BRAZILIAN PETROLEUM CORP
Form 6-K
May 22, 2008

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 6-K

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

**For the month of May, 2008**

**Commission File Number 1-15106**

# PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

# Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

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

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

Yes _______ No___X____

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

Consolidated Financial Statements
March 31, 2008 and 2007
with Review Report of Independent
Registered Public Accounting Firm

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

CONSOLIDATED FINANCIAL STATEMENTS

Contents

Table of Contents

Review report of independent registered public accounting firm

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

We have reviewed the accompanying condensed consolidated balance sheet of Petróleo Brasileiro S.A. - Petrobras (and subsidiaries) as of March 31, 2008, the related condensed consolidated statements of income, cash flows and changes in shareholders equity for the three-month periods ended March 31, 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.

KPMG Auditores Independentes

Rio de Janeiro, Brazil
May 21, 2008

Table of Contents

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

CONSOLIDATED BALANCE SHEETS
March 31, 2008 and December 31, 2007
Expressed in Millions of United States Dollars

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| **Assets** | **(unaudited)** | **(Note 1)** |
| **Current assets** | | |
| Cash and cash equivalents (Note 5) | **6,201** | 6,987 |
| Marketable securities (Note 6) | **72** | 267 |
| Accounts receivable, net | **7,451** | 6,538 |
| Inventories (Note 7) | **10,344** | 9,231 |
| Deferred income taxes (Note 4) | **681** | 498 |
| Recoverable taxes (Note 8) | **3,848** | 3,488 |
| Advances to suppliers | **747** | 683 |
| Other current assets | **1,571** | 1,448 |
| | **30,915** | 29,140 |
| **Property, plant and equipment, net** | **89,450** | 84,523 |
| **Investments in non-consolidated companies and other investments** | **5,187** | 5,112 |
| **Other assets** | | |
| Accounts receivable, net | **1,360** | 1,467 |
| Advances to suppliers | **1,904** | 1,658 |
| Petroleum and alcohol account - receivable from Federal Government (Note 9) | **457** | 450 |
| Government securities | **685** | 670 |
| Marketable securities (Note 6) | **2,047** | 2,144 |
| Restricted deposits for legal proceedings and guarantees (Note 16 (a)) | **1,008** | 977 |
| Recoverable taxes (Note 8) | **2,477** | 2,477 |
| Deferred income taxes (Note 4) | **9** | 15 |
| Goodwill | **314** | 313 |
| Prepaid expenses | **250** | 232 |
| Inventories (Note 7) | **54** | 52 |
| Other assets | **491** | 485 |
| | **11,056** | 10,940 |

| | | |
|---|---|---|
| **Total assets** | **136,608** | 129,715 |

See the accompanying notes to the consolidated financial statements.

Table of Contents

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

CONSOLIDATED BALANCE SHEETS (Continued)
March 31, 2008 and December 31, 2007
Expressed in Millions of United States Dollars (except number of shares)

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| **Liabilities and shareholders equity** | **(unaudited)** | **(Note 1)** |
| **Current liabilities** | | |
| Trade accounts payable | **8,441** | 7,816 |
| Short-term debt (Note 10) | **1,928** | 1,458 |
| Current portion of long-term debt (Note 10) | **983** | 1,273 |
| Current portion of project financings (Note 12) | **873** | 1,692 |
| Current portion of capital lease obligations (Note 13) | **219** | 227 |
| Accrued interest | **307** | 239 |
| Income taxes payable | **1,064** | 560 |
| Taxes payable, other than income taxes | **3,994** | 3,950 |
| Deferred income taxes (Note 4) | **44** | 7 |
| Payroll and related charges | **1,400** | 1,549 |
| Dividends and interest on capital payable (Note 15) | **1,195** | 3,220 |
| Contingencies (Note 16 (a)) | **31** | 30 |
| Advances from customers | **265** | 276 |
| Employees postretirement benefits obligation - Pension (Note 14 (a)) | **336** | 364 |
| Employees postretirement benefits obligation - Health care (Note 14 (a)) | **260** | 259 |
| Other payables and accruals | **1,743** | 1,548 |
| | **23,083** | 24,468 |
| **Long-term liabilities** | | |
| Long-term debt (Note 10) | **13,951** | 12,148 |
| Project financings (Note 12) | **5,610** | 4,586 |
| Capital lease obligations (Note 13) | **489** | 511 |
| Employees postretirement benefits obligation - Pension (Note 14 (a)) | **4,801** | 4,678 |
| Employees postretirement benefits obligation - Health care (Note 14 (a)) | **6,883** | 6,639 |
| Deferred income taxes (Note 4) | **5,198** | 4,802 |
| Provision for abandonment | **3,547** | 3,462 |
| Contingencies (Note 16 (a)) | **425** | 352 |
| Other liabilities | **558** | 558 |
| | **41,462** | 37,736 |
| **Minority interest** | **2,083** | 2,332 |

| | | |
|---|---|---|
| **Shareholders equity** | | |
| Shares authorized and issued (Note 15) | | |
| Preferred share - 2008 and 2007 - 3,700,729,396 shares (*) | **8,620** | 8,620 |
| Common share - 2008 and 2007 - 5,073,347,344 shares (*) | **12,196** | 12,196 |
| Capital reserve - fiscal incentive | **888** | 877 |
| Retained earnings | | |
| Appropriated | **35,305** | 34,863 |
| Unappropriated | **10,165** | 6,618 |
| Accumulated other comprehensive income | | |
| Cumulative translation adjustments | **5,028** | 4,155 |
| Postretirement benefit reserves adjustments net of tax (US$805 and US$795 for March 31, 2008 and December 31, 2007, respectively) - pension cost (Note 14 (a)) | **(1,563)** | (1,544) |
| Postretirement benefit reserves adjustments net of tax (US$484 and US$478 for March 31, 2008 and December 31, 2007, respectively) - health care cost (Note 14 (a)) | **(939)** | (928) |
| Unrealized gains on available-for-sale securities, net of tax | **296** | 331 |
| Unrecognized loss on cash flow hedge, net of tax | **(16)** | (9) |
| | **69,980** | 65,179 |
| **Total liabilities and shareholders equity** | **136,608** | 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

Table of Contents

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

CONSOLIDATED STATEMENTS OF INCOME
March 31, 2008 and 2007
Expressed in Millions of United States Dollars
(except number of shares and earnings per share)
*(Unaudited)*

| | **Three-month periods ended March 31,** | |
|---|---|---|
| | **2008** | **2007** |
| **Sales of products and services** | **33,351** | 23,700 |
| Less: | | |
| Value-added and other taxes on sales and services | **(5,896)** | (4,427) |
| Contribution of intervention in the economic domain charge - CIDE | **(1,113)** | (873) |
| **Net operating revenues** | **26,342** | 18,400 |
| Cost of sales | **(15,380)** | (10,485) |
| Depreciation, depletion and amortization | **(1,450)** | (1,157) |
| Exploration, including exploratory dry holes | **(380)** | (302) |
| Selling, general and administrative expenses | **(1,706)** | (1,313) |
| Research and development expenses | **(237)** | (182) |
| Other operating expenses | **(603)** | (746) |
| **Total costs and expenses** | **(19,756)** | (14,185) |
| **Operating income** | **6,586** | 4,215 |
| Equity in results of non-consolidated companies | **81** | 29 |
| Financial income (Note 11) | **441** | 306 |
| Financial expenses (Note 11) | **(109)** | (106) |
| Monetary and exchange variation on monetary assets and liabilities, net (Note 11) | **(53)** | (337) |
| Employee benefit expense for non-active participants | **(208)** | (226) |
| Other taxes | **(109)** | (142) |
| Other expenses, net | **-** | 15 |
| | **43** | (461) |

| | | |
|---|---|---|
| **Income before income taxes and minority interest** | **6,629** | 3,754 |

See the accompanying notes to the consolidated financial statements.

Table of Contents

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

CONSOLIDATED STATEMENTS OF INCOME (Continued)
March 31, 2008 and 2007
Expressed in Millions of United States Dollars
(except number of shares and earnings per share)
*(Unaudited)*

| | Three-month periods ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| **Income taxes expense (Note 4)** | | |
| Current | **(1,713)** | (1,318) |
| Deferred | **(348)** | (110) |
| | **(2,061)** | (1,428) |
| Minority interest in results of consolidated subsidiaries | **(67)** | (167) |
| **Net income for the period** | **4,501** | 2,159 |
| **Net income applicable to each class of shares** | | |
| Common | **2,603** | 1,248 |
| Preferred | **1,898** | 911 |
| **Net income for the period** | **4,501** | 2,159 |
| **Basic and diluted earnings per: (Note 15)** | | |
| Common and Preferred share | **0.51** (*) | 0.25(*) |
| Common and Preferred ADS | **1.02** (*) | 0.50(*) |
| **Weighted average number of shares outstanding** | | |
| 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.

Table of Contents

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
March 31, 2008 and 2007
Expressed in Millions of United States Dollars
*(Unaudited)*

| | Three-month periods ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| **Cash flows from operating activities** | | |
| Net income for the period | **4,501** | 2,159 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation, depletion and amortization | **1,450** | 1,157 |
| Dry hole costs | **175** | 50 |
| Loss on property, plant and equipment | **88** | 91 |
| Minority interest in results of consolidated subsidiaries | **67** | 167 |
| Deferred income taxes | **348** | 110 |
| Accretion expense - asset retirement obligation | **47** | - |
| Foreign exchange (gain)/loss | **597** | 224 |
| Equity in the results of non-consolidated companies | **(76)** | (29) |
| **Decrease (increase) in operating assets** | | |
| Accounts receivable, net | **(654)** | (395) |
| Marketable securities | **(59)** | (82) |
| Inventories | **(693)** | 327 |
| Advances to suppliers | **(391)** | (112) |
| Recoverable taxes | **(290)** | (482) |
| Other | **160** | 280 |
| **Increase (decrease) in operating liabilities** | | |
| Trade accounts payable | **551** | (808) |
| Payroll and related charges | **(168)** | (53) |
| Taxes payable, other than income taxes | **(9)** | 110 |
| Income taxes payable | **505** | 379 |
| Employees postretirement benefits obligation - Pension | **19** | 119 |
| Employees postretirement benefits obligation - Health care | **157** | - |
| Other liabilities | **(198)** | 251 |
| **Net cash provided by operating activities** | **6,127** | 3,463 |

See the accompanying notes to the consolidated financial statements.

Table of Contents

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
March 31, 2008 and 2007
Expressed in Millions of United States Dollar
*(Unaudited)*

| | **Three-month periods ended March 31,** | |
|---|---|---|
| | **2008** | **2007** |
| **Cash flows from investing activities** | | |
| Additions to property, plant and equipment | **(6,097)** | (3,674) |
| Other | **27** | 129 |
| **Net cash used in investing activities** | **(6,070)** | (3,545) |
| **Cash flows from financing activities** | | |
| Short-term debt, net issuances and repayments | **402** | 158 |
| Proceeds from issuance and draw-down of long-term debt | **2,116** | 428 |
| Principal payments of long-term debt | **(849)** | (1,284) |
| Proceeds from project financings | **632** | 747 |
| Payments of project financings | **(513)** | (447) |
| Payment of capital lease obligations | **(44)** | (55) |
| Dividends paid to shareholders | **(2,642)** | (2,815) |
| Dividends paid to minority interests | **(10)** | (10) |
| **Net cash used in financing activities** | **(908)** | (3,278) |
| Increase (decrease) in cash and cash equivalents | **(851)** | (3,360) |
| Effect of exchange rate changes on cash and cash equivalents | **65** | 339 |
| Cash and cash equivalents at beginning of period | **6,987** | 12,688 |
| **Cash and cash equivalents at end of period** | **6,201** | 9,667 |
| **Supplemental cash flow information:** | | |
| **Cash paid during the period for** | | |
| Interest, net of amount capitalized | **261** | 323 |
| Income taxes | **683** | 874 |
| Withholding income tax on financial investments | **109** | 9 |

See the accompanying notes to the consolidated financial statements.

Table of Contents

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
March 31, 2008 and 2007
Expressed in Millions of United States Dollars
*(Unaudited)*

| | **Three-month periods ended March 31,** | |
|---|---|---|
| | **2008** | **2007** |
| **Preferred shares** | | |
| Balance at January 1, | **8,620** | 7,718 |
| **Balance at March 31,** | **8,620** | 7,718 |
| **Common shares** | | |
| Balance at January 1, | **12,196** | 10,959 |
| **Balance at March 31,** | **12,196** | 10,959 |
| **Capital reserve - fiscal incentive** | | |
| Balance at January 1, | **877** | 174 |
| Transfer from unappropriated retained earnings | **11** | 7 |
| **Balance at March 31,** | **888** | 181 |
| **Accumulated other comprehensive loss** | | |
| **Cumulative translation adjustments** | | |
| Balance at January 1, | **4,155** | (6,202) |
| Change in the period | **873** | 1,964 |
| **Balance at March 31,** | **5,028** | (4,238) |
| **Postretirement benefit reserves adjustments, net of tax - pension cost** | | |
| Balance at January 1, | **(1,544)** | (2,052) |
| Change in the period | **(29)** | (87) |
| Tax effect on the above | **10** | - |

| | | |
|---|---|---|
| **Balance at March 31,** | **(1,563)** | (2,139) |
| | | |
| **Postretirement benefit reserves adjustments, net of tax - health care cost** | | |
| Balance at January 1, | **(928)** | (987) |
| Change in the period | **(17)** | (42) |
| Tax effect on the above | **6** | - |
| | | |
| **Balance at March 31,** | **(939)** | (1,029) |

See the accompanying notes to the consolidated financial statements.

Table of Contents

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Continued)
March 31, 2008 and 2007
Expressed in Millions of United States Dollars
*(Unaudited)*

| | **Three-month periods ended March 31,** | |
|---|---|---|
| | **2008** | **2007** |
| **Unrecognized gains on available-for-sale securities, net of tax** | | |
| Balance at January 1 | **331** | 446 |
| Unrealized gains (losses) | **(53)** | 39 |
| Tax effect on above | **18** | (13) |
| **Balance at March 31** | **296** | 472 |
| **Unrecognized loss on cash flow hedge, net of tax** | | |
| Balance at January 1 | **(9)** | (2) |
| Change in the period | **(7)** | - |
| **Balance at March 31** | **(16)** | (2) |
| **Appropriated retained earnings** | | |
| Legal reserve | | |
| Balance at January 1 | **4,297** | 3,045 |
| Transfer from unappropriated retained earnings, net of gain or loss on translation | **55** | 130 |
| **Balance at March 31** | **4,352** | 3,175 |

See the accompanying notes to the consolidated financial statements.

Table of Contents

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Continued)
March 31, 2008 and 2007
Expressed in Millions of United States Dollars
*(Unaudited)*

| | Three-month periods ended March 31, | |
|---|---|---|
| | **2008** | **2007** |
| **Undistributed earnings reserve** | | |
| Balance at January 1 | **30,280** | 20,074 |
| Transfer from unappropriated retained earnings, net of gain or loss on translation | **384** | 858 |
| **Balance at March 31** | **30,664** | 20,932 |
| **Statutory reserve** | | |
| Balance at January 1 | **286** | 585 |
| Transfer from unappropriated retained earnings, net of gain or loss on translation | **3** | 25 |
| **Balance at March 31** | **289** | 610 |
| **Total appropriated retained earnings** | **35,305** | 24,717 |
| **Unappropriated retained earnings** | | |
| Balance at January 1 | **6,618** | 10,541 |
| Net income for the period | **4,501** | 2,159 |
| Dividends paid | **(501)** | - |
| Appropriation (to) fiscal incentive reserves | **(11)** | (7) |
| Appropriation (to) reserves | **(442)** | (1,013) |
| **Balance at March 31** | **10,165** | 11,680 |
| **Total shareholders' equity** | **69,980** | 48,319 |

| | | |
|---|---|---|
| **Comprehensive income is comprised as follows:** | | |
| Net income for the period | **4,501** | 2,159 |
| Cumulative translation adjustments | **873** | 1,964 |
| Postretirement benefit reserves adjustments, net of tax - pension cost | **(19)** | (87) |
| Postretirement benefit reserves adjustments, net of tax - health care cost | **(11)** | (42) |
| Unrealized gain on available-for-sale securities | **(35)** | 26 |
| Unrecognized loss on cash flow hedge | **(16)** | (2) |
| **Total comprehensive income** | **5,293** | 4,018 |

See the accompanying notes to the consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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 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 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 March 31, 2008 and for the three-month periods ended March 31, 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.

Table of Contents

**2. Recently Adopted Accounting Standards**

**FASB Statement Nº 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.

**2. Recently Adopted Accounting Standards** (Continued)

**FASB Statement Nº 157, Fair Value Measurements (  SFAS 157  )** (Continued)

In February 2008, the FASB issued FASB Staff Position (FSP) FSP 157-2, "Effective Date of FASB Statement Nº 157", which became effective for the Company on January 1, 2008. This FSP delays the effective date of FASB Statement 157, for nonfinancial assets and nonfinancial 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 requires 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 our 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.

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.

Table of Contents

**2. Recently Adopted Accounting Standards** (Continued)

**FASB Statement Nº 157, Fair Value Measurements ( SFAS 157 )** (Continued)

The fair value hierarchy for our financial assets and liabilities accounted for at fair value on a recurring basis at March 31, 2008, was:

| | Millions of Dollars | | | |
|---|---|---|---|---|
| | **Level 1** | **Level** | **Level** | **Total** |
| **Assets** | | | | |
| Marketable securities | 2,028 | - | - | 2,028 |
| Government securities | 685 | - | - | 685 |
| Commodity derivatives | 1 | - | - | 1 |
| Foreign exchange derivatives | - | 38 | - | 38 |
| Total assets | 2,714 | 38 | - | 2,752 |
| **Liabilities** | | | | |
| Commodity derivatives | 11 | - | - | 11 |
| Total liabilities | 11 | - | - | 11 |

**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.

Table of Contents

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

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 our foreign exchange derivative contracts.

| **Foreign Currency** | | | **Fair value** | |
|---|---|---|---|---|
| **Maturing in 2008** | | **Notional Amount** | **March 31, 2008** | **December 31, 2007** |
| Forwards | | | | |
| Sell USD/Pay BRL | | 129 | - | 2 |
| Average Contractual Exchange rate | 1.8 | - | - | - |
| Total | | 129 | - | 2 |

Table of Contents

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

**a) Foreign currency risk management** (Continued)

**Cash flow hedge**

In September, 2006, 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** | |
|---|---|---|---|---|
| **Maturing in 2016** | | **Notional Amount (Million Yen)** | **March 31, 2008** | **December 31, 2007** |
| Fixed to fixed | | 35,000 | | |
| Average Pay Rate (USD) | 5.69% | | 37 | 3 |
| Average Receive Rate (JPY) | 2.15% | | | |
| Total | | 35,000 | 37 | 3 |

Table of Contents

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

**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 undertaking 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.

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 three-month periods ended March 31, 2008 and 2007, the Company entered into commodity derivative transactions for 60.1% and 41.2%, respectively, of its total import and export trade volumes.

Table of Contents

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

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

The open positions in the futures market, compared to spot market value, resulted in recognized gains of US$3 and losses of US$22 during the three-month periods ended March 31, 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 three-month periods ended March 31, 2008 and 2007.

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

Table of Contents

**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.

| | Three-month periods ended March, 31 | |
|---|---|---|
| | **2008** | **2007** |
| Income before income taxes and minority interest | | |
| Brazil | **6,475** | 3,822 |
| International | **154** | (68) |
| | **6,629** | 3,754 |
| Tax expense at statutory rates - (34%) | **(2,254)** | (1,276) |
| Adjustments to derive effective tax rate: | | |
| Non-deductible postretirement and health-benefits | **(47)** | (72) |
| Tax incentive **(1)** | **162** | 6 |
| Other | **78** | (86) |
| Income tax expense per consolidated statement of income | **(2,061)** | (1,428) |

**(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, and Petrobras recognized a tax benefit in the amount of US$162 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. Up to March 31, 2008 this incentive amounted to US$669.

Table of Contents

**4. Income Taxes** (Continued)

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

| | Three-month periods ended March, 31 | |
|---|---|---|
| | **2008** | **2007** |
| Income tax expense per consolidated statement of income: | | |
| Brazil | | |
| Current | **(1,634)** | (1,277) |
| Deferred | **(376)** | (115) |
| | **(2,010)** | (1,392) |
| International | | |
| Current | **(79)** | (41) |
| Deferred | **28** | 5 |
| | **(51)** | (36) |
| | **(2,061)** | (1,428) |

Table of Contents

**4. Income Taxes** (Continued)

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

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| **Current assets** | **680** | 498 |
| **Current liabilities** | **(43)** | (7) |
| **Net current deferred tax assets** | **637** | 491 |

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| **Non-current assets** | | |
| Employees postretirement benefits, net of Accumulated postretirement benefit reserves adjustments | **2,126** | 2,065 |
| Tax loss carryforwards | **457** | 335 |
| Other temporary differences, not significant individually | **560** | 600 |
| Valuation allowance | **(321)** | (373) |
| | **2,822** | 2,627 |
| **Non-current liabilities** | | |
| Capitalized exploration and development costs | **(6,074)** | (5,810) |
| Property, plant and equipment | **(1,428)** | (1,494) |
| Other temporary differences, not significant individually | **(509)** | (110) |
| | **(8,011)** | (7,414) |
| Net non-current deferred tax liabilities | **(5,189)** | (4,787) |
| Non-current deferred tax assets | **9** | 15 |
| Non-current deferred tax liabilities | **(5,198)** | (4,802) |
| Net deferred tax liabilities | **(4,552)** | (4,296) |

23

**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 three-month period ended March 31, 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**

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Cash | **940** | 1,241 |
| Investments - Brazilian reais **(1)** | **2,138** | 2,279 |
| Investments - U.S. dollars **(2)** | **3,123** | 3,467 |
| | **6,201** | 6,987 |

**(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**

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Marketable securities classification: | | |
| Available-for-sale | **1,950** | 2,036 |
| Trading | **72** | 127 |
| Held-to-maturity | **97** | 248 |
| | **2,119** | 2,411 |
| Less: Current portion of marketable securities | **(72)** | (267) |
| Long-term portion of marketable securities | **2,047** | 2,144 |

24

**6. Marketable Securities** (Continued)

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 Other assets , as they are not expected to be sold or liquidated within the next twelve months.

As of March 31, 2008 Petrobras had a balance of US$1,950 linked to B Series National Treasury Notes, which are accounted for as available-for-sale securities in accordance with SFAS 115. The B Series National Treasury Notes may be used in the future to guarantee future long term agreements entered into 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 rates for buy transactions and range from 6.12% to 7.20% p.a.

Bank and corporate securities have maturity dates until 2014 and an interest yield of 8.50% p.a.

The B certificates, which were received by Brasoil on account of the sale of platforms in 2000 and 2001, have semi-annual maturity dates until 2011 and yield interest equivalent to the Libor rate plus 2.5% p.a. to 4.25% p.a.

Table of Contents

**7. Inventories**

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Products | | |
| Oil products | **3,575** | 2,493 |
| Fuel alcohol | **185** | 181 |
| | **3,760** | 2,674 |
| Raw materials, mainly crude oil | **4,661** | 4,818 |
| Materials and supplies | **1,730** | 1,681 |
| Other | **247** | 110 |
| | **10,398** | 9,283 |
| Current inventories | **10,344** | 9,231 |
| Long-term inventories | **54** | 52 |

Table of Contents

**8. Recoverable Taxes**

Recoverable taxes consisted of the following:

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Local: | | |
| Domestic value-added tax (ICMS) **(1)** | **2,341** | 2,173 |
| Income tax and social contribution | **469** | 527 |
| PASEP/COFINS **(2)** | **2,982** | 2,772 |
| Foreign value-added tax (IVA) | **238** | 243 |
| Other recoverable taxes | **295** | 250 |
| | **6,325** | 5,965 |
| Less: Long-term recoverable taxes | **(2,477)** | (2,477) |
| Current recoverable taxes | **3,848** | 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 recoverables will be offset against future income tax payables.

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

Table of Contents

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

The following summarizes the changes in the Petroleum and Alcohol account for the three-month period ended March 31, 2008:

| | Three-month period ended March 31, 2008 |
|---|---|
| Opening balance | **450** |
| Financial income | **1** |
| Translation gain | **6** |
| Ending balance | **457** |

The Petroleum and Alcohol account arose in periods previous to December 31, 2002 as a result of regulation in the fuels market. The Federal Government has certified the balance and placed a portion of the amount (US$53) in a restricted use account.

In order to conclude the settlement of accounts with the Federal Goverment, pursuant to Provisional Measure nº 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.

Table of Contents

**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:

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Imports - oil and equipment | **-** | 5 |
| Working capital | **1,928** | 1,453 |
| | **1,928** | 1,458 |

The weighted average annual interest rates on outstanding short-term borrowings were 4.77% and 4.71% at March 31, 2008 and December 31, 2007, respectively.

**b) Long-term debt**

Composition

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Foreign currency | | |
| Notes | **5,240** | 4,140 |
| Financial institutions | **3,738** | 4,256 |
| Sale of future receivables | **150** | 615 |
| Suppliers credits | **1,968** | 1,325 |
| Assets related to export program to be offset against sales of future receivables | **(150)** | (150) |
| | **10,946** | 10,186 |
| Local currency | | |
| National Economic and Social Development Bank - BNDES (state-owned company) | **987** | 607 |
| Debentures: | | |
| BNDES (state-owned company) | **267** | 709 |
| Other banks | **1,472** | 1,419 |
| Other | **1,262** | 500 |
| | **3,988** | 3,235 |

| | | |
|---|---|---|
| Total | **14,934** | 13,421 |
| Current portion of long-term debt | **(983)** | (1,273) |
| | **13,951** | 12,148 |

Table of Contents

**10. Financings** (Continued)

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

Composition of foreign currency denominated debt by currency

| | **March 31, 2008** | **December 31, 2007** |
|---|---|---|
| Currency | | |
| United States dollars | **10,199** | 9,439 |
| Japanese Yen | **651** | 598 |
| Euro | **96** | 85 |
| Other | **-** | 64 |
| | **10,946** | 10,186 |

Maturities of the principal of long-term debt

The long-term portion at March 31, 2008 becomes due in the following years:

| | |
|---|---|
| 2009 | **1,067** |
| 2010 | **2,574** |
| 2011 | **1,707** |
| 2012 | **1,860** |
| 2013 | **1,176** |
| 2014 and thereafter | **5,567** |
| | **13,951** |

Table of Contents

**10. Financings** (Continued)

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

Composition of long-term debt by annual interest rate

Interest rates on long-term debt were as follows:

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Foreign currency | | |
| 6% or less | **5,356** | 4,280 |
| Over 6% to 8% | **2,976** | 3,285 |
| Over 8% to 10% | **2,488** | 2,410 |
| Over 10% to 12% | **106** | 125 |
| Over 12% to 15% | **20** | 86 |
| | **10,946** | 10,186 |
| Local currency | | |
| 6% or less | **47** | 469 |
| Over 6% to 8% | **378** | - |
| Over 8% to 10% | **963** | 995 |
| Over 10% to 12% | **148** | 49 |
| Over 12% to 15% | **2,452** | 1,722 |
| | **3,988** | 3,235 |
| | **14,934** | 13,421 |

Table of Contents

**10. Financings** (Continued)

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

**Global Notes - PifCo**

The subsidiary Petrobras International Finance Company - PifCo made a note exchange offer, with the transaction being settled on February 07, 2007. PifCo consequently received and accepted offers to the amount of US$399 (face value). The old securities received under the exchange were cancelled on the same date and as a result PifCo issued new securities on the transaction settlement date maturing in 2016 with a coupon of 6.125% p.a. to the amount of US$399. The securities constitute a single, fungible issuance with the US$500 issued on October 06, 2006, amounting to US$899 in securities issued with maturity in 2016.

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.

Table of Contents

**10. Financings** (Continued)

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

**Notes - Pesa**

On May 07, 2007, Petrobras Energia S.A. (Pesa), a company indirectly controlled by Petrobras, issued notes amounting to US$300 with a term of 10 years and 5.875% interest p.a. Interest will be paid semiannually and the principal will be paid in a single installment at maturity. The issuance was made both in the Argentinean and in the International market.

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

On September 12, 2007 the subsidiary Petrobras Netherlands BV (PNBV) signed a loan agreement with Banco Bilbao Vizcaya Argentaria (BBVA) for the amount of US$200, with interest of 5.94% p.a. and a term of four years.

In addition, PNBV contracted a line of credit with Banco Santander Overseas Bank, Inc. - SANTANDER for up to US$300. The term is for one year and may be extended for up to two years in the full amount, and partially, for the full term of six years. The rate of interest charged is 5.30% p.a..

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.

These funds were used in full settlement of the intercompany loans with Braspetro Oil Services Company (Brasoil), in the amount of US$185.

**10. Financings** (Continued)

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

**Platform P-56 construction project**

On October 30, 2007, Petrobras signed an agreement with FSTP Consortium (Keppel Fels and Technip) for the construction of the P-56 semi-submersible platform to allow production to be anticipated at Module 3 of the Marlim Sul field, worth approximately US$1,200, including the platform s engineering, supply, construction and assembly (hull and process plant) services. The construction work will involve two other agreements, that were signed on October 31, 2007, one being for the provision and supply of the gas compression modules, worth US$141, with Nuovo Pignone S.p.A., and the other for the provision, assembly, operation, and maintenance of the power modules, worth US$140, with Rolls-Royce Energy Systems Inc. and UTC Engenharia S.A.

The platform is dimensioned to operate for 25 years.

This production unit is expected to start its commercial operations on the second semester of 2011 and to contribute to Petrobras reaching the oil and gas production goals specified in the Company s Strategic Plan.

**Credit facility agreement to finance exports**

On October 03, 2007, Petrobras contracted a credit facility of US$282 with the Banco do Brasil. The transaction was ensured by an Export Credit Note (NCE), 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.

This transaction marks the return of Petrobras to credit facility contracting in the local market and was negotiated with the following terms:

**10. Financings** (Continued)

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

- Term: 2 years, with settlement of the principal and interest at the end of the term;
- Interest rate: 96.2% of the CDI;
- Clause providing for early repayment as from 180 days of the withdrawal with no penalties;
- Exemption of IOF tax; and
- Waiver of guarantees.

On March 17 and 26, 2008, Petrobras contracted a credit facility of US$435 and US$289 with the Banco do Brasil. The transaction was ensured by an Export Credit Note - NCE, 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;
- 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.

Table of Contents

**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 three-month periods ended March 31, 2008 and 2007 are shown as follows:

| | **Three-month periods ended March 31,** | |
|---|---|---|
| | **2008** | **2007** |
| Financial expenses | | |
| Loans and financings | **(257)** | (279) |
| Capitalized interest | **390** | 287 |
| Project financings | **(158)** | (67) |
| Leasing | **(12)** | (22) |
| Losses on derivative instruments | **(6)** | (12) |
| Repurchased securities losses | **(9)** | - |
| Other | **(57)** | (13) |
| | **(109)** | (106) |
| Financial income | | |
| Investments | **313** | 133 |
| (Loss)/ Gain on hedge transactions | **58** | 38 |
| Clients | **42** | 28 |
| Government securities | **13** | 11 |
| Advances to suppliers | **6** | 6 |
| Other | **9** | 90 |