

PETROBRAS - PETROLEO BRASILEIRO SA  
Form 6-K  
November 28, 2008

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

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**FORM 6-K**

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

**For the month of November, 2008**

**Commission File Number 1-15106**

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

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

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

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

Form 20-F  Form 40-F

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

Yes  No

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**Petróleo Brasileiro S.A. - Petrobras and Subsidiaries**

Consolidated Financial Statements  
September 30, 2008 and 2007  
with Review Report of Independent  
Registered Public Accounting Firm

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

CONSOLIDATED FINANCIAL STATEMENTS

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## Review report of independent registered public accounting firm

To the Board of Directors and Shareholders of  
Petróleo Brasileiro S.A. - Petrobras

We have reviewed the accompanying condensed consolidated balance sheet of Petróleo Brasileiro S.A. - Petrobras and its subsidiaries as of September 30, 2008, and the related condensed consolidated statements of income, cash flows and changes in shareholders' equity for the nine-month periods ended September 30, 2008 and 2007. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

/s/KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil  
November 28, 2008

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

## CONSOLIDATED BALANCE SHEETS

September 30, 2008 and December 31, 2007

Expressed in Millions of United States Dollars

|  | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|-----------------------------------|------------------------------|
| <b>Assets</b>  | <b>(unaudited)</b>                | <b>(Note 1)</b>              |
| <b>Current assets</b>  |                                   |                              |
| Cash and cash equivalents (Note 5)   | 5,282                             | 6,987                        |
| Marketable securities (Note 6)   | 265                               | 267                          |
| Accounts receivable, net   | 9,041                             | 6,538                        |
| Inventories (Note 7)   | 12,895                            | 9,231                        |
| Deferred income taxes (Note 4)   | 897                               | 498                          |
| Recoverable taxes (Note 8)   | 2,929                             | 3,488                        |
| Advances to suppliers  | 672                               | 683                          |
| Other current assets   | 1,447                             | 1,448                        |
|  | <b>33,428</b>                     | <b>29,140</b>                |
| <b>Property, plant and equipment, net</b>                                      | <b>92,668</b>                     | <b>84,523</b>                |
| <b>Investments in non-consolidated companies and other investments</b>         | <b>4,556</b>                      | <b>5,112</b>                 |
| <b>Non-current assets</b>  |                                   |                              |
| Accounts receivable, net   | 1,023                             | 1,467                        |
| Advances to suppliers  | 2,404                             | 1,658                        |
| Petroleum and alcohol account - receivable<br>from Federal Government (Note 9) | 420                               | 450                          |
| Government securities  | 623                               | 670                          |
| Marketable securities (Note 6)   | 1,764                             | 2,144                        |
| Restricted deposits for legal proceedings and guarantees (Note 16 (a))         | 937                               | 977                          |
| Recoverable taxes (Note 8)   | 3,208                             | 2,477                        |
| Goodwill   | 306                               | 313                          |
| Prepaid expenses   | 225                               | 232                          |
| Other assets   | 422                               | 552                          |
|  | <b>11,332</b>                     | <b>10,940</b>                |

|                     |                |         |
|---------------------|----------------|---------|
| <b>Total assets</b> | <b>141,984</b> | 129,715 |
|---------------------|----------------|---------|

See the accompanying notes to the consolidated financial statements.

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|   | September<br>30,<br>2008 | December 31,<br>2007 |
|---|--------------------------|----------------------|
| <b>Liabilities and shareholders equity</b>  | (unaudited)              | (Note 1)             |
| <b>Current liabilities</b>  |                          |                      |
| Trade accounts payable  | 9,336                    | 7,816                |
| Short-term debt (Note 10)   | 1,913                    | 1,458                |
| Current portion of long-term debt (Note 10)   | 2,201                    | 1,273                |
| Current portion of project financings (Note 12)                                       | 1,747                    | 1,692                |
| Current portion of capital lease obligations (Note 13)                                | 217                      | 227                  |
| Income taxes payable  | 1,856                    | 560                  |
| Taxes payable, other than income taxes  | 4,540                    | 3,950                |
| Payroll and related charges   | 1,967                    | 1,549                |
| Dividends and interest on capital payable (Note 15)                                   | -                        | 3,220                |
| Employees postretirement benefits obligation Pension and Health Care (Note 14<br>(a)) | 568                      | 623                  |
| Other payables and accruals   | 2,168                    | 2,100                |
|   | <b>26,513</b>            | 24,468               |
| <b>Long-term liabilities</b>  |                          |                      |
| Long-term debt (Note 10)  | 12,961                   | 12,148               |
| Project financings (Note 12)  | 5,388                    | 4,586                |
| Capital lease obligations (Note 13)   | 349                      | 511                  |
| Employees postretirement benefits obligation Pension and Health Care (Note 14<br>(a)) | 11,041                   | 11,317               |
| Deferred income taxes (Note 4)  | 4,707                    | 4,802                |
| Provision for abandonment   | 3,307                    | 3,462                |
| Contingencies (Note 16 (a))   | 397                      | 352                  |
| Other liabilities   | 915                      | 558                  |
|   | <b>39,065</b>            | 37,736               |
| <b>Minority interest</b>  | <b>1,807</b>             | 2,332                |
| <b>Shareholders equity</b>  |                          |                      |
| Shares authorized and issued (Note 15)  |                          |                      |
| Preferred share - 2008 and 2007 - 3,700,729,396 shares (*)                            | 15,106                   | 8,620                |
| Common share - 2008 and 2007 - 5,073,347,344 shares (*)                               | 21,088                   | 12,196               |
| Capital reserve - fiscal incentive  | 269                      | 877                  |
| Retained earnings   |                          |                      |
| Appropriated  | 19,041                   | 34,863               |

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|  |                |         |
|--|----------------|---------|
| Unappropriated   | <b>23,882</b>  | 6,618   |
| Accumulated other comprehensive income   |                |         |
| Cumulative translation adjustments   | <b>(2,499)</b> | 4,155   |
| Postretirement benefit reserves adjustments net of tax (US\$1,179 and US\$1,273 for September 30, 2008 and December 31, 2007, respectively) - Pension cost and Health Care (Note 14 (a)) | <b>(2,289)</b> | (2,472) |
| Unrealized gains on available-for-sale securities, net of tax  | <b>13</b>      | 331     |
| Unrecognized loss on cash flow hedge, net of tax   | <b>(12)</b>    | (9)     |
|  | <b>74,599</b>  | 65,179  |
| <b>Total liabilities and shareholders equity</b>   | <b>141,984</b> | 129,715 |

(\*). Considers effect of 2 for 1 stock split that occurred on April 25, 2008 (see Note 15).

See the accompanying notes to the consolidated financial statements



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

**CONSOLIDATED STATEMENTS OF INCOME**

September 30, 2008 and 2007

Expressed in Millions of United States Dollars

(except number of shares and earnings per share)

*(Unaudited)*

|   | <b>Nine-month periods ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                                       | <b>2007</b> |
| <b>Sales of products and services</b>   | <b>118,490</b>                                    | 79,983      |
| Less:   |   |             |
| Value-added and other taxes on sales and services                                 | <b>(19,882)</b>                                   | (14,688)    |
| Contribution of intervention in the economic domain charge - CIDE                 | <b>(2,688)</b>                                    | (2,884)     |
| <b>Net operating revenues</b>   | <b>95,920</b>                                     | 62,411      |
| Cost of sales   | <b>(58,090)</b>                                   | (34,931)    |
| Depreciation, depletion and amortization  | <b>(4,643)</b>                                    | (3,816)     |
| Exploration, including exploratory dry holes                                      | <b>(1,206)</b>                                    | (789)       |
| Selling, general and administrative expenses                                      | <b>(5,663)</b>                                    | (4,381)     |
| Research and development expenses   | <b>(756)</b>                                      | (612)       |
| Other operating expenses  | <b>(1,942)</b>                                    | (1,718)     |
| <b>Total costs and expenses</b>   | <b>(72,300)</b>                                   | (46,247)    |
| <b>Operating income</b>   | <b>23,620</b>                                     | 16,164      |
| Equity in results of non-consolidated companies                                   | <b>296</b>  | 172         |
| Financial income (Note 11)  | <b>1,133</b>                                      | 835         |
| Financial expenses (Note 11)  | <b>(624)</b>                                      | (575)       |
| Monetary and exchange variation on monetary assets and liabilities, net (Note 11) | <b>836</b>  | (630)       |
| Employee benefit expense for non-active participants                              | <b>(644)</b>                                      | (728)       |
| Other taxes   | <b>(271)</b>                                      | (485)       |
| Other expenses, net   | <b>8</b>  | 9           |

|   |               |               |
|---|---------------|---------------|
|   | 734           | (1,402)       |
| <b>Income before income taxes and minority interest</b> | <b>24,354</b> | <b>14,762</b> |

See the accompanying notes to the consolidated financial statements.

|   | <b>Nine-month periods ended<br/>September 30,</b> |                  |
|---|---|------------------|
|   | <b>2008</b>                                       | <b>2007</b>      |
| <b>Income taxes expense (Note 4)</b>                      |   |                  |
| Current   | (7,472)   | (3,510)          |
| Deferred  | (131)   | (681)            |
|   | <b>(7,603)</b>                                    | (4,191)          |
| Minority interest in results of consolidated subsidiaries | (38)  | (245)            |
| <b>Net income for the period</b>                          | <b>16,713</b>                                     | 10,326           |
| <b>Net income applicable to each class of shares</b>      |   |                  |
| Common  | <b>9,664</b>                                      | 5,971            |
| Preferred   | <b>7,049</b>                                      | 4,355            |
| <b>Net income for the period</b>                          | <b>16,713</b>                                     | 10,326           |
| <b>Basic and diluted earnings per: (Note 15)</b>          |   |                  |
| Common and Preferred share                                | <b>1.90</b>                                       | 1.18(*)          |
| Common and Preferred ADS                                  | <b>3.80</b>                                       | 2.36(*)          |
| <b>Weighted average number of shares outstanding</b>      |   |                  |
| Common  | 5,073,347,344                                     | 5,073,347,344(*) |
| Preferred   | 3,700,729,396                                     | 3,700,729,396(*) |

(\*) Considers effect of 2 for 1 stock split that occurred on April 25, 2008 (Note 15).

See the accompanying notes to the consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

September 30, 2008 and 2007

Expressed in Millions of United States Dollars

(Unaudited)

|   | <b>Nine-month periods ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                                       | <b>2007</b> |
| <b>Cash flows from operating activities</b>                                       |   |             |
| Net income for the period   | <b>16,713</b>                                     | 10,326      |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |             |
| Depreciation, depletion and amortization  | <b>4,643</b>                                      | 3,816       |
| Dry hole costs  | <b>667</b>  | 94          |
| Equity in the results of non-consolidated companies                               | <b>(296)</b>                                      | (172)       |
| Foreign exchange (gain)/loss  | <b>2,506</b>                                      | 527         |
| Other   | <b>398</b>  | 1,168       |
| Working capital adjustments   |   |             |
| Decrease (increase) in accounts receivable, net                                   | <b>(2,946)</b>                                    | (71)        |
| Decrease (increase) in inventories  | <b>(4,497)</b>                                    | (641)       |
| Increase in trade accounts payable  | <b>2,099</b>                                      | 452         |
| Increase in taxes payable   | <b>2,160</b>                                      | 26          |
| Increase (decrease) in other working capital adjustments                          | <b>(1,417)</b>                                    | 394         |
| <b>Net cash provided by operating activities</b>                                  | <b>20,030</b>                                     | 15,919      |
| <b>Cash flows from investing activities</b>                                       |   |             |
| Additions to property, plant and equipment  | <b>(20,057)</b>                                   | (14,005)    |
| Marketable securities and other investments activities                            | <b>361</b>  | (1,695)     |
| <b>Net cash used in investing activities</b>                                      | <b>(19,696)</b>                                   | (15,700)    |
| <b>Cash flows from financing activities</b>                                       |   |             |
| Short-term debt, net issuances and repayments                                     | <b>(18)</b>                                       | (555)       |
| Proceeds from issuance and draw-down of long-term debt                            | <b>3,238</b>                                      | 1,908       |
| Principal payments of long-term debt  | <b>(2,021)</b>                                    | (2,670)     |

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|  |                |         |
|--|----------------|---------|
| Proceeds from project financings                             | <b>3,511</b>   | 292     |
| Payments of project financings                               | <b>(2,015)</b> | (1,395) |
| Payment of capital lease obligations                         | <b>(214)</b>   | (299)   |
| Dividends paid to shareholders                               | <b>(3,926)</b> | (3,947) |
| <b>Net cash used in financing activities</b>                 | <b>(1,445)</b> | (6,666) |
| Increase (Decrease) in cash and cash equivalents             | <b>(1,111)</b> | (6,447) |
| Effect of exchange rate changes on cash and cash equivalents | <b>(594)</b>   | 1,180   |
| Cash and cash equivalents at beginning of period             | <b>6,987</b>   | 12,688  |
| <b>Cash and cash equivalents at end of period</b>            | <b>5,282</b>   | 7,421   |

|   | Nine-month periods ended |             |
|---|--------------------------|-------------|
|   |                          | September   |
|   | 2008                     | 30,<br>2007 |
| <b>Supplemental cash flow information:</b>      |                          |             |
| <b>Cash paid during the period for</b>          |                          |             |
| Interest, net of amount capitalized             | 933                      | 1,121       |
| Income taxes                                    | 5,684                    | 3,768       |
| Withholding income tax on financial investments | 472                      | 19          |

See the accompanying notes to the consolidated financial statements.

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

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

September 30, 2008 and 2007

Expressed in Millions of United States Dollars

(Unaudited)

|  | <b>Nine-month periods ended<br/>September 30,</b> |               |
|--|---|---------------|
|  | <b>2008</b>                                       | <b>2007</b>   |
| <b>Preferred shares</b>                                  |   |               |
| Balance at January 1,                                    | 8,620   | 7,718         |
| Capital increase from capital reserve - fiscal incentive | 251   | -             |
| Capital increase from undistributed earnings reserve     | 6,235   | 902           |
| <b>Balance at September 30,</b>                          | <b>15,106</b>                                     | <b>8,620</b>  |
| <b>Common shares</b>                                     |   |               |
| Balance at January 1,                                    | 12,196  | 10,959        |
| Capital increase from capital reserve - fiscal incentive | 345   | -             |
| Capital increase from undistributed earnings reserve     | 8,547   | 1,237         |
| <b>Balance at September 30,</b>                          | <b>21,088</b>                                     | <b>12,196</b> |
| <b>Capital reserve - fiscal incentive</b>                |   |               |
| Balance at January 1,                                    | 877   | 174           |
| Capital increase   | (596)   | -             |
| Change in the period                                     | (12)  | 595           |
| <b>Balance at September 30,</b>                          | <b>269</b>  | <b>769</b>    |
| <b>Accumulated other comprehensive gain (loss)</b>       |   |               |
| <b>Cumulative translation adjustments</b>                |   |               |
| Balance at January 1,                                    | 4,155   | (6,202)       |
| Change in the period                                     | (6,654)   | 8,071         |
| <b>Balance at September 30,</b>                          | <b>(2,499)</b>                                    | <b>1,869</b>  |

**Postretirement benefit reserves adjustments, net of tax - Pension Cost and Health Care**

|  |                |                |
|--|----------------|----------------|
| Balance at January 1,  | (2,472)        | (3,039)        |
| Change in the period   | 277            | (1,403)        |
| Tax effect on above  | (94)           | 477            |
| <b>Balance at September 30,</b>  | <b>(2,289)</b> | <b>(3,965)</b> |
| <br>   |                |                |
| <b>Unrecognized gains on available-for-sale securities, net of tax</b> |                |                |
| Balance at January 1   | 331            | 446            |
| Unrealized gains (losses)  | (482)          | 293            |
| Tax effect on above  | 164            | (100)          |
| <b>Balance at September 30,</b>  | <b>13</b>      | <b>639</b>     |
| <br>   |                |                |
| <b>Unrecognized gain (loss) on cash flow hedge, net of tax</b>         |                |                |
| Balance at January 1   | (9)            | (2)            |
| Change in the period   | (3)            | -              |
| <b>Balance at September 30,</b>  | <b>(12)</b>    | <b>(2)</b>     |

See the accompanying notes to the consolidated financial statements.



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|   | Nine-month periods ended |               |
|---|--------------------------|---------------|
|   | September                |               |
|   | 30,                      |               |
|   | 2008                     | 2007          |
| <b>Appropriated retained earnings</b>         |                          |               |
| Legal reserve                                 |                          |               |
| Balance at January 1                          | 4,297                    | 3,045         |
| Change in the period                          | (321)                    | 495           |
| <br>  |                          |               |
| <b>Balance at September 30,</b>               | <b>3,976</b>             | <b>3,540</b>  |
| <br>  |                          |               |
| <b>Undistributed earnings reserve</b>         |                          |               |
| Balance at January 1                          | 30,280                   | 20,074        |
| Capital increase                              | (14,782)                 | (1,647)       |
| Change in the period                          | (698)                    | 3,078         |
| <br>  |                          |               |
| <b>Balance at September 30,</b>               | <b>14,800</b>            | <b>21,505</b> |
| <br>  |                          |               |
| <b>Statutory reserve</b>                      |                          |               |
| Balance at January 1                          | 286                      | 585           |
| Capital increase                              | -                        | (492)         |
| Change in the period                          | (21)                     | 40            |
| <br>  |                          |               |
| <b>Balance at September 30,</b>               | <b>265</b>               | <b>133</b>    |
| <br>  |                          |               |
| <b>Total appropriated retained earnings</b>   | <b>19,041</b>            | <b>25,178</b> |
| <br>  |                          |               |
| <b>Unappropriated retained earnings</b>       |                          |               |
| Balance at January 1                          | 6,618                    | 10,541        |
| Net income for the period                     | 16,713                   | 10,326        |
| Dividends and interest on shareholders equity | (501)                    | (2,316)       |
| Change in the period                          | 1,052                    | (4,208)       |
| <br>  |                          |               |
| <b>Balance at September 30,</b>               | <b>23,882</b>            | <b>14,343</b> |

|  |                |        |
|--|----------------|--------|
| <b>Total shareholders' equity</b>  | <b>74,599</b>  | 59,647 |
| <b>Comprehensive income is comprised as follows:</b>                                   |                |        |
| Net income for the period  | <b>16,713</b>  | 10,326 |
| Cumulative translation adjustments   | <b>(6,654)</b> | 8,071  |
| Postretirement benefit reserves adjustments, net of tax - pension and health care cost | <b>183</b>     | (926)  |
| Unrealized gain (loss) on available-for-sale securities                                | <b>(318)</b>   | 193    |
| Unrecognized gain (loss) on cash flow hedge  | <b>(3)</b>     | (2)    |
| <b>Total comprehensive income</b>  | <b>9,921</b>   | 17,662 |

See the accompanying notes to the consolidated financial statements.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Expressed in Millions of United States Dollars

(except when specifically indicated)

(unaudited)

**1. Basis of Financial Statements Preparation**

The accompanying unaudited consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Accordingly they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These unaudited consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and the notes thereto.

The balance sheet at December 31, 2007 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The consolidated financial statements as of September 30, 2008 and for the nine-month periods ended September 30, 2008 and 2007, included in this report, are unaudited. However, in management's opinion, such consolidated financial statements reflect all normal recurring adjustments that are necessary for a fair presentation. The results for the interim periods are not necessarily indicative of trends or of results expected for the full year ending December 31, 2008.

The preparation of these financial statements requires the use of estimates and assumptions that reflect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto.

Pursuant to Rule 436 (c) under the Securities Act of 1933 (the Act ), this is not a report and should not be considered a part of any registration statement prepared or certified within the meanings of Sections 7 and 11 of the Act and therefore, the independent accountant's liability under section 11 does not extend to the information included herein.

## **2. Recently Adopted Accounting Standards**

### **a) FASB Statement N° 157, Fair Value Measurements ( SFAS 157 )**

In September 2006, the FASB issued SFAS 157, which became effective for the Company on January 1, 2008. This standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements but would apply to assets and liabilities that are required to be recorded at fair value under other accounting standards.

In February 2008, the FASB issued FASB Staff Position (FSP) FSP 157-2, Effective Date of FASB Statement N° 157 , which became effective for the Company on January 1, 2008. This FSP delays the effective date of SFAS 157, for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The Company implemented SFAS 157 and FSP 157-2 effective on January 1, 2008, with no material impact due to the implementation, other than additional disclosures.

SFAS 157 and FSP 157-2 require disclosures that categorize assets and liabilities measured at fair value on a recurring basis into one of three different levels depending on the observability of the inputs applied in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting the Company's assumptions about pricing by market participants.

The disclosure requirements of SFAS 157 and FSP 157-2 were applied to the Company's derivative instruments and certain equity and debt securities recognized in accordance with SFAS 115.

The Company's commodities derivatives and marketable and government securities fair values were recognized in accordance with exchanged quoted prices as the balance sheet date for identical assets in active markets, and, therefore, were classified as Level 1.

**2. Recently Adopted Accounting Standards (Continued)****a) FASB Statement N° 157, Fair Value Measurements ( SFAS 157 ) (Continued)**

The fair values of Company's forward contracts of US dollars and cross currency swaps were calculated using observable interest rates in JPY, USD and BRL for the full term of the contracts, and, therefore, were classified as Level 2.

The fair value hierarchy for the Company's financial assets and liabilities accounted for at fair value on a recurring basis at September 30, 2008, was:

|                              | <b>As of September 30, 2008</b> |                |                |              |
|------------------------------|---------------------------------|----------------|----------------|--------------|
|                              | <b>Level 1</b>                  | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Assets</b>                |                                 |                |                |              |
| Marketable securities        | 1,792                           | -              | -              | 1,792        |
| Government securities        | 623                             | -              | -              | 623          |
| Foreign exchange derivatives | -                               | 3              | -              | 3            |
| <b>Total assets</b>          | <b>2,415</b>                    | <b>3</b>       | <b>-</b>       | <b>2,418</b> |
| <b>Liabilities</b>           |                                 |                |                |              |
| Commodity derivatives        | 29                              | -              | -              | 29           |
| <b>Total liabilities</b>     | <b>29</b>                       | <b>-</b>       | <b>-</b>       | <b>29</b>    |

**b) FASB Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 )**

In February 2007, the FASB issued SFAS 159, that permits the measurement of certain financial instruments at fair value. Entities may choose to measure eligible items at fair value at specified election dates, reporting unrealized gains and losses on such items at each subsequent reporting period. SFAS 159 is effective for fiscal years beginning after November 15, 2007. SFAS 159 became effective for the Company on January 1, 2008 with no impact to its consolidated financial statements.

**3. Derivative Instruments, Hedging and Risk Management Activities**

The Company is exposed to a number of market risks arising from its normal course of business. Such market risks principally involve the possibility that changes in interest rates, foreign 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. The Company maintains a corporate risk management policy that is executed under the direction of the Company's executive officers.

The Company may use derivative and non-derivative instruments to implement its corporate 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 possible adverse effect on the value of an asset or liability, including financial instruments that results from changes 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.

**a) Foreign currency risk management**

The Company's foreign currency risk management strategy may involve the use of derivative instruments to protect against foreign exchange rate volatility which may impact the value of certain of the Company's obligations.

The table below provides information about the Company's foreign exchange derivative contracts:

| <b>Foreign Currency</b>           | <b>Fair value</b>          |                               |                              |
|-----------------------------------|----------------------------|-------------------------------|------------------------------|
| <b>Maturing in 2008</b>           | <b>Notional<br/>Amount</b> | <b>September<br/>30, 2008</b> | <b>December<br/>31, 2007</b> |
| Forwards                          |                            |                               |                              |
| Sell USD/Pay BRL                  | 73                         | (16)                          | 2                            |
| Average Contractual Exchange rate | 1.8%                       |                               |                              |
| <b>Total</b>                      | <b>73</b>                  | <b>(16)</b>                   | <b>2</b>                     |

**3. Derivative Instruments, Hedging and Risk Management Activities (Continued)****a) Foreign currency risk management (Continued)****Cash flow hedge**

In September, 2006, Petrobras International Finance Company - PifCo entered into cross currency swap under which it swaps principal and interest payments on Yen denominated funding into U.S. dollar amounts. The assessment of hedge effectiveness indicates that the change in fair value of the designated hedging instrument is highly effective.

**Cross Currency Swaps**

|                            |  | Fair value               |                         |
|----------------------------|--|--------------------------|-------------------------|
|                            |  | September<br>30,<br>2008 | December<br>31,<br>2007 |
| <b>Maturing in 2016</b>    | <b>Notional Amount<br/>(Yen Million)</b> |                          |                         |
| Fixed to fixed             | 35,000                                   |                          |                         |
| Average Pay Rate (USD)     | 5.69%                                    | 19                       | 3                       |
| Average Receive Rate (JPY) | 2.15%                                    |                          |                         |
| Total                      | 35,000                                   | 19                       | 3                       |

**b) Commodity price risk management**

## Petroleum and oil products

The Company is exposed to commodity price risks as a result of the fluctuation of crude oil and oil product prices. The Company's commodity risk management activities are primarily undertaken through the uses of future contracts traded on stock exchanges; and options and swaps entered into with major financial institutions. The futures contracts provide economic hedges for anticipated crude oil purchases and sales, generally forecasted to occur within a 30 to 360 day period, and reduce the Company's exposure to volatility of such prices.

### **3. Derivative Instruments, Hedging and Risk Management Activities (Continued)**

#### **b) Commodity price risk management (Continued)**

The Company's exposure from these contracts is limited to the difference between the contract value and market value on the volumes contracted. Crude oil future contracts are marked-to-market and related gains and losses are recognized in currently period earnings, irrespective of when the physical crude sales occur. For the nine-month periods ended September 30, 2008 and 2007, the Company entered into commodity derivative transactions for 73.3% and 46.8%, respectively, of its total import and export trade volumes.

The open positions in the futures market, compared to spot market value, resulted in recognized losses of US\$29 and US\$9 during the nine-month periods ended September 30, 2008 and 2007, respectively.

#### **c) Interest rate risk management**

The Company's interest rate risk is a function of the Company's long-term debt and to a lesser extent, 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 National Monetary Counsel. The Company currently does not utilize derivative financial instruments to manage its exposure to fluctuations in interest rates.

### **4. Income Taxes**

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal income tax. The statutory enacted tax rates for income tax and social contribution have been 25% and 9%, respectively, for the nine-month periods ended September 30, 2008 and 2007.

The Company's taxable income is substantially generated in Brazil and is therefore subject to the Brazilian statutory tax rate.



**4. Income Taxes (Continued)**

The following table reconciles the tax calculated based upon the Brazilian statutory tax rate of 34% to the income tax expense recorded in these consolidated statements of income.

|   | Nine-month periods ended |         |
|---|--------------------------|---------|
|   | September 30,            |         |
|   | 2008                     | 2007    |
| Income before income taxes and minority interest        |                          |         |
| Brazil  | 23,801                   | 14,422  |
| International   | 553                      | 340     |
|   | <b>24,354</b>            | 14,762  |
| Tax expense at statutory rates - (34%)                  | <b>(8,280)</b>           | (5,019) |
| Adjustments to derive effective tax rate:               |                          |         |
| Tax benefit on interest on shareholders' equity         | -                        | 788     |
| Non-deductible post-retirement and health-benefits      | <b>(198)</b>             | (224)   |
| Foreign income subject to different tax rates           | <b>209</b>               | (199)   |
| Tax incentive <b>(1)</b>                                | <b>455</b>               | 587     |
| Other   | <b>211</b>               | (124)   |
| Income tax expense per consolidated statement of income | <b>(7,603)</b>           | (4,191) |

**(1)** On May 10, 2007, the Brazilian Federal Revenue Office recognized Petrobras' right to deduct certain tax incentives from income tax payable, covering the tax years of 2006 until 2015. During the nine-month period ended September 30, 2008, Petrobras recognized a tax benefit in the amount of US\$455 (US\$587 on September 30, 2007) related to these incentives in the Northeast, within the region covered by the Northeast Development Agency (ADENE), granting a 75% reduction in income tax payable, calculated on the profits of the exploration of the incentive activities and these have been accounted for under the flow through method.

**4. Income Taxes (Continued)**

The following table shows a breakdown between domestic and international income tax benefit (expense) attributable to income from continuing operations:

|  | <b>Nine-month periods<br/>ended September, 30</b> |             |
|--|---|-------------|
|  | <b>2008</b>                                       | <b>2007</b> |
| Income tax expense per consolidated statement of income: |   |             |
| Brazil   |   |             |
| Current  | <b>(7,180)</b>                                    | (3,346)     |
| Deferred   | <b>(197)</b>                                      | (627)       |
|  | <b>(7,377)</b>                                    | (3,973)     |
| International  |   |             |
| Current  | <b>(292)</b>                                      | (164)       |
| Deferred   | <b>66</b>   | (54)        |
|  | <b>(226)</b>                                      | (218)       |
|  | <b>(7,603)</b>                                    | (4,191)     |

**4. Income Taxes (Continued)**

The major components of the deferred income tax accounts in the consolidated balance sheet are as follows:

|   | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|-----------------------------------|------------------------------|
| <b>Current assets</b>   | <b>897</b>                        | 498                          |
| <b>Current liabilities</b>  | <b>(9)</b>                        | (7)                          |
| <br><b>Net current deferred tax assets</b>  | <br><b>888</b>                    | <br>491                      |
| <br><b>Non-current assets</b>   |                                   |                              |
| Employees postretirement benefits, net of<br>Accumulated postretirement benefit reserves<br>adjustments | <b>1,960</b>                      | 2,065                        |
| Tax loss carryforwards  | <b>732</b>                        | 335                          |
| Other temporary differences, not significant<br>individually  | <b>466</b>                        | 600                          |
| Valuation allowance   | <b>(602)</b>                      | (373)                        |
|   | <b>2,556</b>                      | 2,627                        |
| <br><b>Non-current liabilities</b>  |                                   |                              |
| Capitalized exploration and development costs   | <b>6,011</b>                      | 5,810                        |
| Property, plant and equipment   | <b>935</b>                        | 1,494                        |
| Other temporary differences, not significant<br>individually  | <b>287</b>                        | 110                          |
|   | <b>7,233</b>                      | 7,414                        |
| <br>Net non-current deferred tax liabilities  | <br><b>(4,677)</b>                | <br>(4,787)                  |
| <br>Non-current deferred tax assets   | <br><b>30</b>                     | <br>15                       |
| <br>Non-current deferred tax liabilities  | <br><b>4,707</b>                  | <br>(4,802)                  |
| <br>Net deferred tax liabilities  | <br><b>3,789</b>                  | <br>(4,296)                  |



**4. Income Taxes (Continued)**

The Company and its subsidiaries file income tax returns in Brazil and in many foreign jurisdictions. These tax returns are open to examination by the respective tax authorities in accordance with each local legislation.

As of and for the nine-month period ended September 30, 2008, the Company did not have any unrecognized tax benefits. Additionally, the Company does not expect that the amount of the unrecognized tax benefits will change significantly within the next twelve months.

**5. Cash and Cash Equivalents**

|                                   | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-----------------------------------|-----------------------------------|------------------------------|
| Cash                              | 739                               | 1,241                        |
| Investments - Brazilian reais (1) | 2,766                             | 2,279                        |
| Investments - U.S. dollars (2)    | 1,777                             | 3,467                        |
|                                   | <b>5,282</b>                      | <b>6,987</b>                 |

(1) Comprised primarily federal public bonds with immediate liquidity and the securities are tied to the American dollar quotation or to the remuneration of the Interbank Deposits - DI.

(2) Comprised primarily by Time Deposit and securities with fixed income.

**6. Marketable Securities**

Marketable securities classification:

|  | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|-----------------------------------|------------------------------|
| Available-for-sale                             | <b>1,680</b>                      | 2,036                        |
| Trading  | <b>112</b>                        | 127                          |
| Held-to-maturity                               | <b>237</b>                        | 248                          |
|  | <b>2,029</b>                      | 2,411                        |
| Less: Current portion of marketable securities | <b>(265)</b>                      | (267)                        |
| Long-term portion of marketable securities     | <b>1,764</b>                      | 2,144                        |

Marketable securities are comprised primarily of amounts that the Company has invested in an exclusive fund, excluding the Company's own securities, which are considered repurchased. The exclusive fund is consolidated, and the equity and debt securities within the portfolio are classified as trading or available-for-sale under SFAS 115 based on management's intent. Trading securities are principally Brazilian bonds, which are bought and sold frequently with the objective of making short-term-profits on market price changes. Available-for-sale securities are principally, LCN (Credit Liquid Note) agreements and certain other bonds for which the Company does not have current expectations to trade actively. Trading securities are presented as current assets, as they are expected to be used in the near term for cash funding requirements. Available-for-sale securities are presented as Non-current assets, as they are not expected to be sold or liquidated within the next twelve months.

**6. Marketable Securities (Continued)**

As of September 30, 2008, Petrobras had a balance of US\$1,677 linked to B Series National Treasury Notes, which are accounted for as available-for-sale securities in accordance with SFAS 115. On October 23, 2008, the B Series National Treasury Notes were used as a guarantee after the confirmation of the agreements into with Petros, for settling Petrobras liabilities with Petros, Petrobras pension plan (see Note 14 (b)). The nominal value of the NTN-Bs is restated based on variations in the Amplified Consumer Price Index (IPCA). The due dates of these notes are 2024 and 2035 and interest coupons will be paid at half-yearly intervals based on the set rate of 6.0% p.a.

**7. Inventories**

|                                 | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---------------------------------|-----------------------------------|------------------------------|
| Products                        |                                   |                              |
| Oil products                    | <b>4,993</b>                      | 2,493                        |
| Fuel alcohol                    | <b>206</b>                        | 181                          |
|                                 | <b>5,199</b>                      | 2,674                        |
| Raw materials, mainly crude oil | <b>5,783</b>                      | 4,818                        |
| Materials and supplies          | <b>1,878</b>                      | 1,681                        |
| Other                           | <b>87</b>                         | 110                          |
|                                 | <b>12,947</b>                     | 9,283                        |
| Current inventories             | <b>12,895</b>                     | 9,231                        |
| Long-term inventories           | <b>52</b>                         | 52                           |

Inventories are stated at the lower of cost or market. Due to the recently declines in the oil international market prices, the Company recognized a loss of US\$103 for the nine-month period ended September 30, 2008, which was classified as other operating expenses in the consolidated statement of income. The Company adopted the realizable value for inventory impairment purposes.

**8. Recoverable Taxes**

Recoverable taxes consisted of the following:

|                                     | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-------------------------------------|-----------------------------------|------------------------------|
| Domestic value-added tax (ICMS) (1) | <b>2,324</b>                      | 2,173                        |
| Income tax and social contribution  | <b>524</b>                        | 527                          |
| PASEP/COFINS (2)                    | <b>2,805</b>                      | 2,772                        |
| Foreign value-added tax (IVA)       | <b>145</b>                        | 243                          |
| Other recoverable taxes             | <b>339</b>                        | 250                          |
|                                     | <b>6,137</b>                      | 5,965                        |
| Less: Long-term recoverable taxes   | <b>(3,208)</b>                    | (2,477)                      |
| Current recoverable taxes           | <b>2,929</b>                      | 3,488                        |

(1) Domestic value-added sales tax is composed of credits generated by commercial operations and by the acquisition of property, plant and equipment and can be offset with taxes of the same nature.

(2) Composed of credits arising from non-cumulative collection of PASEP and COFINS, which can be compensated with other federal taxes payable.

The income tax and social contribution recoverable will be offset against future income tax payable.

Petrobras plans to fully recover these taxes, and as such, no allowance has been provided.



**9. Petroleum and Alcohol Account - Receivable from Federal Government**

The following summarizes the changes in the Petroleum and Alcohol account for the nine-month period ended September 30, 2008:

|                  | <b>Nine-month period<br/>ended<br/>September 30, 2008</b> |
|------------------|---|
| Opening balance  | <b>450</b>  |
| Financial income | <b>4</b>  |
| Translation gain | <b>(34)</b>   |
| <br>             |   |
| Ending balance   | <b>420</b>  |

In order to conclude the settlement of accounts with the Federal Government, pursuant to Provisional Measure n° 2,181, of August 24, 2001, and after providing all the information required by the National Treasury Office - STN, Petrobras is seeking to settle all the remaining disputes between the parties.

The remaining balance of the Petroleum and Alcohol account may be paid as follows: (1) National Treasury Bonds issued at the same amount as the final balance of the Petroleum and Alcohol account; (2) offset of the balance of the Petroleum and Alcohol account, with any other amount owed by Petrobras to the Federal Government, including taxes; or (3) by a combination of the above options.

**10. Financings****a) Short-term debt**

The Company's short-term borrowings are principally sourced from commercial banks and include import and export financing denominated in United States dollars, as follows:

|                             | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-----------------------------|-----------------------------------|------------------------------|
| Imports - oil and equipment | -                                 | 5                            |
| Working capital             | <b>1,913</b>                      | 1,453                        |
|                             | <b>1,913</b>                      | 1,458                        |

The weighted average annual interest rates on outstanding short-term borrowings were 5.11% and 4.71% at September 30, 2008 and December 31, 2007, respectively.

**10. Financings (Continued)****b) Long-term debt**

| Composition  | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|-----------------------------------|------------------------------|
| Foreign currency   |                                   |                              |
| Notes  | <b>5,738</b>                      | 4,140                        |
| Financial institutions   | <b>4,278</b>                      | 4,256                        |
| Sale of future receivables   | <b>565</b>                        | 615                          |
| Suppliers credits  | <b>100</b>                        | 1,325                        |
| Assets related to export program to be offset<br>against sales of future receivables | <b>(150)</b>                      | (150)                        |
|  | <b>10,531</b>                     | 10,186                       |
| Local currency   |                                   |                              |
| National Economic and Social Development<br>Bank - BNDES (state-owned company)       | <b>542</b>                        | 607                          |
| Debentures:  |                                   |                              |
| BNDES (state-owned company)  | <b>227</b>                        | 709                          |
| Other Banks  | <b>1,425</b>                      | 1,419                        |
| Export Credit Notes  | <b>1,959</b>                      | 282                          |
| Other  | <b>478</b>                        | 218                          |
|  | <b>4,631</b>                      | 3,235                        |
| Total  | <b>15,162</b>                     | 13,421                       |
| Current portion of long-term debt  | <b>(2,201)</b>                    | (1,273)                      |
|  | <b>12,961</b>                     | 12,148                       |

**10. Financings** (Continued)**b) Long-term debt** (Continued)

Composition of foreign currency denominated debt by currency

|                       | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|-----------------------|-----------------------------------|------------------------------|
| Currency              |                                   |                              |
| United States dollars | <b>9,825</b>                      | 9,439                        |
| Japanese Yen          | <b>567</b>                        | 598                          |
| Euro                  | <b>71</b>                         | 85                           |
| Other                 | <b>68</b>                         | 64                           |
|                       | <b>10,531</b>                     | 10,186                       |

Maturities of the principal of long-term debt

The long-term portion at September 30, 2008 becomes due in the following years:

|                     |               |
|---------------------|---------------|
| 2009                | <b>585</b>    |
| 2010                | <b>2,655</b>  |
| 2011                | <b>1,587</b>  |
| 2012                | <b>1,860</b>  |
| 2013                | <b>1,305</b>  |
| 2014 and thereafter | <b>4,969</b>  |
|                     | <b>12,961</b> |

**10. Financings** (Continued)**b) Long-term debt** (Continued)

The composition of annual interest rates on long-term debt are as follows:

|                  | <b>September<br/>30,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|------------------|-----------------------------------|----------------------------------|
| Foreign currency |                                   |                                  |
| 6% or less       | <b>6,149</b>                      | 4,280                            |
| Over 6% to 8%    | <b>2,120</b>                      | 3,285                            |
| Over 8% to 10%   | <b>2,175</b>                      | 2,410                            |
| Over 10% to 12%  | <b>87</b>                         | 125                              |
| Over 12% to 15%  | <b>-</b>                          | 86                               |
|                  | <b>10,531</b>                     | 10,186                           |
| Local currency   |                                   |                                  |
| 6% or less       | <b>425</b>                        | 469                              |
| Over 6% to 8%    | <b>164</b>                        | -                                |
| Over 8% to 10%   | <b>619</b>                        | 995                              |
| Over 10% to 12%  | <b>3,386</b>                      | 1,722                            |
| Over 12% to 15%  | <b>37</b>                         | 49                               |
|                  | <b>4,631</b>                      | 3,235                            |
|                  | <b>15,162</b>                     | 13,421                           |

**10. Financings (Continued)****b) Long-term debt (Continued)****Global Notes - PifCo**

On January 11, 2008, PifCo issued Senior Global Notes of US\$750 that constitute a single issue fungible with the US\$1,000 launched on November 1, 2007, amounting to US\$1,750 in issued bonds due on March 1, 2018. The Notes bear interest at the rate of 5.875% per annum, payable semiannually, beginning on March 1, 2008. The purpose of this issue was to access long-term debt capital markets, refinance prepayments of maturing debt and to reduce the cost of capital.

**Loan to Petrobras Netherlands BV (PNBV)**

On January 02, 2008, the subsidiary Petrobras Netherlands BV (PNBV) signed an offshore loan agreement with Société Générale for the amount of US\$85, with interest of 5.10% p.a. and a term of five years.

In addition, on January 24, 2008, PNBV signed an offshore trade-related loan agreement with Banco Bilbao Vizcaya Argentaria S.A. for the amount of US\$100, with interest of 3.96% p.a. and a term of four years.

PNBV contracted a credit facility of up to US\$200 from Santander Overseas Bank. Inc - SANTANDER. On June 25, 2008, the subsidiary used the funds available. The initial term of the credit facility is one year, renewable for the full amount for up to three years, with interest of 4.12% p.a.

**Credit facility agreement to finance exports**

On March 17 and 26, 2008, Petrobras contracted a credit facility of US\$435 and US\$289, respectively, with the Banco do Brasil. The transaction was ensured by an Export Credit Note, the sole purpose of which is to increase Petrobras exports of ethanol, in light of the future prospects for growth of biofuel business, as highlighted in the Company's strategic plan and was negotiated with the following terms:

Term: 2 years and 3 years, with settlement of the principal and interest at the end of the term;

**10. Financings** (Continued)

**b) Long-term debt** (Continued)

**Credit facility agreement to finance exports** (Continued)

- Interest rate: 95% of the CDI;
- Clause providing for early repayment as from 180 days of the withdrawal with no penalties;
- Exemption of IOF tax on presentation of proof of the export operations; and
- Waiver of guarantees.

On April 04 and 11, 2008, Petrobras contracted a credit facility of US\$234 and US\$948, respectively, with the Banco do Brasil. The transaction was ensured by an Export Credit Note, the sole purpose of which is to increase Petrobras exports of oil and oil products and was negotiated with the following terms:

- Term: 1 year, with interest payable every 6 months and settlement of the principal at the end of the term;
- Interest rate: 102% of the CDI + Flat Fee of 0.06%, six-monthly, in advance;
- Clause providing for early repayment as from 180 days of the withdrawal with no penalties;
- Exemption of IOF tax on presentation of proof of the export operations; and
- Waiver of guarantees.

**11. Financial Income (Expenses), Net**

Financial expenses, financial income and monetary and exchange variation on monetary assets and liabilities, net, allocated to income for the nine-month periods ended September 30, 2008 and 2007 are as follows:

|   | <b>Nine-month periods ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                                       | <b>2007</b> |
| Financial expenses  |   |             |
| Loans and financings  | <b>(814)</b>                                      | (798)       |
| Project financings  | <b>(331)</b>                                      | (443)       |
| Leasing   | <b>(36)</b>                                       | (62)        |
| Capitalized interest  | <b>999</b>  | 967         |
| Losses on derivative instruments  | <b>(162)</b>                                      | (100)       |
| Repurchased securities losses   | <b>(26)</b>                                       | (29)        |
| Other   | <b>(254)</b>                                      | (110)       |
|   | <b>(624)</b>                                      | (575)       |
| Financial income  |   |             |
| Investments   | <b>346</b>  | 465         |
| Marketable securities   | <b>109</b>  | 112         |
| Clients   | <b>101</b>  | 58          |
| Gains in derivatives  | <b>171</b>  | -           |
| Advances to suppliers   | <b>16</b>   | 19          |
| Government securities   | <b>96</b>   | 36          |
| Other   | <b>294</b>  | 145         |
|   | <b>1,133</b>                                      | 835         |
| Monetary and exchange variation on monetary assets and liabilities, net | <b>836</b>  | (630)       |
|   | <b>1,345</b>                                      | (370)       |



**12. Project Financings**

The Company has utilized project financings to provide capital for the continued development of the Company's exploration and production and related projects.

The special purpose entities associated with the project finance projects are consolidated based on FIN 46(R) and the project financing obligation represents the debt of the consolidated SPEs with the third-party lender.

The Company's responsibility under these contracts is to complete the development of the oil and gas fields, operate the fields, pay for all operating expenses related to the projects and remit a portion of the net proceeds generated from the fields to fund the special purpose companies' debt and return on equity payments. At the conclusion of the term of each financing project, the Company will have the option to purchase the leased or transferred assets from the consolidated special purpose company.

The following summarizes the liabilities related to the projects that were in progress at September 30, 2008 and December 31, 2007:

|   | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---|-----------------------------------|------------------------------|
| Transportadora Gasene   | <b>1,801</b>                      | 1,212                        |
| Codajás (1)   | <b>1,219</b>                      | 1,008                        |
| Cia. de Desenvolvimento e Modernização de Plantas Industriais - CDMPI | <b>845</b>                        | 510                          |
| Charter Development - CDC (2)   | <b>817</b>                        | 760                          |
| Companhia Locadora de Equipamentos Petrolíferos - CLEP (3)            | <b>802</b>                        | 859                          |
| PDET Offshore S.A.  | <b>790</b>                        | 889                          |
| Barracuda/Caratinga   | <b>702</b>                        | 1,004                        |
| Cabiúnas  | <b>544</b>                        | 666                          |
| Other   | <b>417</b>                        | 226                          |
| Repurchased securities (3)  | <b>(802)</b>                      | (856)                        |
|   | <b>7,135</b>                      | 6,278                        |
| Current portion of Project financings                                 | <b>(1,747)</b>                    | (1,692)                      |
| Long-term portion of Project financings                               | <b>5,388</b>                      | 4,586                        |

(1) Codajás consolidates Transportadora Urucu - Manaus S.A. which is responsible for the Amazonia Project.

(2) Charter Development - CDC is responsible for Marlim Leste (P-53 project).

(3) As of September 30, 2008 and December 31, 2007, the Company had amounts invested abroad in an exclusive investment fund that held debt securities of some of the Petrobras group companies and some of the SPEs that the Company consolidates according to FIN 46(R), in the total amount of US\$802 and US\$856, respectively. These securities are considered to be extinguished, and thus the related amounts, together with applicable interest have been removed from the presentation of marketable securities and project financings.



**12. Project Financings (Continued)**

The Company has received certain advances amounting to US\$322 which are recorded as project financings obligations and are related to assets under agreements with investors, which are included to the property, plant and equipment balance. Such asset and obligation amounts are presented gross as the obligation can only be settled through delivery of the fully constructed asset.

At September 30, 2008, the long-term portion of project financings becomes due in the following years:

|                     |              |
|---------------------|--------------|
| 2009                | <b>235</b>   |
| 2010                | <b>771</b>   |
| 2011                | <b>508</b>   |
| 2012                | <b>379</b>   |
| 2013                | <b>321</b>   |
| 2014 and thereafter | <b>3,174</b> |
|                     | <b>5,388</b> |

**13. Capital Lease Obligations**

The Company leases certain offshore platforms and vessels, which are accounted for as capital leases. As of September 30, 2008, assets under capital leases had a net book value of US\$728 (US\$875 at December 31, 2007).

The following is a schedule by year of the future minimum lease payments as of September 30, 2008:

|   |              |
|---|--------------|
| 2008  | <b>68</b>    |
| 2009  | <b>242</b>   |
| 2010  | <b>190</b>   |
| 2011  | <b>83</b>    |
| 2012  | <b>29</b>    |
| 2013  | <b>4</b>     |
| 2014 and thereafter                                       | <b>10</b>    |
| Estimated future lease payments                           | <b>626</b>   |
| Less amount representing interest at 6.2% to 12.0% annual | <b>(60)</b>  |
| Present value of minimum lease payments                   | <b>566</b>   |
| Less current portion of capital lease obligations         | <b>(217)</b> |
| Long-term portion of capital lease obligations            | <b>349</b>   |

**14. Employees Postretirement Benefits and Other Benefits****a) Employees postretirement benefits balances**

The Company sponsors a contributory defined benefit pension plan covering substantially all of its employees and provides certain health care benefits for a number of active and retired employees. In 2007, the Company made contributions of US\$499 to pension and health care plans.

The balances related to Employees Postretirement Benefits are represented as follows:

|   | As of              |                      |         |                   |                      |         |
|---|--------------------|----------------------|---------|-------------------|----------------------|---------|
|   | September 30, 2008 |                      |         | December 31, 2007 |                      |         |
|   | Pension Benefits   | Health care benefits | Total   | Pension benefits  | Health Care Benefits | Total   |
| <b>Current liabilities</b>  |                    |                      |         |                   |                      |         |
| Defined-benefit plan  | 285                | 238                  | 523     | 230               | 259                  | 489     |
| Variable Contribution plan  | 45                 | -                    | 45      | 134               | -                    | 134     |
| Employees postretirement projected benefits obligation              | 330                | 238                  | 568     | 364               | 259                  | 623     |
| <b>Long-term liabilities</b>  |                    |                      |         |                   |                      |         |
| Defined-benefit plan  | 4,469              | 6,572                | 11,041  | 4,678             | 6,639                | 11,317  |
| Employees postretirement projected benefits obligation              | 4,799              | 6,810                | 11,609  | 5,042             | 6,898                | 11,940  |
| <b>Shareholders equity - Accumulated other comprehensive income</b> |                    |                      |         |                   |                      |         |
| Defined-benefit plan  | 2,016              | 1,302                | 3,318   | 2,177             | 1,406                | 3,583   |
| Variable Contribution plan  | 150                | -                    | 150     | 162               | -                    | 162     |
| Tax effect  | (737)              | (442)                | (1,179) | (795)             | (478)                | (1,273) |
| Net balance recorded in shareholders equity                         | 1,429              | 860                  | 2,289   | 1,544             | 928                  | 2,472   |

**14. Employees Postretirement Benefits and Other Benefits** (Continued)**b) Funded status of the plans**

Net periodic benefit cost includes the following components:

|  | As of September 30, |                       |               |                  |               |
|--|---------------------|-----------------------|---------------|------------------|---------------|
|  | 2008                |                       |               | 2007             |               |
|  | Pension Plans       |                       | Health        | Pension Plan     | Health        |
|  | Defined benefits    | Variable contribution | care benefits | Defined benefits | care benefits |
| Service cost-benefits earned during the period | <b>199</b>          | <b>72</b>             | <b>88</b>     | 168              | 74            |
| Interest cost on projected benefit obligation  | <b>1,841</b>        | <b>17</b>             | <b>546</b>    | 1,475            | 460           |
| Expected return on plan assets                 | <b>(1,508)</b>      | <b>(15)</b>           | -             | (1,093)          | -             |
| Amortization of net actuarial loss             | <b>1</b>            | -                     | <b>47</b>     | 112              | 60            |
| Amortization of prior service cost             | <b>46</b>           | <b>7</b>              | <b>2</b>      | 16               | 54            |
|  | <b>579</b>          | <b>81</b>             | <b>683</b>    | 678              | 648           |
| Employees contributions                        | <b>(161)</b>        | <b>(48)</b>           | -             | (127)            | -             |
| Net periodic benefit cost                      | <b>418</b>          | <b>33</b>             | <b>683</b>    | 551              | 648           |

Petrobras and its subsidiaries sponsoring the Petros plan, trade unions organizations and Petros signed a Financial Commitment Agreement on October 23, 2008, after legal homologation on August 25, 2008, to cover commitments with pension plans in the amount of US\$3,029, updated retroactively to December 31, 2006, by the amplified consumer price index (IPCA) + 6% p.a., which will be paid in half-yearly installments with interest of 6% p.a. on the debtor balance updated by the IPCA, over the next 20 years.

At September 30, 2008, Petrobras had government securities in the amount of US\$623 (US\$670 at December 31, 2007), which were used on October 23, 2008, to settle Petrobras commitments with the Petros Plan, as set forth in the Term of Financial Commitment.

As of September 30, 2008, Petrobras had a balance of US\$1,677 linked to B Series National Treasury Notes, classified as non-current asset, which may be used in the future as a guarantee for the above mentioned Settlement Agreement (see Note 6).

#### **14. Employees Postretirement Benefits and Other Benefits (Continued)**

##### **New benefit plan (Petros Plan 2)**

On June 22, 2007, the Supplementary Pensions Office approved the introduction of a new supplementary pension plan called Petros Plan 2 to the new employees as well as those who have joined the Company after September 2002 and had no Pension Plan.

This Plan was formulated according to the Variable Contribution - VC, or mixed model, with the resources capitalized through particular accounts, retirement pensions established according to the account balances, in addition to the coverage for social security risks (disability and mortality before retirement) and the benefit payment options in case of perpetual assistance system, with estimated pension reversal for dependents after the death of the holder, or the quotas receiving regiment, for an unlimited period, in addition to the guarantee of a minimum benefit.

Petrobras and the other sponsors will fully assume the contributions corresponding to the period in which the new participants had no plan. This past service shall consider the period from August 2002 or the date of admission up to August 29, 2007. The plan will continue to admit new subscribers after this date, but no longer including payment for the period relating to past service.

The disbursements will be conducted over the first months for contributions up to the total months the participant had no plan, and shall cover the portion relating to the participants and sponsor.

#### **15. Shareholders Equity**

##### **a) Capital**

The Company's subscribed and fully paid-in capital at September 30, 2008 and at December 31, 2007 consisted of 5,073,347,344 common shares and 3,700,729,396 preferred shares as retroactively restated for the stock split discussed below. The preferred shares do not have any voting rights and are not convertible into common shares and vice-versa. Preferred shares have priority in the receipt of dividends and return of capital.

**15. Shareholders Equity** (Continued)**a) Capital** (Continued)

The Extraordinary General Meeting held on March 24, 2008, decided to effect a split of each Company's share into two, resulting: (a) in a free distribution of 1 (one) new share of the same type for each original share and based on the shareholding structure at April 25, 2008; (b) in a free distribution of 1 (one) new American Depositary Shares (ADS) of the same type for each original ADS and based on the shareholding structure at April 25, 2008. At the same date, an amendment to article 4 of the Company's by-laws to cause capital be divided into 8,774,076,740 shares, of which 5,073,347,344 are common shares and 3,700,729,396 are preferred shares, with no nominal value, was approved. This amendment to the Company's bylaws is effective from April 25, 2008. The relation between the ADS and shares of each class remains of 2 (two) shares for one ADS. All share, ADS, per share and per ADS information in the accompanying financial statements and notes have been adjusted to reflect the result of the share split.

Current Brazilian law requires that the Federal Government retain ownership of 50% plus one share of the Company's voting shares.

The Extraordinary General Meeting, held together with the Ordinary General Meeting on April 4, 2008, approved the increase of the Company's capital from US\$20,816 (R\$52,644 million) to US\$36,194 (R\$78,967 million), through the capitalization of part of retained earnings recorded during previous years amounting to US\$14,782 (R\$25,302 million) and part of the capital reserves, amounting to US\$596 (R\$1,020 million), consisting of US\$99 (R\$169 million) of the Merchant Navy AFRMM subsidy reserve and US\$497 (R\$851 million) from the tax incentives reserve, and without issuing any new shares, in accordance with article 169, paragraph 1 of Law N° 6404/76.

At an Extraordinary General Meeting held together with the General Ordinary Meeting, on April 2, 2007, the shareholders of Petrobras approved an increase in the Company's capital to US\$20,816 (R\$52,644 million) through the capitalization of revenue reserves accrued during previous financial years, in the amount of US\$1,647 (R\$3,372 million), and of statutory reserve, in the amount of US\$492 (R\$1,008 million), and without the issuance of new shares, in accordance with article 169, paragraph 1, Law N° 6.404/76.



**15. Shareholders Equity** (Continued)**b) Dividends and interest on shareholders equity**

On April 04, 2008, the Ordinary General Meeting approved dividends referring to the year ended December 31, 2007, in the amount of US\$3,715, conforms to the by-laws in regard to guaranteed rights of preferred shares (article 5), include interest on shareholders equity, already approved by the Board of Directors. The dividends were monetarily restated in accordance with the SELIC rate variation as from December 31, 2007 to the initial date of payment.

The remaining balance of dividends relating to the financial year of 2007, approved by the Ordinary General Meeting held on April 04, 2008, in the amount of US\$495 (after deducting those distributed earlier to shareholders on January 23, March 31 and April 30, 2008, in the amount of US\$3,220), were paid out to shareholders on June 03, 2008.

Basic and diluted earnings per share amounts have been calculated as follows:

|  | <b>Nine-month periods ended</b> |                   |
|--|---------------------------------|-------------------|
|  | <b>September</b>                |                   |
|  | <b>30,</b>                      |                   |
|  | <b>2008</b>                     | <b>2007</b>       |
| Net income for the period  | <b>16,713</b>                   | <b>10,326</b>     |
| Less priority preferred share dividends  | <b>(929)</b>                    | <b>(963)</b>      |
| Less common shares dividends, up to the priority preferred shares dividends on a per-share basis | <b>(1,274)</b>                  | <b>(1,320)</b>    |
| <br>Remaining net income to be equally allocated to common and preferred shares                  | <br><b>14,510</b>               | <br><b>8,043</b>  |
| <br>Weighted average number of shares outstanding:   |                                 |                   |
| Common   | <b>5,073,347,344</b>            | 5,073,347,344 (*) |
| Preferred  | <b>3,700,729,396</b>            | 3,700,729,396 (*) |
| <br>Basic and diluted earnings per:  |                                 |                   |
| Common and preferred share   | <b>1.90</b>                     | 1.18 (*)          |
| Common and preferred ADS   | <b>3.80</b>                     | 2.36 (*)          |

(\*) Considers effect of 2 for 1 stock split that occurred on April 25, 2008.

**16. Commitments and Contingencies**

Petrobras is subject to a number of commitments and contingencies arising in the normal course of its business. Additionally, the operations and earnings of the Company have been, and may be in the future, affected from time to time in varying degrees by political developments and laws and regulations, such as the Federal Government's continuing role as the controlling shareholder of the Company, the status of the Brazilian economy, forced divestiture of assets, tax increases and retroactive tax claims, and environmental regulations. The likelihood of such occurrences and their overall effect upon the Company are not readily predictable.

**a) Litigation**

The Company is a defendant in numerous legal actions involving civil, tax, labor, corporate and environment issues arising in the normal course of its 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 and reasonably estimable.

At September 30, 2008 and December 31, 2007, the respective amounts accrued by type of claims are as follows:

|  | <b>September<br/>30,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|--|-----------------------------------|------------------------------|
| Labor claims                               | <b>69</b>                         | 58                           |
| Tax claims                                 | <b>109</b>                        | 149                          |
| Civil claims                               | <b>228</b>                        | 155                          |
| Commercials claims and other contingencies | <b>19</b>                         | 20                           |
| <br>                                       |                                   |                              |
| Total                                      | <b>425</b>                        | 382                          |
| <br>                                       |                                   |                              |
| Current contingencies                      | <b>(28)</b>                       | (30)                         |
| <br>                                       |                                   |                              |
| Long-term contingencies                    | <b>397</b>                        | 352                          |

As of September 30, 2008 and December 31, 2007, in accordance with Brazilian law, the Company had paid US\$937 and US\$977, respectively, into federal depositories to provide collateral for these and other claims until they are settled. These amounts are reflected in the balance sheet as restricted deposits for legal proceedings and guarantees.

**16. Commitments and Contingencies (Continued)**

**b) Environmental matters**

The Company is subject to various environmental laws and regulations. These laws regulate the discharge of oil, gas or other materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of such materials at various sites.

The Company's management considers that any expenses incurred to correct or mitigate possible environmental impacts should not have a significant effect on operations or cash flows.

**17. Segment Information**

The following presents the Company's assets by segment:

**As of September 30, 2008**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas<br/>and<br/>Energy</b> | <b>International<br/>(see<br/>separate disclosure)</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b>   |
|---|---|---------------|-------------------------------|--|---------------------|------------------|---------------------|----------------|
| Current assets  | <b>4,423</b>                              | <b>15,775</b> | <b>3,637</b>                  | <b>3,414</b>   | <b>3,005</b>        | <b>9,355</b>     | <b>(6,181)</b>      | <b>33,428</b>  |
| Cash and cash equivalents                                       | -   | -             | -                             | -  | -                   | 5,282            | -                   | 5,282          |
| Other current assets  | 4,423                                     | 15,775        | 3,637                         | 3,414  | 3,005               | 4,073            | (6,181)             | 28,146         |
| Investments in non-consolidated companies and other investments | 141                                       | 1,755         | 563                           | 1,328  | 572                 | 197              | -                   | 4,556          |
| Property, plant and equipment, net                              | 51,494                                    | 17,070        | 11,683                        | 9,176  | 1,731               | 1,530            | (16)                | 92,668         |
| Non-current assets  | 2,061                                     | 850           | 1,840                         | 579  | 347                 | 6,171            | (516)               | 11,332         |
| Petroleum and Alcohol account                                   | -   | -             | -                             | -  | -                   | 420              | -                   | 420            |
| Government securities   | -   | -             | -                             | -  | -                   | 623              | -                   | 623            |
| Other assets  | 2,061                                     | 850           | 1,840                         | 579  | 347                 | 5,128            | (516)               | 10,289         |
| <b>Total assets</b>   | <b>58,119</b>                             | <b>35,450</b> | <b>17,723</b>                 | <b>14,497</b>  | <b>5,655</b>        | <b>17,253</b>    | <b>(6,713)</b>      | <b>141,984</b> |

**17. Segment Information** (Continued)

As of September 30, 2008

**International**

|  | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas and<br/>Energy</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|--|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| Current assets   | 859                                       | 2,371         | 243                       | 210                 | 295              | (564)               | 3,414        |
| Investments in<br>non-consolidated<br>companies and other<br>investments | 947                                       | 40            | 284                       | 50                  | 7                | -                   | 1,328        |
| Property, plant and<br>equipment, net                                    | 7,661                                     | 1,226         | 216                       | 170                 | 145              | (242)               | 9,176        |
| Non-current assets   | 716                                       | 273           | 98                        | 15                  | 1,195            | (1,718)             | 579          |
| Total assets   | 10,183                                    | 3,910         | 841                       | 445                 | 1,642            | (2,524)             | 14,497       |

**17. Segment Information** (Continued)

As of December 31, 2007

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas<br/>and<br/>Energy</b> | <b>International<br/>(see<br/>separate disclosure)</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|-------------------------------|--|---------------------|------------------|---------------------|--------------|
| Current assets  | 3,180                                     | 13,725        | 2,864                         | 2,184  | 2,848               | 10,710           | (6,371)             | 29,140       |
| Cash and cash equivalents                                       | -   | -             | -                             | -  | -                   | 6,987            | -                   | 6,987        |
| Other current assets  | 3,180                                     | 13,725        | 2,864                         | 2,184  | 2,848               | 3,723            | (6,371)             | 22,153       |
| Investments in non-consolidated companies and other investments | 85  | 2,348         | 550                           | 1,278  | 640                 | 211              | -                   | 5,112        |
| Property, plant and equipment, net                              | 48,529                                    | 14,480        | 10,615                        | 7,596  | 1,838               | 1,475            | (10)                | 84,523       |
| Non-current assets  | 1,381                                     | 665           | 1,507                         | 659  | 326                 | 6,741            | (339)               | 10,940       |
| Petroleum and Alcohol account                                   | -   | -             | -                             | -  | -                   | 450              | -                   | 450          |
| Government securities   | -   | -             | -                             | -  | -                   | 670              | -                   | 670          |
| Other assets  | 1,381                                     | 665           | 1,507                         | 659  | 326                 | 5,621            | (339)               | 9,820        |
| Total assets  | 53,175                                    | 31,218        | 15,536                        | 11,717   | 5,652               | 19,137           | (6,720)             | 129,715      |

**17. Segment Information** (Continued)

As of December 31, 2007

**International**

|  | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas and<br/>Energy</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|--|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| Current assets   | 843                                       | 1,113         | 157                       | 197                 | 217              | (343)               | 2,184        |
| Investments in<br>non-consolidated<br>companies and other<br>investments | 889                                       | 39            | 309                       | 21                  | 20               | -                   | 1,278        |
| Property, plant and<br>equipment, net                                    | 6,100                                     | 1,070         | 219                       | 182                 | 149              | (124)               | 7,596        |
| Non-current assets   | 505                                       | 292           | 68                        | 14                  | 1,017            | (1,237)             | 659          |
| Total assets   | 8,337                                     | 2,514         | 753                       | 414                 | 1,403            | (1,704)             | 11,717       |



**17. Segment Information** (Continued) Revenues and net income by segment are as follows:**Nine-month period ended September 30, 2008**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas<br/>and<br/>Energy</b> | <b>International<br/>(see separate<br/>disclosure)</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|-------------------------------|--|---------------------|------------------|---------------------|--------------|
| Net operating revenues to third parties         | 737                                       | 57,212        | 5,869                         | 8,027  | 24,075              | -                | -                   | 95,920       |
| Inter-segment net operating revenues            | 49,814                                    | 21,394        | 790                           | 750  | 399                 | -                | (73,147)            | -            |
| Net operating revenues                          | 50,551                                    | 78,606        | 6,659                         | 8,777  | 24,474              | -                | (73,147)            | 95,920       |
| Cost of sales                                   | (17,131)                                  | (77,963)      | (5,675)                       | (6,924)  | (22,403)            | -                | 72,006              | (58,090)     |
| Depreciation, depletion and amortization        | (2,778)                                   | (942)         | (244)                         | (397)  | (126)               | (156)            | -                   | (4,643)      |
| Exploration, including exploratory dry holes    | (962)                                     | -             | -                             | (244)  | -                   | -                | -                   | (1,206)      |
| Selling, general and administrative expenses    | (325)                                     | (1,826)       | (394)                         | (589)  | (1,103)             | (1,541)          | 115                 | (5,663)      |
| Research and development expenses               | (377)                                     | (150)         | (47)                          | (2)  | (6)                 | (174)            | -                   | (756)        |
| Other operating expenses                        | 9   | (380)         | (618)                         | (129)  | (12)                | (813)            | 1                   | (1,942)      |
| Costs and expenses                              | (21,564)                                  | (81,261)      | (6,978)                       | (8,285)  | (23,650)            | (2,684)          | 72,122              | (72,300)     |
| Operating income (loss)                         | 28,987                                    | (2,655)       | (319)                         | 492  | 824                 | (2,684)          | (1,025)             | 23,620       |
| Equity in results of non-consolidated companies | -   | 67            | 94                            | 117  | 17                  | 1                | -                   | 296          |
| Financial income (expenses), net                | -   | -             | -                             | -  | -                   | 1,345            | -                   | 1,345        |
|   | -   | -             | -                             | -  | -                   | (644)            | -                   | (644)        |

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|   |         |         |       |       |       |         |         |         |
|---|---------|---------|-------|-------|-------|---------|---------|---------|
| Employee benefit expense                                  |         |         |       |       |       |         |         |         |
| Other taxes   | (39)    | (50)    | (25)  | (56)  | (9)   | (92)    | -       | (271)   |
| Other expenses, net                                       | (25)    | 21      | (38)  | -     | 25    | 25      | -       | 8       |
| Income (Loss) before income taxes and minority interest   | 28,923  | (2,617) | (288) | 553   | 857   | (2,049) | (1,025) | 24,354  |
| Income tax benefits (expense)                             | (9,834) | 913     | 130   | (226) | (286) | 1,352   | 348     | (7,603) |
| Minority interest in results of consolidated subsidiaries | -       | 40      | (39)  | (152) | -     | 113     | -       | (38)    |
| Net income (loss) for the period                          | 19,089  | (1,664) | (197) | 175   | 571   | (584)   | (677)   | 16,713  |

**17. Segment Information** (Continued)**Nine-month period ended September 30, 2008****International**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas and<br/>Energy</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| Net operating revenues to third parties         | 1,091                                     | 4,572         | 325                       | 2,037               | 2                | -                   | 8,027        |
| Inter-segment net operating revenues            | 1,138                                     | 1,263         | 35                        | 56                  | -                | (1,742)             | 750          |
| Net operating revenues                          | 2,229                                     | 5,835         | 360                       | 2,093               | 2                | (1,742)             | 8,777        |
| Cost of sales                                   | (691)                                     | (5,811)       | (269)                     | (1,907)             | (3)              | 1,757               | (6,924)      |
| Depreciation, depletion and amortization        | (293)                                     | (64)          | (12)                      | (16)                | (12)             | -                   | (397)        |
| Exploration, including exploratory dry holes    | (244)                                     | -             | -                         | -                   | -                | -                   | (244)        |
| Selling, general and administrative expenses    | (156)                                     | (112)         | (20)                      | (100)               | (201)            | -                   | (589)        |
| Research and development expenses               | -   | -             | -                         | -                   | (2)              | -                   | (2)          |
| Other operating expenses                        | (151)                                     | 16            | 21                        | 3                   | (18)             | -                   | (129)        |
| Costs and expenses                              | (1,535)                                   | (5,971)       | (280)                     | (2,020)             | (236)            | 1,757               | (8,285)      |
| Operating income (loss)                         | 694                                       | (136)         | 80                        | 73                  | (234)            | 15                  | 492          |
| Equity in results of non-consolidated companies | 69  | 1             | 5                         | (1)                 | 43               | -                   | 117          |
| Other taxes                                     | (8)                                       | (1)           | (1)                       | (1)                 | (45)             | -                   | (56)         |
| Other expenses, net                             | (3)                                       | -             | 1                         | -                   | 2                | -                   | -            |
|   | 752                                       | (136)         | 85                        | 71                  | (234)            | 15                  | 553          |

|  |       |      |      |      |       |    |       |
|--|-------|------|------|------|-------|----|-------|
| Income (Loss)<br>before income<br>taxes and minority<br>interest   |       |      |      |      |       |    |       |
| Income tax benefits<br>(expense)                                   | (262) | 16   | (2)  | (4)  | 26    | -  | (226) |
| Minority interest in<br>results of<br>consolidated<br>subsidiaries | (135) | 75   | (24) | (13) | (55)  | -  | (152) |
| Net income (loss)<br>for the period                                | 355   | (45) | 59   | 54   | (263) | 15 | 175   |

**17. Segment Information** (Continued)**Nine-month period ended September 30, 2007**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas and<br/>Energy</b> | <b>International<br/>(see separate<br/>disclosure)</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|---------------------------|--|---------------------|------------------|---------------------|--------------|
| Net operating revenues to third parties         | 2,015                                     | 35,971        | 2,587                     | 5,700  | 16,138              | -                | -                   | 62,411       |
| Inter-segment net operating revenues            | 26,859                                    | 13,246        | 811                       | 687  | 276                 | -                | (41,879)            | -            |
| Net operating revenues                          | 28,874                                    | 49,217        | 3,398                     | 6,387  | 16,414              | -                | (41,879)            | 62,411       |
| Cost of sales                                   | (10,608)                                  | (42,797)      | (2,991)                   | (4,840)  | (14,858)            | -                | 41,163              | (34,931)     |
| Depreciation, depletion and amortization        | (2,267)                                   | (752)         | (162)                     | (417)  | (112)               | (106)            | -                   | (3,816)      |
| Exploration, including exploratory dry holes    | (398)                                     | -             | -                         | (391)  | -                   | -                | -                   | (789)        |
| Selling, general and administrative expenses    | (245)                                     | (1,516)       | (341)                     | (468)  | (780)               | (1,109)          | 78                  | (4,381)      |
| Research and development expenses               | (302)                                     | (115)         | (66)                      | (1)  | (4)                 | (124)            | -                   | (612)        |
| Other operating expenses                        | (223)                                     | (107)         | (346)                     | (58)   | (67)                | (918)            | 1                   | (1,718)      |
| Costs and expenses                              | (14,043)                                  | (45,287)      | (3,906)                   | (6,175)  | (15,821)            | (2,257)          | 41,242              | (46,247)     |
| Operating income (loss)                         | 14,831                                    | 3,930         | (508)                     | 212  | 593                 | (2,257)          | (637)               | 16,164       |
| Equity in results of non-consolidated companies | -   | 17            | 65                        | 130  | -                   | (40)             | -                   | 172          |
| Financial income (expenses), net                | -   | -             | -                         | -  | -                   | (370)            | -                   | (370)        |

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|   |         |         |       |       |       |         |       |         |
|---|---------|---------|-------|-------|-------|---------|-------|---------|
| Employee benefit expense                                  | -       | -       | -     | -     | -     | (728)   | -     | (728)   |
| Other taxes   | (31)    | (54)    | (32)  | (51)  | (66)  | (251)   | -     | (485)   |
| Other expenses, net                                       | (15)    | (10)    | (23)  | 49    | (3)   | 11      | -     | 9       |
| Income (Loss) before income taxes and minority interest   | 14,785  | 3,883   | (498) | 340   | 524   | (3,635) | (637) | 14,762  |
| Income tax benefits (expense)                             | (5,027) | (1,314) | 192   | (218) | (178) | 2,137   | 217   | (4,191) |
| Minority interest in results of consolidated subsidiaries | (126)   | (4)     | (196) | (163) | -     | 244     | -     | (245)   |
| Net income (loss) for the period                          | 9,632   | 2,565   | (502) | (41)  | 346   | (1,254) | (420) | 10,326  |

**17. Segment Information** (Continued)

Nine-month period ended September 30, 2007

**International**

|   | <b>Exploration<br/>and<br/>Production</b> | <b>Supply</b> | <b>Gas and<br/>Energy</b> | <b>Distribution</b> | <b>Corporate</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---|---------------|---------------------------|---------------------|------------------|---------------------|--------------|
| Net operating revenues to third parties                   | 794                                       | 3,060         | 395                       | 1,430               | 14               | 7                   | 5,700        |
| Inter-segment net operating revenues                      | 1,096                                     | 1,126         | 37                        | 13                  | -                | (1,585)             | 687          |
| Net operating revenues                                    | 1,890                                     | 4,186         | 432                       | 1,443               | 14               | (1,578)             | 6,387        |
| Cost of sales   | (677)                                     | (3,996)       | (350)                     | (1,381)             | (14)             | 1,578               | (4,840)      |
| Depreciation, depletion and amortization                  | (330)                                     | (51)          | (11)                      | (15)                | (10)             | -                   | (417)        |
| Exploration, including exploratory dry holes              | (391)                                     | -             | -                         | -                   | -                | -                   | (391)        |
| Selling, general and administrative expenses              | (140)                                     | (56)          | (14)                      | (89)                | (169)            | -                   | (468)        |
| Research and development expenses                         | -   | -             | -                         | -                   | (1)              | -                   | (1)          |
| Other operating expenses                                  | (68)                                      | 15            | 11                        | 8                   | (23)             | (1)                 | (58)         |
| Costs and expenses  | (1,606)                                   | (4,088)       | (364)                     | (1,477)             | (217)            | 1,577               | (6,175)      |
| Operation income (loss)                                   | 284                                       | 98            | 68                        | (34)                | (203)            | (1)                 | 212          |
| Equity in results of non-consolidated companies           | 6   | 21            | 16                        | -                   | 49               | 38                  | 130          |
| Other taxes   | (6)                                       | (2)           | (1)                       | (2)                 | (40)             | -                   | (51)         |
| Other expenses, net                                       | (1)                                       | 22            | 10                        | -                   | 18               | -                   | 49           |
| Income (Loss) before income taxes and minority interest   | 283                                       | 139           | 93                        | (36)                | (176)            | 37                  | 340          |
| Income tax benefits (expense)                             | (212)                                     | (18)          | (1)                       | (3)                 | 16               | -                   | (218)        |
| Minority interest in results of consolidated subsidiaries | (62)                                      | (50)          | (15)                      | 13                  | (11)             | (38)                | (163)        |
| Net income (loss) for the period                          | 9   | 71            | 77                        | (26)                | (171)            | (1)                 | (41)         |





**17. Segment Information** (Continued)

Capital expenditures incurred by segment for the nine-month periods ended September 30, 2008 and 2007 are as follows:

|                            | <b>Nine-month periods<br/>ended September 30,</b> |             |
|----------------------------|---|-------------|
|                            | <b>2008</b>                                       | <b>2007</b> |
| Exploration and Production | <b>10,173</b>                                     | 7,837       |
| Supply                     | <b>4,401</b>                                      | 1,800       |
| Gas and Energy             | <b>2,654</b>                                      | 1,220       |
| International              |   |             |
| Exploration and Production | <b>1,856</b>                                      | 2,253       |
| Supply                     | <b>174</b>  | 281         |
| Distribution               | <b>9</b>  | 20          |
| Gas and Energy             | <b>18</b>   | 5           |
| Distribution               | <b>196</b>  | 256         |
| Corporate                  | <b>576</b>  | 333         |
|                            | <b>20,057</b>                                     | 14,005      |

**18. Acquisitions****a) Ipiranga current developments and restructuring of the Petrochemical companies with Braskem**

On April 18, 2007, Ultrapar (the Commissioner), having Braskem S.A. and Petróleo Brasileiro S.A. - Petrobras (through a commission agreement) as intervening parties, acquired control of companies comprising Ipiranga Group for the amount of US\$2,694 (R\$5,486 million).

On February 27, 2008, in fulfillment of the Investment Agreement signed on March 18, 2007, Ultrapar transferred an interest of 40% of the shares comprising the share capital of Ipiranga Química S.A. to Petrobras, which disbursed US\$552. The purchase price of the petrochemical assets has been allocated US\$154, net of tax to property, plant and equipment, US\$194 to goodwill and the remaining US\$204 referred to net assets acquired.

**18. Acquisitions** (Continued)

**a) Ipiranga current developments and restructuring of the Petrochemical companies with Braskem** (Continued)

On May 14, 2008, Ultrapar effected the transfer of the fuel and lubricants Distribution Assets located in the North, Northeast and Central-West and the asphalt Assets received by Petrobras through a special purpose company called 17 de Maio Participações S.A ( 17 de Maio ).

17 de Maio is a closed-capital corporation and its relevant assets are the asphalt assets, contained within Ipiranga Asfaltos - IASA, and the distribution assets held by a limited company called Alvo Distribuidora de Combustíveis Ltda. Petrobras disbursed the amount of US\$619. This amount has been allocated US\$52, net of tax to property, plant and equipment, US\$229 to goodwill and the remaining US\$338 referred to net assets acquired.

On July 24, 2008, the Administrative Board for Economic Defense ( CADE ) accepted Petrobras' request to revise the Agreement to Preserve Reversibility of Transaction ( APRO ) so as to no longer impede immediate access to Alvo's accounting and financial information, removing the obligatory 60-day delay to such access.

Petrobras has not consolidated the Northern Distribution Assets, in its financial statements as CADE is still reviewing this acquisition and the APRO's agreement signed with CADE restricts the control over such assets, including obtaining formal approval for certain administrative, sales and operational decisions.

The excess of allocation made to property, plant and equipment will be amortized over their remaining useful life.

**18. Acquisitions** (Continued)**a) Ipiranga current developments and restructuring of the Petrochemical companies with Braskem** (Continued)**a.1) Braskem Investment Agreement**

On November 30, 2007, an investment agreement was signed between Braskem, Odebrecht, Petrobras, Petroquisa and Norquisa, by which it was agreed that some petrochemical assets held by Petrobras and Petroquisa would be integrated in Braskem in exchange for a participation interest in Braskem. On May 14, 2008, an addendum to the investment agreement was made dividing the exchange transaction into two stages.

The first stage was completed on May 30, 2008, whereby Petrobras and Petroquisa transferred to Braskem the following participation interests: (i) 37.30% of the voting and total capital of Copesul; (ii) 40% of the voting and total capital of IPQ; (iii) 40% of the voting and total capital of IQ; (iv) 40% of the voting and total capital of Petroquímica Paulínia (PPSA), in exchange for 21.9% of the voting capital and 16,3% of the total capital of Braskem. The exchange transaction was based on the fair value of the participation interest exchanged.

The transaction was accounted for in accordance with FASB Statement N° 153 - Exchanges of Non-monetary Assets - An Amendment of APB Opinion No. 29 , ( SFAS 153 ) and FASB Statement N° 140 - Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , ( SFAS140 ) based on the fair value of the participation interest received from Braskem. As a result of the transaction a non-operating income of US\$64, net of tax, was recorded.

In the second stage, Petroquisa may make either: (i) a participation interest transfer to Braskem of the total capital of Petroquímica Triunfo (Triunfo), or (ii) transfer of cash to Braskem in the same amount of the fair value of the total capital of Petroquímica Triunfo (Triunfo); in exchange for a participation interest in Braskem. After the completion of the second stage, Petrobras will hold 25% of the total capital of Braskem.

On May 30, 2008, Petrobras, Petroquisa, Odebrecht and Norquisa, with Braskem as the intermediary, agreed the terms of the new shareholder s agreement for Braskem shareholders.

On July 9, 2008, the transaction was approved without restrictions by the CADE.

**18. Acquisitions** (Continued)**b) Acquisition of Suzano Petroquímica S.A.**

On November 30, 2007, Petrobras acquired 76.57% of the total shares of Suzano Petroquímica S.A. ( SZPQ ), by acquiring Pramoia Participações S.A. (Pramoa) and its controlled company, Dapean Participações S.A. (Dapean), including 99.9% of the total common shares, for the amount of US\$1,186 (US\$7.49 per common share and US\$5.99 per preferred share). The purchase price has been allocated US\$72, net of tax to property, plant and equipment and US\$5, net of tax, to inventories and the remaining US\$602 to goodwill.

Petrobras incorporated Pramoia Participações S.A. on March 24, 2008, after approval at the Extraordinary General Meeting held on that date.

On April 30, 2008, the Brazilian Securities Commission (Comissão de Valores Mobiliários - CVM) approved the registration of the Public Offerings ( PO ) to purchase the shares of SZPQ, conditioned to certain adjustments which Petrobras has fulfilled.

The PO of Suzano Petroquímica was held on June 20, 2008, in which Quattor Participações S.A., purchased the minority interest.

On June 30, the name of Suzano Petroquímica S.A. was changed to Quattor Petroquímica S.A.

**b.1) Investment Agreement with Unipar**

The Investment Agreement between Unipar and Petrobras defined, among other matters, the creation of an integrated company into which they plan to integrate their assets for the production of thermoplastic resins, basic petrochemicals and correlated activities.

The petrochemical assets that will be contributed by the Petrobras Companies are: (i) 99.9% of the voting capital and 76.57% of the total capital of Suzano Petroquímica S.A. (SZPQ), acquired on November 30, 2007; (ii) 17.48% of the voting capital and 17.44% of the total capital held by Petroquisa in Petroquímica União S.A. (PQU).

**18. Acquisitions** (Continued)**b) Acquisition of Suzano Petroquímica S.A.****b.1) Investment Agreement with Unipar**

The assets that will be contributed by Unipar are: (i) 33.3% of the voting and total capital of Rio Polímeros S.A. (Riopol); (ii) 54.96% of the voting capital and 51.35% of the total capital of PQU; (iii) 99.99% of the voting and total capital of Polietilenos União S.A (PU); (iv) all the assets, rights and obligations relating to the operation of Unipar Divisão Química (UDQ); and (v) the amount in cash of US\$217, which corresponds to the value of the price to be paid for: (a) 16.67% interest in the total share capital held by Petroquisa in Riopol; and 15.98% of SZPQ's interest in Riopol, for the understood and agreed price of US\$0.5232 per share.

On June 11, 2008 Petrobras and Unipar contributed their participation interest described above in exchange for a participation interest in the new created company Quattor Participações S.A. . As a result of the transaction, based on the fair value of the participation interest exchanged, Unipar became the majority shareholder with 60% of the voting and total capital of Quattor and Petrobras became the minority shareholder with the remaining participation interest of 40% of the voting and total capital of Quattor.

The investment in Quattor was accounted for in accordance with SFAS 153 and SFAS 140 based on the fair value of the participations interest obtained. As a result of the transaction a non-operating income of US\$3, net of tax, was recognized.

The transaction was approved without restrictions by the CADE on July 09, 2008.

**c) Acquisition of Japanese Refinery and other assets**

On November 09, 2007, Petrobras signed a share purchase agreement to buy 87.5% of the shares of the Japanese company Nansei Sekiyu Kabushiki Kaisha (NSS) from TonenGeneral Sekiyu Kabushiki Kaisha (TGSK), a subsidiary of ExxonMobil for an amount of approximately US\$50. The acquisition includes a refinery with a capacity of 100,000 bpd, which refines light oil and produces high quality oil products. It also comprises an oil and oil products terminal with a storage capacity of 9.6 million barrels, three piers with a capacity to receive ships laden with up to 97,000 deadweight tonnage (dwt) and a single point mooring for Very Large Crude Carriers (VLCC) of up to 280,000 dwt. Due to immateriality, proforma information has not been presented.

The transfer of the share control took place in April 2008.

**18. Acquisitions** (Continued)

**d) Incorporation of a biofuels company**

Petrobras Biocombustível S.A. was incorporated on June 16, 2008, as a wholly owned subsidiary of Petrobras, for the purpose of developing production of ethanol, biodiesel and any other associated or similar products and activities, as well as to promote integration of various areas of the Company with regard to biofuels.

With this subsidiary, Petrobras takes advantage of the business opportunity arising from the increase in world demand for biofuels and, in addition, strengthens its position as a company committed to the environment and social development. Besides contributing to reducing global warming, biofuels production generates jobs and income in rural areas, by employing family farms to produce the raw materials.

On July 29, 2008, Petrobras Biocombustível opened its first commercial biodiesel production plant in Candeias (Bahia). This plant will have an annual production capacity of 57 million liters of biodiesel. In August, Petrobras finalized tests and started operating two more plants, in Montes Claros (Minas Gerais) and Quixadá (Ceará), both of which have the same production capacity as the Candeias unit. The investment in the three plants will total US\$185. This opening plant represents Petrobras expansion of its participation in the biodiesel chain of production, currently consolidated in the area of fuel distribution.

**e) Acquisition of distribution interests in Chile**

On August 07, 2008, Petrobras signed an agreement to purchase ExxonMobil's interest in Esso Chile Petrolera and in other associated Chilean companies.

The agreement encompasses the retail, industrial and aviation fuels businesses (ExxonMobil's chemical, lubricants and special products businesses are not included in the agreement) and the transfer of control is scheduled to take place in the second quarter of 2009, together with the payment of approximately US\$400.



**18. Acquisitions** (Continued)

**f) Acquisition in Argentina**

On September 29, 2008, was concluded the acquisition by PESA in Argentina of 25.67% of the assets of the Sierra Chata blocks, already producing natural gas, and of 52.37% of the assets of Parva Negra, in the exploration stage, from ConocoPhillips for the total amount of US\$77, increased primarily of changes in working capital.

## 19. Subsequent Events

### a) Advance on Export Contracts - ACC

On October 23, 2008, Petrobras negotiated an Advance on Export Contracts - ACC with Banco do Brasil in the amount of US\$300. This advance was negotiated with the following conditions:

- Term: 179 days, with maturity on April 20, 2009;
- Interest rate: 6.30% p.a. With payment on April 20, 2009; and
- Exemption from IOF (Tax on Financial Operations) and income tax (IR) provided that the exports are made.

### b) Bank Credit Certificate

On October 31, 2008, Petrobras took out a loan (Bank Credit Certificate) from Caixa Econômica Federal (CEF) in the amount of US\$1,057. The objective of the loan is to reinforce the Company's working capital. This loan was negotiated with the following conditions:

- Term: 180 days, principal and charges with amortization in a single payment at the end of the term;
- Interest rate: 104% of the CDI Over;
- Levying of IOF; and
- A clause for extraordinary amortization and early liquidation. The Company may make extraordinary payments at any time to amortize the debt, in addition to making early liquidation.

### c) Sale option of the Pasadena refinery

In a provisional decision handed down on October 24, 2008, referring to the arbitration proceedings brought in the International Centre for Dispute Resolution between Petrobras America Inc. (PAI), a wholly-controlled subsidiary of Petrobras, and Astra Oil Trading NV (Astra), which shares the control of the Pasadena refinery (Pasadena Refining System Inc (PRSI), located in Texas, the exercise of the sale option of PRSI by Astra to PAI was considered valid. The decision also determined as valid the exercise of the sale option, by its affiliated companies, of the PRSI Trading Company LP, a company established to commercialize, sell and distribute crude oil and products refined by the refinery.

If the legal content of the provisional decision is upheld, PAI and its affiliates will hold 100% of the rights in both companies.

Although the price to be paid depends on a future procedural step, PAI and Astra are working together to immediately transfer all the operating, managerial and financial responsibilities to PAI.

## 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: November 28, 2008

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By:           /s/ Almir Guilherme Barbassa          

**Almir Guilherme Barbassa**  
**Chief Financial Officer and**  
**Investor Relations Officer**

## 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.

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