$11.657.907 of which relate to net income for the year and R\$12.096 to the remaining balance of retained earnings, to be approved by the General Shareholders' Meeting to be held on March 31, 2005. This proposal is intended to fund part of the annual investment program established in the 2005 capital budget.

(c) Dividends

Shareholders are assured a minimum dividend/interest on shareholders' equity of at least 25% of adjusted net income for the year, calculated in accordance with article 202 of Law No.6.404/76.

The proposal for 2004 dividends that is being submitted by the PETROBRAS Board of Directors for approval of the shareholders at the Ordinary General Meeting to be held on March 31, 2005, in the amount of R\$5.044.074, conforms to the by-laws in regard to guaranteed rights of preferred shares (article 5), and distributes dividends calculated on the adjusted net income to common and preferred shareholders, as shown below:

	2004	2003
Net income for the year (Parent Company)	17.754.171	17.524.706
Appropriation:		
Legal reserve	(887.708)	(876.235)
	16.866.463	16.648.471
Reversals/Additions:		
Prior years adjustments		2.373.858
Revaluation reserve	12.096	21.727
	16.878.559	19.044.056

Proposed dividend, equivalent to 29,88% of adjusted net

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income - R\$4,60 per share (29,65% - 2003 - R\$5,15 per share), as follows:

Interest on shareholders' equity	4.386.151	4.550.632
Dividend	657.923	1.096.538
	<hr/>	<hr/>
Total proposed dividends	5.044.074	5.647.170
	<hr/>	<hr/>

The dividends proposed on December 31, 2004, amounting to R\$5.044.074, include interest on shareholders' equity approved by the Board of Directors on September 17, 2004, amounting to R\$3.289.614, which was made available to shareholders on February 15, 2005, corresponding to R\$3,00 (three reais) per common and preferred share, based on the shareholding position of September 30, 2004, monetarily restated in accordance with the SELIC rate variation as from December 31, 2004. The dividend proposed also includes interest on shareholders' equity to be approved by the Board of Directors on February 25, 2005, which will be made available based on the shareholding position of March 31, 2005, which is the date of the Ordinary General Meeting that will discuss this subject, amounting to R\$1.096.537, and corresponding to R\$1,00 (one real) per common and preferred share subject to withholding tax at the rate of 15%, except for untaxed or exempt shareholders, as established by Law No. 9.249/95.

The balance of the dividends and the additional portion of the interest on shareholders' equity will be paid on a date to be established by the General Shareholders' Meeting. These amounts will be monetarily restated from December 31, 2004 to the initial date of payment, according to the variation in the SELIC rate.

Interest on shareholders' equity was included with the proposed dividend for the year, as established in the Company's by-laws. This interest was recorded as operating expenses, as required by tax legislation, and reversed from retained earnings, as required by CVM Resolution No. 207/96, resulting in income tax and social contribution credits of R\$1.491.291 in 2004 (R\$1.547.215 - 2003).

18. Commitments and contingencies

(a) Judicial actions and contingencies

PETROBRAS and its subsidiaries are a defendant in numerous legal actions involving civil, tax, labor and environmental issues arising in the normal course of business. Based on the advice of its internal legal counsel and management's best judgment, the Company has recorded accruals in amounts sufficient to provide for losses that are considered probable. At December 31, the respective claims by type are as follows:

	Consolidated		Parent Company	
	2004	2003	2004	2003
	<hr/>	<hr/>	<hr/>	<hr/>
Contractual contingencies - thermoelectric plants (Note 18b)		1.478.712		1.478.712
Contingencies for joint liability - INSS (Note 18c)	252.846	241.898	252.846	241.898
Other social security contingencies	54.000		54.000	
Civil claims	26.265		26.265	
	<hr/>	<hr/>	<hr/>	<hr/>
	333.111	1.720.610	333.111	1.720.610
Contingencies in current liabilities	<hr/>	<hr/>	<hr/>	<hr/>
	68.761	65.556	1.543	1.873
Labor claims	202.654	105.869	16.169	16.169
Tax claims	300.747	265.609	171.708	171.708
Civil claims	57.145	405.313	31.301	31.301
Other				
	<hr/>	<hr/>	<hr/>	<hr/>

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	629.307	842.347	220.721	221.051
Long-term litigation				
<hr/>				
Total	962.418	2.562.957	553.832	1.941.661
<hr/>				

Other legal actions, not considered as probable losses, include the following:

On May 28, 1981 KALLIUM MINERAÇÃO S.A. filed before the Federal Court of the State of Rio de Janeiro, a suit for compensation against COMPANHIA PESQUISA DE RECURSOS MINERAIS-CPRM, a mixed capital federal company, claiming approximately R\$ 1.044.180 in alleged losses, damages and loss of profit due to the termination of a contract signed previously between the parties that authorized KALLIUM to develop a potassium mine in Sergipe. The contract was terminated due to an act of the federal government, which through Decree No. 77.725 of June 1, 1976, considered the transfer to CPRM of the prospecting rights carried out by the federal government in the area (art. 1) to be null and void, and as a result determined the reversal of the rights to the federal government, which subsequently transferred the rights to PETROBRAS, which in turn created the subsidiary PETROMISA (PETROBRAS MINERAÇÃO S.A.) to carry out the mining activities. In its defense, CPRM filed a petition, which was granted, for PETROBRAS to be cited in the case as a codefendant, since PETROMISA had been liquidated, which according to Brazilian legislation implies that its liabilities were transferred to the federal government. Also for this reason the federal government was cited as a codefendant.

Therefore, PETROBRAS considers that any compensation required to the liquidated subsidiary (PETROMISA) will be the responsibility of the federal government and not of PETROBRAS. On August 10, 1999, a decision was handed down that considered most of the plaintiff's petitions to be without grounds (losses, damages and loss of profit), requiring only PETROBRAS to reimburse all expenses incurred as a result of the prospecting research carried out, in accordance with amounts to be calculated in the final award. No award for loss of profit was established in the decision. The total amount of compensation payable to be established during the final award will be subject to monetary restatement and interest of 6% per annum calculated since the beginning of the suit. In September 1999 both parties filed appeals with the appeals court in the state of Rio de Janeiro, which were overruled. Special and Extraordinary Appeals have been filed and now await rulings. Based on the opinion of its legal advisers, the management does not expect an unfavorable outcome in this case. Therefore, no provision was established for this contingency. Expectation of loss: Remote.

On November 23, 1992, PORTO SEGURO IMÓVEIS LTDA., a minority stockholder of PETROQUISA, filed a suit against PETROBRAS in the state court of Rio de Janeiro related to alleged losses resulting from the sale of a minority holding by PETROQUISA in various petrochemical companies included in the National Privatization Program introduced by Law No. 8.031/90. In this suit, the plaintiff claims that PETROBRAS, as the majority stockholder in PETROQUISA, should be obliged to reinstate the loss caused to the net worth of PETROQUISA, as a result of the acts that approved the minimum sale price of its holding in the capital of privatized companies. A decision was handed down on January 14 of 1997 that considered PETROBRAS liable with respect to PETROQUISA for losses and damages in an amount equivalent to R\$ 9.062.000. In addition to this amount, PETROBRAS was required to pay the plaintiff 5% of the value of the compensation as a premium (see art. 246, paragraph 2 of Law No. 6.404/76), in addition to attorneys' fees of approximately 20% of the same amount. However, since the award would be payable to PETROQUISA and PETROBRAS holds 99.004% of its capital, the effective disbursement if the ruling is not reversed will be restricted to 25% of the total award. PETROBRAS filed an appeal with the State Court of Rio de Janeiro, and received a favorable decision from the Third Civil Court on February 11, 2003, which, by a majority vote, accepted PETROBRAS' appeal to reverse the judgment and ruled the plaintiff's case to be without grounds, and partially approved the Company's appeal to reduce the amount of compensation to R\$ 6.893.382. Against this decision, Porto Seguro filed another appeal (motion to reverse or annul) with the State Court of Rio de Janeiro, and the Fourth Civil Court handed down a unanimous decision on March 30, 2004 requiring PETROBRAS to indemnify PETROQUISA and Porto Seguro the amounts of R\$ 6.893.382 and R\$ 1.723.345 respectively (the latter representing 5% in premium and 20% in attorney's fees). In view of this decision, PETROBRAS filed special and extraordinary appeals with the Superior Court of Justice and the Supreme Court respectively. Based on the opinion of its legal advisers, the Company does not expect to obtain an unfavorable ruling in this case. Expectation of loss: Possible.

The Fisherman's Federation of the State of Rio de Janeiro (FEPERJ) filed a civil suit against PETROBRAS with the Rio de Janeiro state court for compensation of miscellaneous damages amounting to R\$ 537.417, which it is claiming in the name of its members, as a result of the oil spill in Guanabara Bay on January 18, 2000. A decision was handed down on February 7, 2002 which ruled the claim partially without grounds, rejecting pain and suffering, and requiring PETROBRAS to pay compensation for material damages and loss of profit to be calculated at the award phase. The ruling expressly declares that it is not reasonable to consider an award based on the amount claimed, since it was without economic base. Both parties appealed against the decision and on October 8, 2002 the Rio de Janeiro appeals court partially rejected the plaintiff's appeal and partially sustained the appeal of PETROBRAS to exclude from the award all those fishermen that have already made settlements in court or out of court as a result of the event, together with those that have already entered into litigation against the defendant in individual cases, in addition to all those members of Fisherman's Colony Z-13 (Copacabana). The decision handed down by the appeals court implies in effect that a judgment was awarded to pay

compensation to a relatively small number of fishermen, considering that settlements were made with almost all members of the plaintiff that work in the areas affected by the accident. On February 17, 2003, PETROBRAS filed special and extraordinary appeals with the Superior Courts, which were dismissed. As such interlocutory appeals were filed on June 26, 2003. One was dismissed by the Higher Court and the other is pending Supreme Court judgment. Based on the opinion of its legal advisers, Company management believes that this case may result in a loss, but any adverse ruling would be for amounts significantly lower than the original claim for compensation. Expectation of loss: Possible.

The São Paulo tax authorities filed a tax suit against PETROBRAS, alleging that the Company did not pay ICMS levied on interstate sales of naphtha. However, during the period in which according to the State of São Paulo, PETROBRAS should have paid the ICMS, the Company was subject to a different tax regime (federal) on these sales, and for this reason enjoyed a tax holiday. The value of the matter in controversy is R\$ 212.220. There is no guarantee that the final result of the legal case will be favorable to PETROBRAS, but even in the case of an unfavorable ruling, management does not believe that the award could have a material negative impact on the financial position of PETROBRAS. Expectation of loss: Possible.

PETROBRAS is a defendant in four labor claims filed by the UNIONS OF PETROLEUM WORKERS of three federal states (Rio de Janeiro, São Paulo and Sergipe), alleging that official inflation rates for 1987, 1989 and 1990 (understatement of the official inflation rate - Bresser, Summer and Collor Plans) were not fully included in the workers' salaries. The law suits are at different stages. Based on past favorable decisions in similar cases and on a final understanding of the TST, management does not expect an unfavorable decision in these suits. Three identical cases have been decided in favor of PETROBRAS. Expectation of loss: Remote.

Search and apprehension of ICMS tax payments considered to be not due/taxpayer substitution

PETROBRAS was sued in court by certain small oil distribution companies under the allegation that it does not pass on to state governments the State Value-Added Tax (ICMS) collected according to the legislation upon fuel sales. These suits were filed in the states of Goiás, Tocantins, Bahia, Pará, Maranhão and in the Federal District.

Of the total amount related to legal actions of approximately R\$ 895.795, up to December 31, 2004 R\$ 74.875 had been withdrawn from the Company's accounts as a result of judicial rulings of advance relief, which were annulled as a result of an appeal filed by the Company.

PETROBRAS, with the support of the state and federal authorities, has succeeded in stopping the execution of other withdrawals, and is making all efforts possible to obtain reimbursement of the amounts that had been unduly withdrawn from its accounts.

(b) Commitments undertaken by the energy segment

The Company has commitments for the purchase of energy, supply of gas and reimbursement of operating expenses with thermoelectric plants included in the Priority Thermoelectric Energy Program, summarized as follows:

(i) Thermoelectric plants of the merchant type

PETROBRAS understands that the economic and financial equitability of the agreements involving Macaé Merchant and Termo Ceará thermoelectric power plants has been seriously impacted, considering that, under the related contractual conditions, these contributions should be made occasionally rather than permanently and regularly, which has been the case as a result of a structural change in the market, thereby being excessively costly to the Company.

Negotiations have been conducted with El Paso, operator of the Macaé Merchant thermoelectric plant, and with MPX with regard to Termo Ceará, expecting these disputes to be resolved amicably; however, should this expectation not materialize, PETROBRAS will adopt the applicable legal procedures with a view to definitely settling these disputes.

Supported by current legislation, PETROBRAS obtained a favorable injunction authorizing the amounts payable to Termo Ceará, owned by MPX, to be deposited in court. However, this injunction was later annulled by a lower court decision. PETROBRAS has also filed a request for suspension of payments to Macaé Merchant, owned by El Paso, but a lower court decision was unfavorable to the Company. Considering that the court decisions obtained do not allow judicial deposits, PETROBRAS will seek to make deposits at a court of arbitration.

It should be noted that the judicial decisions obtained to date refer only to the preparatory stage to the main cause, which should be resolved by arbitration, with the grounds of action being fully considered. Accordingly, the outcomes obtained so far do not indicate actual losses on the cases and should be considered as possible losses.

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The acquisition of Eletrobolt, as mentioned in Note 9, caused all contingent payments in connection with this thermoelectric plant to be ceased.

(ii) Thermoelectric plants generating energy that belongs to PETROBRAS (commodity price risks)

PETROBRAS had a commitment to supply natural gas for the production of energy at the Thermoelectric Plants Termorio, Termobahia and Ibiritermo, and also to purchase part or all the energy generated by these plants at a price that remunerates invested capital. The Company has third party commitments with the Thermoelectric Plants Três Lagoas, Canoas and Nova Piratininga, involving basically operation and maintenance contracts. During 2004, PETROBRAS adopted measures with a view to substantially reducing its future commitments to these plants.

Contingent financial exposure

Based on the above, the expectation of future losses on the energy business recorded by the Company for 2005 and thereafter was reversed, with no provisions for future losses having been established. Of the total provision to cover losses recorded in 2004 set up as of December 31, 2003, in the amount of R\$ 1.478.712, R\$ 1.439.457 (equivalent to 97% of the total amount) were realized in the current year. The remaining balance of R\$ 39.255 was credited to net income for the year.

(c) Notifications from the INSS - joint liability

PETROBRAS received various tax assessments related with social security charges as a result of irregular presentation of documentation required by the INSS, to eliminate its joint liability in contracting civil construction and other services, stipulated in paragraphs 5 and 6 of article 219 and paragraphs 2 and 3 of article 220 of Decree No. 3.048/99.

On a conservative basis, the Company made a provision for this contingency amounting to R\$ 398.200 at December 31, 2002, since it considers the chances of success in its defense filed against the administrative proceedings with the entity to be remote.

On September 29, 2003, PETROBRAS was issued additional INSS tax assessments also relating to its joint liability for the irregular presentation of its contractors' documentation, referring to dates subsequent to the past notifications. Pursuant to the previous procedure, in 2003 PETROBRAS established a provision for contingencies of R\$ 160.277, which reached R\$ 558.477 at December 31, 2003.

On September 28, 2004, the Company set up a new provision for contingencies related to the joint liability in the total amount of R\$ 96.364, referring to a period after that to which the assessments referred, reaching the balance of R\$ 654.841 at December 31, 2004. Of the total amount provided, PETROBRAS had disbursed R\$ 401.995 by December 31, 2004 (R\$ 316.579 in 2003), referring to administrative suits filed by the INSS claiming the Company's joint liability.

Internally, procedures were revised to improve the inspection of contracts and correctly demand the presentation of the documents stipulated in the legislation to substantiate the payment of the INSS payable by contractors.

Despite the internal procedure mentioned above, PETROBRAS is analyzing each of the assessments received in order to recover the amounts from its contractors.

(d) Tax assessments - internal revenue service of Rio de Janeiro

The Internal Revenue Service of Rio de Janeiro filed two Tax Assessments against Petróleo Brasileiro S.A. PETROBRAS in connection with Withholding Tax (IRRF) on foreign remittances of payments related to charter of vessels of movable platform types for the years 1998 and 1999 through 2002. The Internal Revenue Service, based on Law No. 9.537/97, article 2, considers that the drilling and production platforms do not fall within the concept of vessel and therefore they should not be chartered, but hired instead. Based on this understanding, the foreign remittances for such purposes would be subject to withholding income tax (IRRF) at 15% or 25%.

PETROBRAS disagrees with this interpretation, as the Federal Supreme Court itself has already reached a decision relating to the Federal Value-Added Tax (IPI), affirming that platforms are actually vessels. Also, the 1994 and 1999 Income Tax Regulations support the non-taxation (RIR/1994) and the zero tax rate (RIR/1999) for such remittances.

As a result of challenging the procedure adopted by PETROBRAS, the Internal Revenue Service issued on June 27, 2003 a tax assessment in the amount of R\$ 3.063.797 for the period from 1999 through 2002. Based on the same arguments, on February 17, 2003 another tax assessment was filed in the amount of R\$ 93.024 for year 1998, against which PETROBRAS has already filed a

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rebuttal on March 20, 2003.

PETROBRAS refuted these tax assessments and a rebuttal to the assessment for the lesser amount was confirmed in the lower administrative court, the related appeal having been filed, and now pending a decision. The assessment for the higher amount has not yet been determined. Based on the opinion of its legal advisers, the Company's management does not expect an unfavorable decision in these cases. Expectation of loss: Possible.

(e) Environmental issues

The Company is subject to various environmental laws and regulations. These laws regulate activities involving the discharge of oil, gas and other materials, and establish that the effects caused to the environment by Company operations should be remedied or mitigated by the Company.

As a result of the July 16, 2000 oil spill at the São Francisco do Sul Terminal of Presidente Vargas refinery - REPAR, located about 24 kilometers from Curitiba, capital of Paraná state, approximately 4 million liters of crude oil were spilled in Barigui and Iguaçú rivers. Approximately R\$ 74.000 were expensed in the clean up of the affected area and to cover the fines applied by the environmental bodies. The following suits and proceedings refer to this spill:

- ◇ On August 1, 2000, IBAMA (the Brazilian government's environment agency) fined the Company by R\$ 168.000. The fines have been appealed against at the Administrative level; however, IBAMA had sustained the fines. On February 3, 2003, PETROBRAS filed a process in the court aiming at canceling these fines, and obtained a judicial decision that allows PETROBRAS to judicially challenge the fines without depositing any guarantees. The suit still awaits trial at the lower court level. On October 14, 2003, IBAMA filed for a plea for change of venue, requesting the transfer of court records to one of the Federal Courts in Curitiba, state of Paraná. On September 15, 2004, IBAMA's plea was accepted by the lower court. On October 1, 2004, PETROBRAS appealed against this decision and a verdict has not yet been reached.
- ◇ Several class actions were filed against the Company, and the most significant are: a civil suit filed on January 1, 2001 by the Federal and State of Paraná Prosecutors, seeking approximately R\$ 2.300.000 in alleged damages to the environment. On April 4, 2001, PETROBRAS presented its response and awaits a decision.
- ◇ The Federal Prosecutors filed a criminal suit against the Company's CEO at the time of the events, Mr. Henri Philippe Reischstul, and against REPAR refinery's Superintendent at that time, Mr. Luiz Eduardo Valente Moreira. This suit has been and will remain suspended until the writ of habeas corpus in favor of the former CEO is judged by the Supreme Court.

On February 16, 2001, the Company's pipeline Araucária - Paranaguá, ruptured due to a seismic movement and caused the spill of approximately 52.000 liters of fuel oil in several rivers in the State of Paraná. On February 20, 2001 the clean up services of the river were concluded, recovering approximately, 13.738 gallons of oil. As a result of this accident:

- ◇ IAP (Paraná environment institute) fined PETROBRAS by approximately R\$ 150.000. An appeal at the Administrative level was filed challenging the amount of the fine applied, and the IAP reduced the initial amount to R\$ 90.000. The appeal was rejected;
- ◇ The Federal and State of Paraná Prosecutors filed a class action seeking approximately R\$ 3.700.000 in damages to the environment and also aiming to cause the Company to adopt certain measures to prevent future accidents. On July 19, 2002 the action was contested and a decision is still pending; and
- ◇ The State of Paraná has initiated a police inquest to determine if PETROBRAS has performed any illegal acts, and the investigation is at the initial stage.

(f) Judicial deposits

As of December 31, the judicial deposits in connection with these suits are presented in accordance with their nature, as follows:

	Consolidated		Parent Company	
	2004	2003	2004	2003
Labor claims	150.030	110.738	111.801	83.672
Tax claims	685.831	519.584	538.754	420.215
Civil claims	666.870	679.504	115.826	100.190
Others	7.358	25.524		
Total	1.510.089	1.335.350	766.381	604.077

19. Guarantees on concession contracts for oil exploration

PETROBRAS granted R\$ 4.409.927 (R\$ 2.619.699 in 2003) to the National Petroleum Agency (ANP) in guarantee of the minimum exploration and/or expansion programs defined in the concession contracts for exploration areas. Of this total, R\$ 3.478.664 (R\$ 2.034.113 in 2003) represent a pledge on the oil to be extracted from previously identified fields already in production, for areas in which PETROBRAS has already made commercial discoveries or made investments with effect from the time when Law No. 9.478 of August 6, 1997 came into force and for areas whose concessions were obtained by the Sixth ANP Bidding Round. For areas whose concessions were obtained by bidding from the ANP, PETROBRAS has given guarantees to a total of R\$ 931.263 up to December 31, 2004 (R\$ 585.586 up to December 31, 2003).

20. Segment information

PETROBRAS is an operationally integrated company, and the greater part of the production of crude oil and gas of the Exploration and Production Segment is transferred to other segments of PETROBRAS.

In the statement of segmentation, the Company's operations are presented according to the new Organization Structure approved on October 23, 2000 by the Board of Directors of PETROBRAS, comprising the following business units:

(a) Exploration and production: covers, by means of PETROBRAS, BRASOIL, PNBV, PIFCo and PIB BV, exploration, production development and production activities of oil, liquefied natural gas and natural gas in Brazil, for the purpose of supplying the refineries in Brazil as a priority, and also commercializing the surplus oil on the domestic and foreign markets and/or taking advantage of commercial opportunities;

(b) Supply: contemplates, by means of PETROBRAS, DOWNSTREAM (Refap S.A), TRANSPETRO, PETROQUISA, BRASOIL, PIFCo, BOC, PIB BV and PNBV, refining, logistics, transport and sale activities of oil products and alcohol, in addition to interests in petrochemical companies in Brazil and two fertilizer plants;

(c) Gas and Energy: includes, by means of PETROBRAS, GASPETRO, PETROBRAS ENERGIA and BR DISTRIBUIDORA, the transport and sale of natural gas produced in Brazil or imported, equity interests in natural gas transport and distribution companies and in thermoelectric plants;

(d) Distribution: responsible for the distribution of oil products and alcohol in Brazil, basically represented by the operations of BR DISTRIBUIDORA; and

(e) International: covers, by means of PIB Netherlands BV, BRASOIL, PIFCo, DOWNSTREAM (EG-3), BOC and PETROBRAS, the exploration and production of oil and gas, the supply of gas and energy and distribution in 13 countries around the world.

The items that cannot be attributed to the other areas are allocated to the group of corporate entities, especially those linked with corporate financial management, overhead related with central administration and other expenses, including actuarial expenses related with the pension and health care plans intended for employees, retirees and beneficiaries.

The accounting information by business area was prepared based on the assumption of controllability, for the purpose of attributing to the business areas only items over which these areas have effective control.

We set forth below the main criteria used in determining net income by business segments:

(a) Net operating revenues: these were considered to be the revenues from sales to third parties, plus revenues between the business segments, based on the internal transfer prices established by the areas.

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

(c) Assets: covers the assets referring to each segment.

21. Derivative instruments, hedging and risk management activities

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In 2004, PETROBRAS Executive Board organized a Risk Management Committee comprising executive managers of all business areas and of several corporate areas for the purpose of ensuring an integrated management of risk exposures and formalizing the main guidelines adopted by the Company to handle uncertainties regarding its activities.

The Risk Management Committee has been created with a view to concentrating risk management information and discussions, facilitating communications with the Board of Directors and the Executive Board concerning Sarbanes-Oxley requirements and corporate governance best practices.

Characteristics of the markets where PETROBRAS operates

The Company is exposed to a number of market risks arising from the normal course of business. Such market risks principally involve the possibility that changes in interest rates, currency exchange rates or commodity prices will adversely affect the value of the Company's financial assets and liabilities or future cash flows and earnings. PETROBRAS maintains an overall risk management policy that is evolving under the direction of the Company's executive officers.

Most of PETROBRAS' revenues are obtained in the Brazilian market through the sale of oil products, in reais. Other revenues flow from product exports and sales of products through international activities where, in both cases, prices keep close similarity to those in the international markets.

In Brazil, with the oil price deregulation implemented as of January 2002, most prices charged locally also keep close ties with those in the international market. Since then, exchange rate and international market reference price variations are compensated in the local market prices, even where certain differences occur.

As a consequence of the characteristics of the markets where PETROBRAS operates, the following aspects apply:

- ◇ A considerable amount of PETROBRAS' total debt and future operating cash flow is expressed in dollars, or else also in currencies closely tied to it;
- ◇ A devaluation of the real against the dollar has a relevant short-term impact in the financial statements. In the medium term, the Company's operating cash flow contributes to mitigating foreign currency risks, considering that the Company's revenues in US dollars are significantly higher than costs and expenses denominated in that currency.

Financial Risk Management Policy

The risk management policy adopted by PETROBRAS aims at seeking an adequate balance between the Company's growth and return perspectives and the related risk level exposure, whether these risks underlie the Company's own activities or arise from the context in which it operates, in such a way that the Company can attain its strategic goals by effectively allocating its physical, financial and human resources.

In addition to ensuring adequate cover for the Company's fixed assets, facilities, operations and management and to managing exposure to financial, tax, regulatory, market and credit risks, among others, the objective of the risk management policy adopted by PETROBRAS is to supplement structural actions that will create solid financial and economic foundations in order to ensure that growth opportunities will be used, regardless of adverse external conditions.

This policy's objective is to guide decisions on risk transfer, and is supported by structures that are grounded on capital discipline processes and on debt management, including:

- ◇ Low cost production – capital discipline guarantees competitive costs to all products traded;
- ◇ Definition of future investment levels in a realistic manner, considering the balance among profitability, growth and strategic adherence to the project portfolio, and maintenance of the strength of the Company's balance sheet, thus creating the conditions necessary to ensure sustainable growth;
- ◇ Wise debt management, seeking to link operating cash flow to debts, including volumes, currencies, maturity, indices, and consequently reducing insolvency risks.

Other important risk management characteristics:

- ◇ Integrated management of market risks, qualifying total exposures, observing the existence of natural hedges and acting on the Company's liquid exposure, avoiding isolated actions of the Business Units that do not contribute to corporate risk enhancement;
- ◇ Respecting the concepts of efficient market and diversification. PETROBRAS believes that it operates in some of the most liquid global markets, where the possibility of systematic forecast of future prices is very restricted. As a result, PETROBRAS' risk management policy focuses on eliminating undesirable extreme events instead of minimizing the

variance of results, cash flows, etc.;

◇ High transparency standards in disclosing the Company's potential exposures.

Risk Assessment

The risk assessment regarding the Company's strategic plan financing is conducted by means of a probabilistic analysis of its cash flow forecast for a 2-year period.

Should there be future cash balances at amounts less than the minimum adequate level, actions to reduce this risk to acceptable grounds are proposed, thereby minimizing the possibility of postponing or interrupting the Company's investment plan.

The benchmark for risk management (Cash Flow at Risk or CFaR) considers the changes in the most significant aspects for cash generation: price, quantities (production and markets), foreign exchange and interest.

Basically, cash balances are projected for numerous scenarios considering the main risk factors through the Monte Carlo Simulation process. Thus, the estimated cash balance is defined for the intended level of reliability, and the periods during which cash may be below minimum adequate levels are identified.

Among the various alternative options to preserve the minimum pre-defined cash balance, derivative transactions, additional funding and optimized distribution of disbursement periods are to be noted.

Economic and financial estimates are restated annually during the strategic planning review process.

Operations involving derivative instruments are not exclusively associated to the above-described processes. As previously mentioned, the Company's risk philosophy relies on the strength of some corporate foundations, which consider that derivatives are important tools used in the protection of transactions and in the consistency of assets and liabilities.

Exposures relating specifically to treasury investments are assessed by a traditional value at risk (VaR) system and the economic proceeds from investment projects in excess of US\$ 25 million are assessed by risk assessment models that are adequate to each business segment based on the Monte Carlo Simulation.

(a) Commodity price risk management

Like all of its peers, PETROBRAS is subject to the volatility of the international energy prices (mainly oil), which may materially affect the Company's cash flow.

PETROBRAS' policy for the risk management of the price of oil and oil products consists basically in protecting the import and export margins in some specific short-term positions (up to 6 months). Future contracts, swaps, and options are the instruments used in these hedges. These operations are always tied to actual physical transactions, that is, they are economic hedge transactions (not speculative), in which all positive or negative results are offset by the reverse results of the actual physical market transaction.

From January to December 2004, economic hedge transactions were carried out for 33,06% (40,52% in 2003) of the total volume traded (imports and exports). At December 31, 2004, the open positions on the futures market, when compared to their market value, would represent a negative result of approximately R\$ 5.700, if liquidated on that date.

In compliance with specific business conditions, an exceptional long-term economic hedge operation, still outstanding, was effected by the sale of put options for 52 million barrels of West Texas Intermediate (WTI) oil over the period from 2004 to 2007, to obtain price protection for this quantity of oil to provide the funding institutions of the Barracuda/Caratinga project with a minimum guaranteed margin to cover the debt servicing. As of December 31, 2004, this transaction, if settled at market values, would represent a cost of approximately R\$ 1.350.

The hedge transactions on natural gas in connection with the long-term sale contract for gas supplied by Bolivia to the Brazilian thermoelectric market were incorporated by Petrolera Andina S.A. and PETROBRAS in 2002, with a view to defining a protection mechanism against changes in contractual gas prices, minimizing income volatility by establishing adjustment prices and adjusting all other differences.

Petrobras Energia Participaciones S.A. - PEPSA, an indirect subsidiary of PETROBRAS, in the capacity of crude oil producer, is exposed to the related price risks and utilizes financial instruments to mitigate its exposure to the risk. These instruments take as reference the West Texas Intermediate (WTI) price, which is primarily used to determine the sales price at the physical market.

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From January to December 2004, economic hedge transactions were carried out for approximately 11 million barrels of total sales. The operations settled in the period generated a loss in the approximate amount of R\$ 654.012. At December 31, 2004, the open positions on the futures market, when compared to their market value, represented a negative result of approximately R\$ 538.843, if liquidated on that date.

(b) Foreign currency risk management

In 2000, PETROBRAS contracted economic hedge operations to cover Notes issued abroad in Italian lira and Austrian shilling, in order to reduce its exposure to the appreciation of these currencies in relation to the U.S. dollar.

The economic hedge operations are known as Zero Cost Collar purchase and sale of options, with no initial cost, and establish a minimum and a ceiling for the variation of one currency against another, limiting the loss on the devaluation of the U.S. dollar, while making it possible to take advantage of some part of the appreciation of the future curve of the American currency.

The economic hedges of the loans in Italian lira and Austrian shilling were based on the EURO, as the two currencies only circulated until February 28, 2002.

The hedge of the shilling-denominated loan was settled in December. The hedge transaction of the Italian lira-denominated debt had a positive fair value of R\$ 40.000 at December 31, 2004.

The fair value of derivatives is based on usual market conditions, at values prevailing at the closing of the period considered for relevant underlying quotations.

(c) Interest rate risk management

The Company's interest rate risk is a function of its long-term debt and, to a lesser extent, of its short-term debt. The Company's foreign currency floating rate debt is principally subject to fluctuations in LIBOR and the Company's floating rate debt denominated in Reais is principally subject to fluctuations in the Brazilian long-term interest rate (TJLP), as fixed by the Central Bank of Brazil. The Company currently does not use any derivative financial instruments to manage its exposure to fluctuations in interest rates. The one exception is the indirect subsidiary Petrobras Energia Participaciones S.A. PEPSA, which uses several derivative financial instruments with a view to reducing exposure to certain risks associated with the volatility of interest rates.

At December 31, 2004, the subsidiary holds an interest-rate economic hedge contract to manage the volatility of the Libor rate implied in a Class C negotiable instrument, establishing the respective interest rate at 7,93% p.a. If these instruments were to be liquidated, considering the rates used at that date, a net loss of approximately R\$ 3.160 would be recorded.

(d) Derivative instruments

The Company may use derivative and non-derivative instruments to implement its overall risk management strategy. However, by using derivative instruments, the Company exposes itself to credit and market risk. Credit risk is the failure of a counterparty to perform under the terms of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, currency exchange rates, or commodity prices. The Company addresses credit risk by restricting the counterparties to such derivative financial instruments to major financial institutions. Market risk is managed by the Company's executive officers. The Company does not hold or issue financial instruments for trading purposes.

(e) Insurance

In order to protect its assets, PETROBRAS transfers, through insurance contracts, the risks that may generate losses significantly impacting its financial position, as well as the risks subject to compulsory insurance required either legally or contractually. Other risks are self-insured, with PETROBRAS intentionally and fully assuming all the risks involved. Self-insurance is adopted when the assets involved are not economically significant or in view of a high cost benefit ratio.

The principal data relating to insurance coverage at December 31, 2004 are summarized below:

Assets	Type of coverage	Sum insured	
		Consolidated	Parent Company

Installations, equipment and inventories	Fire and sundry risks	64.330.977	52.826.807
Tankers and auxiliary vessels	Hull	2.517.168	
Fixed oil platforms, floating production systems and maritime drilling units	Oil risks	17.787.665	17.787.665
Total		84.635.810	70.614.472

Considering its financial proportion and the commitments and investments in the areas involving Health, Safety and Environment (SMS) and Quality, PETROBRAS, similarly to other large oil companies, retains a significant amount of its risks, also by means of increasing the deductible amounts, which may reach US\$ 20 million.

(f) Credit risk

Aware of the increased competitiveness in the market where it operates, PETROBRAS has sought, over the past few years, to align its credit risk policy to ongoing changes so as to maintain the ability to finance its sales without increasing its exposure to credit risks.

In 2004, a new credit analysis system, Credit Flow, was implemented and two Credit Committees were established: Supply and Natural Gas & Energy. These committees represent discussion forums on the several aspects relating to credit concession and management.

22. Environment

PETROBRAS continuous improvement in its environmental policy, as defined in the Strategic Plan, is associated with the implementation of two major programs: the Process Security Program (PSP) and the Program for Excellency in Environmental Management and Operational Safety (PEGASO).

Within the PEGASO program, in 2004 PETROBRAS continues to maintain the integrity of its facilities, to improve its contingency system and to reduce emissions, residues and effluents at its units.

These efforts have contributed to once again reduce the insurance premium paid for the Company's operating risks in connection with its refineries and platforms, in May 2004, a decrease from US\$ 31,9 million in 2003 to US\$ 25,2 million in 2004, in spite of an increase in the sum insured from US\$ 21.000 million to US\$ 26.600 million over the same period. By December 2004, the investments in PEGASO as of its implementation, in mid-2000, totaled some R\$ 8.000.000. These investments amounted approximately to R\$ 1.750.000 in 2004 only.

All of PETROBRAS units in Brazil and most of its units located abroad have achieved the ISO 14001 (environment) certification and OHSAS 18000 (Occupational Health and Safety assessment System).

In 2004, PETROBRAS ENERGIA PARTICIPACIONES S.A. PEPSA introduced new policies in the Safety, Environmental and Health areas SMS, representing a development of the principles in force until then. The new SMS policy includes advanced concepts such as ecoefficiency, life cycle and sustainability of operations, among others.

In this context, during 2004 an environmental study was conducted with a view to supplementing the environmental audit performed in 2003. Based on the new SMS policy, the study allowed the identification of required preventive measures, resulting in expenses of R\$ 29.000 recorded by the Company in 2004. The total amount disbursed by the Company in connection with environmental protection was R\$ 45.000 in 2004.

23. Remuneration of parent company directors and employees (in reais)

The PETROBRAS Career Plan, the Benefits and Advantages Plan, and specific legislation establish criteria for remuneration of Company employees and directors.

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In December 2004, the highest and lowest salaries for employees occupying permanent jobs were respectively R\$ 33.455,82 and R\$ 818,55 (R\$ 29.849,95 and R\$ 730,02 in December 2003). The average salary for that year was R\$ 5.622,81 (R\$ 5.060,08 in 2003).

With regard to Company directors, the highest remuneration in 2004, again for December, was R\$ 38.474,19 (R\$ 34.327,44 in 2003).

24. Subsequent events

(a) Corporate Reorganization Argentina

On January 21, 2005, the Extraordinary Shareholders Meetings held by Petrobras Energia S.A. (PESA), EG3 S.A., Petrobras Argentina S.A. (PAR) and Petrolera Santa Fe S.R.L. (PSF) approved the merger of EG3, PAR and PSF into PESA, under the terms described in the preliminary commitment agreement signed on November 12, 2004, as mentioned in Note 9 - Corporate Restructuring of the International Area. The operation is subject to approval from the Argentine regulatory agencies.

(b) Activities in Libya

On February 1, 2005, PETROBRAS informed that its consortium with Oil Search Limited was one of the successful bidders in the bidding round promoted by the National Oil Corporation (NOC) of Libya, having acquired the exploratory rights and a share in production of Area 18, located in the Mediterranean Sea, made up of four blocks with a total of 10.307 km². PETROBRAS will be the Consortium leader and operator, with a 70% share. The production sharing contract is to be signed between the consortium and NOC by mid-February and provides for a five-year exploratory phase during which a minimum US\$ 21 million will be invested.

* * *

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

BOARD OF DIRECTORS AND EXECUTIVE BOAR

BOARD OF DIRECTORS

DILMA VANA ROUSSEFF
Chairwoman

ANTONIO PALOCCI FILHO
Councilor

CLÁUDIO LUIZ DA SILVA HADDAD
Councilor

FÁBIO COLLETTI BARBOSA
Councilor

ARTHUR ANTONIO SENDAS
Councilor

GLEUBER VIEIRA
Councilor

JORGE GERDAU JOHANNPETER
Councilor

JAQUES WAGNER
Councilor
Executive Board

JOSÉ EDUARDO DE BARROS DUTRA
Councilor

JOSÉ EDUARDO DE BARROS DUTRA
CEO

GUILHERME DE OLIVEIRA ESTRELLA
Exploration and Production Director

ILDO LUÍS SAUER
Gas & Energy Director

JOSÉ SÉRGIO GABRIELLI DE
AZEVEDO
CFO and Investor Relations Director

NESTOR CUÑAT CERVERÓ
International Director

RENATO DE SOUZA DUQUE
Services Director

PAULO ROBERTO COSTA
Supply Director

MARCOS MENEZES
Accountant - CRC-RJ 35.286/0-1
CPF 270.125.147-87

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 18, 2005

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By: */s/* José Sergio Gabrielli de
Azevedo

**José Sergio Gabrielli de
Azevedo
Chief Financial Officer and
Investor Relations Director**

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.
