

PETROBRAS - PETROLEO BRASILEIRO SA  
Form 6-K  
March 30, 2009

---

**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 March, 2009**

**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  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

---

**PETROBRAS ANNOUNCES FISCAL YEAR OF 2008 RESULTS**

**(Rio de Janeiro March 27, 2009) PETRÓLEO BRASILEIRO S.A. PETROBRAS today announced its consolidated results stated in U.S. dollars, prepared in accordance with U.S. GAAP.**

Petrobras had consolidated net income of U.S.\$18,879 million for the year ended December 31, 2008, 43.7% higher than the year ended December 31, 2007, primarily due to increased average crude oil and oil product sales prices, a 5.4% increase in domestic oil and gas production, higher sales volumes and foreign exchange gain on net monetary assets denominated in U.S. dollars.

Excluding the impact of the 27.9% depreciation of the Real, in the fourth quarter of 2008 consolidated net income decreased 1.5% compared to the fourth quarter of 2007, due to the impact of the international economic crisis on crude oil prices, which led to lower international and domestic sales prices and higher sales costs. These effects were offset by higher automotive gasoline and diesel prices in May, 2008 and a 37% increase in export volumes.

Additionally, Petrobras made a U.S.\$3,003 million provision for interest on shareholders' equity in the fourth quarter of 2008, generating a U.S.\$995 million tax benefit.

Adjusted EBITDA in 2008 was 22.3% higher than adjusted EBITDA in 2007, and adjusted EBITDA in the last quarter of 2008 was 56.2% lower than adjusted EBITDA in the third quarter of 2008. Operating results in the fourth quarter of 2008 were particularly affected by the reduction in average sales prices mentioned above. See page 5 for a reconciliation of adjusted EBITDA to net income.

Export volumes reached a record of 676 mbb/d in 2008, a 9.4% increase over 2007.

Total domestic and international oil and gas production increased 4.3% in 2008 compared to 2007. Production increased by 6.2% in the fourth quarter of 2008 compared to the fourth quarter of 2007, and remained relatively constant compared to the third quarter of 2008.

Production from new platforms more than offset the natural decline from mature fields.

Our proved reserves in Brazil and abroad, which are estimated by our management in accordance with Rule 4-10 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC), amounted to 11.1 billion and 11.6 billion barrels of oil equivalent for 2008 and 2007, respectively. As of December 31, 2008, our proved reserves-to-production ratio was 13.5 years.

Petrobras capital expenditures reached U.S.\$29,874 million in 2008, a 42.4% increase compared to 2007. Our capital expenditures reached U.S.\$9,817 million in the fourth quarter of 2008, 40.8% higher than the fourth quarter of 2007, and 24.4% higher than the third quarter of 2008. Most of the funds were used to boost oil and gas production in Brazil.

**COMMENTS FROM THE CEO, MR. JOSÉ SERGIO GABRIELLI DE AZEVEDO**

Dear shareholders and investors,

We are pleased to announce the results for the fiscal year and fourth quarter of 2008.

The year's earnings reflect Petrobras' robust resources and the integration of our businesses. Our strengths became fully evident in the second half of the year, as the international financial crisis spread to the real economy. This period was characterized by a sharp global economic slowdown and a dramatic readjustment in commodity prices, and oil prices declined from a high of U.S.\$147 per barrel as of July 3, 2008 to a low of U.S.\$37 per barrel as of December 24, 2008.

We modified the way we manage our businesses in light of this new economic scenario. We are using our resources more efficiently, optimizing costs and redesigning our operations in order to reduce expenditures, preserve our ability to make capital investments, create jobs and add shareholder value.

In light of reduced cash flows from declining commodity prices, we allocated more resources to increase production and we are prioritizing those investments that combine early generation of cash flow with greater economic return. This shift is evident in our Business Plan for 2009-2013.

In 2008, capital expenditures reached U.S.\$29,874 million, the largest in Petrobras' history and 42.4% higher than the previous year. These investments allowed us to increase our oil and natural gas production by approximately 4.3% in 2008, reaching 2,400 mbbbl/d and guaranteeing self-sufficiency in volume terms for Brazil, our leading market. Our record capital expenditures reflect the strength of our business portfolio and the outstanding growth potential offered by the Brazilian market.

From the beginning of 2008 to the present date, we have installed more than 475 mbbbl/d of additional oil production capacity, with the start-up of the P-51, FPSO Cidade de Rio das Ostras, P-53 and FPSO Cidade de Niterói platforms. This additional capacity highlights our ability to manage major projects and reaffirms our ability to overcome considerable challenges still before us, such as the development of the pre-salt area. Together with our partners, we expect to add at least 230 mbbbl/d of additional capacity by the end of 2009.

We had a record annual net income of U.S.\$18,879 million, 43.7% higher than 2007, as a result of increased production volumes, and higher sales prices in the domestic and international markets. The absence of non-recurring expenses from the renegotiation of our pension plan, which had affected 2007 results, and the foreign exchange rate gain on net assets denominated in dollars, also contributed to improved earnings.

We will propose a dividend distribution amounting to U.S.\$4,242 million at the Ordinary General Shareholder Meeting to be held on April 8, 2009.

It is important to emphasize our focus on reduced operating costs and capital discipline. We are reducing our costs, while monitoring trends in the supply of goods, services and human resources in the hydrocarbons industry. For example, we cancelled bidding for the construction of the P-61 and P-63 platforms because the cost of the proposals received was excessive when measured against prevailing market conditions.

There were many successes in the fourth quarter of 2008. I would like to highlight some of our accomplishments in both the operating and corporate fields.

On December 31, 2008, our proved reserves of oil, condensate and natural gas in Brazil and overseas were 11.1 billion barrels of oil equivalent according to SEC criteria. We are confident we can continue to replace reserves and maintain our reserve-to-production ratio. For every barrel of oil equivalent produced in 2008, 1.8 barrels were appropriated to

proved reserves. The reserve-to-production ratio was 13.5 years.

Average oil, LNG and natural gas production in Brazil grew by 5.4% compared to the prior year, reaching 2,176 mboe/d. In the fourth quarter of 2008, Petrobras recorded an average production of 2,195 mboe/d.

We recently announced our business plan for 2009-2013, which reflects recent changes in our industry. We have maintained significant and realistic growth targets and incorporated resources for exploration and development of the pre-salt layer. The plan envisages capital expenditures of US\$174.4 billion through 2013.

At the end of 2008, we obtained a number of new domestic loans at a time of extreme market volatility. We continue to benefit from the support of major financial institutions that appreciate Petrobras' financial strength and commitment to a sound capital structure. The National Economic and Social Development Bank - BNDES is committed to lend Petrobras U.S.\$12.5 billion in 2009.

In light of the adverse economic scenario of recent months, our fiscal year 2008 results are a testament to Petrobras' entrepreneurial spirit and capacity to transform challenges into concrete achievements. Our 2008 results point toward continued growth. We are surpassing expectations as we continue our quest to become one of the world's five largest integrated energy companies.

## Financial Highlights

			Year ended December 31,		
3Q-2008	4Q-2008	4Q-2007	<u>Income statement data</u> <u>(in millions of U.S. dollars, except for per share and per ADS data)</u>	2008	2007
44,199	28,039	32,442	Sales of products and services	146,529	112,425
36,083	22,337	25,324	Net operating revenues	118,257	87,735
1,536	1,032	(212)	Financial income (expense), net	2,377	(582)
5,997	2,166	2,812	Net income for the period	18,879	13,138
0.68	0.25	0.32	Basic and diluted earnings per common and preferred share <sup>(4)</sup>	2.15	1.50
1.36	0.50	0.64	Basic and diluted earnings per ADS <sup>(4)</sup>	4.30	3.00
			<u>Other data</u>		
36.3	33.9	41.3	Gross margin (%) <sup>(1)</sup>	38.4	43.3
16.6	9.7	11.1	Net margin (%) <sup>(2)</sup>	16.0	15.0
47	51	50	Debt to equity ratio (%) <sup>(3)</sup>	51	50
			<u>Financial and Economic Indicators</u>		
115.00	55.00	89.00	Brent crude (U.S.\$/bbl)	97.00	73.00
			Average Commercial Selling Rate for U.S. dollar (R\$/U.S.\$)	1.8362	1.9471
1.6672	2.2802	1.7830	Period-end Commercial Selling Rate for U.S. dollar (R\$/U.S.\$)	2.3370	1.7713

(1) Gross margin equals net operating revenues less cost of sales divided by net operating revenues.

(2) Net margin equals net income divided by net operating revenues.

(3) Debt to equity ratio equals total liabilities divided by the sum of total liabilities and total shareholders' equity.

(4) For purposes of comparison all share, ADS, per share and per ADS information in this report have been adjusted to reflect the result of the stock split that became effective on April 25, 2008. See Note 17 of our consolidated financial statements for the year ended December 31, 2008.

**Reconciliation between Adjusted EBITDA and Net Income**  
(in millions of U.S. dollars)

			Year ended December 31,		
3Q-2008	4Q-2008	4Q-2007		2008	2007
5,997	2,166	2,812	Net income for the period	18,879	13,138
1,662	1,285	1,728	Depreciation, depletion and amortization	5,928	5,544
-	519	271	Impairment	519	271
(175)	(508)	(715)	Financial income	(1,641)	(1,550)
170	224	102	Financial expense	848	677
(1,531)	(748)	825	Monetary and exchange variation on monetary		

Edgar Filing: PETROBRAS - PETROLEO BRASILEIRO SA - Form 6-K

			assets and liabilities, net	(1,584)	1,455
2,838	1,656	1,697	Total income tax expense	9,259	5,888
			Equity in results of non-consolidated		
38	317	(63)	companies	21	(235)
86	233	152	Other expenses, net	225	143
			Minority interest in results of		
(49)	(1,184)	28	consolidated subsidiaries	(1,146)	273
<b>9,036</b>	<b>3,960</b>	<b>6,837</b>	<b>Adjusted EBITDA</b>	<b>31,308</b>	<b>25,604</b>

Our adjusted EBITDA is not a U.S. GAAP measure and it is possible that it may not be comparable with indicators with the same name reported by other companies. Adjusted EBITDA should not be considered as a substitute for operational profit or as a better measure of liquidity than operational cash flow, both of which are calculated in accordance with U.S. GAAP. We provide our adjusted EBITDA to give additional information about our capacity to pay debt, carry out investments and cover working capital needs.

The comparison between our results of operations for 2008 and for 2007 has been affected by the 5.7% increase in the value of the Real against the U.S. dollar for 2008 compared to 2007.

## OPERATING HIGHLIGHTS

3Q-2008	4Q-2008	4Q-2007	Year ended December 31,		
			2008	2007	
<b>Average daily crude oil and gas production</b>					
2,007	2,000	1,907	Crude oil and NGLs (m <b>bb</b> l/d) <sup>(1)</sup>	1,980	1,920
1,883	1,865	1,782	Brazil	1,855	1,792
110	121	111	International	111	112
14	14	14	Non-consolidated international production <sup>(2)</sup>	14	16
2,580	2,568	2,268	Natural gas (m <b>mc</b> f/d) <sup>(3)</sup>	2,520	2,286
1,980	1,980	1,662	Brazil	1,926	1,638
600	588	606	International	594	648
<b>Crude oil and NGL average sales price (U.S. dollars per bbl)</b>					
100.58	47.95	76.75	Brazil <sup>(4)</sup>	81.55	61.57
68.74	47.37	59.42	International	63.16	50.46
<b>Natural gas average sales price (U.S. dollars per mcf)</b>					
8.50	5.79	5.78	Brazil <sup>(5)</sup>	6.69	5.86
2.61	2.97	2.91	International	2.84	2.68
<b>Lifting costs (U.S. dollars per boe)</b>					
10.21	8.24	8.60	Crude oil and natural gas Brazil	9.26	7.70
30.27	18.11	23.16	Excluding production taxes <sup>(6)</sup>	26.08	19.39
5.12	5.36	4.41	Including production taxes <sup>(6)</sup>	4.73	4.17
<b>Refining costs (U.S. dollars per boe)</b>					
3.46	2.33	3.60	Crude oil and natural gas Brazil	3.24	2.85
6.40 <sup>(7)</sup>	3.70	3.04	International	5.34	2.96
<b>Refining and marketing operations (m<b>bb</b>l/d)</b>					
2,223	2,223	2,167	Primary Processed Installed Capacity	2,223	2,167
1,942	1,942	1,986	Brazil <sup>(8)</sup>	1,942	1,986
1,821	1,708	1,795	Installed capacity	1,787	1,795
93%	87%	90%	Output of oil products	91%	90%
281	281	181 <sup>(9)</sup>	Utilization International	281	181
185 <sup>(7)</sup>	209	238 <sup>(9)</sup>	Installed capacity	183	251
63% <sup>(7)</sup>	64%	93% <sup>(9)</sup>	Output of oil products	61%	85%
76	78	78	Utilization	78	78

			<b>Domestic crude oil as % of total feedstock processed</b>		
			<b>Imports (m bbl/d)</b>		
423	276	400	Crude oil imports	373	390
270	123	136	Oil product imports	197	148
			<b>Exports (m bbl/d)</b>		
457	559	322	Crude oil exports <sup>(10)(11)</sup>	439	353
200	231	253	Oil product exports <sup>(11)</sup>	234	262
			<b>Net exports (imports) of crude oil and oil products</b>		
36	(391)	(39)		(103)	(77)
			<b>Other Imports and Exports (m bbl/d)</b>		
			Imports of LPG and other products		
213	182	199		197	171
3	1	2	Exports of other products <sup>(11)</sup>	3	3
			<b>Sales Volume (m bbl/d)</b>		
1,790	1,783	1,776	Oil products	1,748	1,725
97	37	81	Ethanol and other products	86	62
328	302	272	Natural gas	312	248
2,215	2,122	2,129	Total domestic market	2,146	2,035
660	791	577	Exports	676	618
			International sales and other operations		
580	440	480		552	586
1,240	1,231	1,057	Total international market <sup>(10)</sup>	1,228	1,204
3,455	3,353	3,186	Total	3,374	3,239

(1) Includes production from shale oil reserves.

(2) Non-consolidated companies in Venezuela.

(3) Does not include LNG. Includes reinjected gas.

(4) Crude oil and NGL average sales price in Brazil includes intra-company transfers and sales to third parties.

(5) The increase in the first quarter of 2008 was due to a new pricing methodology that reflects international natural gas prices.

(6) Production taxes include royalties, special government participation and rental of areas.

(7) Reflects Okinawa Refinery data retroactive to April 2008.

(8) As registered by the National Petroleum Agency (ANP).

(9) Reflects consolidated Bolivian refineries data through June 25, 2007.

(10) Includes third-party sales by our international subsidiary, Petrobras International Finance Company (PifCo).

(11) Includes exports in progress.

## **ANALYSIS OF OPERATING HIGHLIGHTS**

### **Exploration and Production**

#### **Crude Oil and NGL**

In 2008, the natural decline in production from mature fields was offset by increased production from FPSO-Cidade do Rio de Janeiro in the Espadarte field and production from FPSO-Cidade de Vitória in the Golfinho field and platforms P-52 and P-54 in the Roncador field, which started to operate in the fourth quarter of 2007.

International consolidated crude oil production decreased in 2008 due to reduced reservoir pressure in the United States and lower output from mature fields in Argentina, Angola and Colombia. This decline was partially offset by the start-up of production in Nigeria in July 29, 2008.

#### **Natural Gas**

Domestic natural gas production increased 17.6% due to increased production from new platforms.

International gas production decreased 8.3% due to reduced reservoir pressure in U.S. wells.

### **Lifting Costs**

Excluding the impact of the appreciation of the Real and production taxes (consisting of royalties, special government participation and rental of areas), our lifting costs in Brazil increased 16.0% to U.S.\$9.26 per barrel of oil equivalent for 2008 compared to U.S.\$7.70 per barrel of oil equivalent for 2007. This increase was attributable to higher interventions in wells and work stoppages on certain production units, salary adjustments related to collective bargaining agreements, an increased workforce and higher initial unit cost for new production systems, which will gradually decrease as production increases.

Our production taxes in Brazil on a per barrel basis increased 43.9% to U.S.\$16.82 per barrel in 2008 compared to U.S.\$11.69 in 2007. This increase is attributable to a 35.0% rise in the average reference price used to calculate production taxes for our domestic production and higher taxes on the Roncador and Espadarte fields.

The upturn in our international lifting costs was attributable to higher costs for outsourced services, salary increases in Argentina and maintenance and security service costs in Colombia. These increases were partially offset by reduced transportation services costs in the United States.

## **Refining**

Our refinery output in Brazil decreased due to increased scheduled stoppages in production units.

Our international refinery output decreased due to a scheduled repair stoppage at a U.S. catalytic cracking plant, scheduled stoppages in Argentina and U.S. refineries and the effects of Hurricanes Gustav and Ike in September 2008. These declines were partially offset by the start-up of production from the Okinawa Refinery in Japan.

## **Refining Costs**

Excluding the impact of the appreciation of the Real, our refining costs in Brazil increased 8.0% in 2008 due to higher personnel expenses, increased electricity costs and increased scheduled stoppages.

International refining costs increased due to higher costs at the Pasadena refinery in the United States caused by scheduled stoppages, technical problems at the U.S. catalytic cracking unit and reduced volumes of processed crude oil in 2008.

## **Sales Volume**

Our domestic sales volume increased 5.5% to 2,146 mbbbl/d for 2008 compared to 2,035 mbbbl/d for 2007, due to increased sales of diesel, gasoline, aviation fuel and natural gas. The increase in diesel sales was due to overall economic growth in Brazil, increased use of diesel-driven thermoelectric plants, infrastructure investments, mining and civil construction, in addition to reduced production by and imports from competitors. The increase in gasoline sales was due to increased demand and reduced competition in the retail market. The increase in aviation fuel sales was due to overall economic growth, increased tourism and new aircraft and aviation routes, which pushed up the number of flights. Natural gas sales increased 25.8% due to greater supply of imported and domestic natural gas, primarily from the P-52, P-54 and Piranema platforms.

Our sales volumes in the international market decreased 5.8% to 552 mbbbl/d for 2008 compared to 586 mbbbl/d for 2007, primarily due to programmed stoppages in the Pasadena refinery, reduced production in the United States and Argentina, the sale of Bolivian refineries in June 2007 and reduced Bolivian gas and oil sales volumes. These factors were partially offset by sales from the Okinawa Refinery in Japan beginning in the second quarter of 2008 and by the start-up of production in Nigeria in the third quarter of 2008.

**ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

***Overview***

We earn income from:

domestic sales, which consist of sales of oil products (such as diesel oil, gasoline, jet fuel, naphtha, fuel oil and liquefied petroleum gas), natural gas, ethanol, electricity and petrochemical products;

export sales, which consist primarily of sales of crude oil and oil products;

international sales (excluding export sales), which consist of sales of crude oil, natural gas and oil products that are purchased, produced and refined abroad; and

other sources, including services, investment income and foreign exchange gains.

Our expenses include:

costs of sales (which are composed of labor expenses, operating costs and purchases of crude oil and oil products); maintaining and repairing property, plant and equipment; depreciation and amortization of fixed assets; depletion of oil fields; and exploration costs;

selling (which include expenses for transportation and distribution of our products), general and administrative expenses; and

interest expense, monetary and foreign exchange losses.

Fluctuations in our financial condition and results of operations are driven by a combination of factors, including:

the volume of crude oil, oil products and natural gas we produce and sell;

changes in international prices of crude oil and oil products, which are denominated in U.S. dollars;

related changes in the domestic prices of crude oil and oil products, which are denominated in Reais;

fluctuations in the Real/U.S. dollar and to a lesser degree, Argentine peso/U.S. dollar exchange rates; and

the amount of production taxes that we are required to pay with respect to our operations.

Virtually all of our revenues and expenses for our Brazilian activities are denominated and payable in Reais. When the Real strengthens relative to the U.S. dollar as it did in 2008 (5.7%) and 2007 (10.5%), the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. However, the appreciation of the Real against the U.S. dollar affects the line items discussed below in different ways. The following comparison between our results of operations in 2008 and 2007 is impacted by the increase in the value of the Real against the U.S. dollar during that period. See Note 2 of our consolidated financial statements for the year ended December 31, 2008, for more information about the translation of Brazilian Real amounts into U.S. dollars.

**BUSINESS SEGMENTS****NET INCOME BY BUSINESS SEGMENT**

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(U.S.\$ million)</b>	
Exploration and Production	21,031	14,072
Supply	(1,996)	2,785
Gas and Energy	(223)	(834)
International	(808)	(815)
Distribution	839	446
Corporate	(57)	(1,796)
Eliminations	93	(720)
Net income	18,879	13,138

**Exploration and Production**

Our Exploration and Production segment includes our exploration, development and production activities in Brazil, sales and transfers of crude oil in domestic and foreign markets, transfers of natural gas to our Gas and Energy segment and sales of oil products produced at natural gas processing plants.

Consolidated net income for our Exploration and Production segment increased 49.5% in 2008 compared to 2007, primarily due to higher average domestic oil prices and a 3.5% increase in oil and NGL production.

These effects were partially offset by higher production taxes, impairment charges in Brazil as a result of decreased international prices at the end of 2008, which affected future projections and increased exploration costs due to write-offs of dry or economically unviable wells.

The spread between the average domestic oil sale/transfer price and the average Brent price rose from U.S.\$ 10.95/bbl in 2007 to U.S.\$ 15.44/bbl in 2008.

## **Supply**

Our Supply segment includes refining, logistics, transportation, export and purchase of crude oil, as well as the purchase and sale of oil products and ethanol. Additionally, this segment includes the petrochemical and fertilizers division, which includes investments in domestic petrochemical companies and our two domestic fertilizer plants.

The reduction in net income for our Supply segment in 2008 was primarily attributable to: (1) higher oil sale/transfer costs and higher oil product import costs, reflecting a trend in international prices; (2) higher freight costs as a result of higher volume; (3) losses from investments in affiliated petrochemical companies reflecting debt-related exchange rate variation expenses; (4) higher naphtha prices; and (5) marking inventory to market value.

## **Gas and Energy**

Our Gas and Energy segment consists principally of the purchase, sale, transportation and distribution of natural gas produced in or imported into Brazil. Additionally, this segment includes our participation in domestic natural gas transportation, natural gas distribution and thermoelectric power generation.

Net loss for our Gas and Energy segment decreased as a result of higher margins in our natural gas and electricity business, reflecting higher sales prices and increased electricity and natural gas sales volumes in 2008 compared to 2007.

These effects were partially offset by an allowance for the reduced market value of our NGL inventory.

## **International**

The International segment comprises our activities in other countries, which include Exploration and Production, Supply, Distribution and Gas and Energy.

Net loss for our International segment decreased primarily as a result of slightly increased margins related to higher oil prices in the first nine months of 2008. These effects were offset by: (1) marking inventory to market value in the United States, Japan and Argentina; (2) accrued royalty expenses; (3) the write-off of Block 31 in Ecuador; (4) the complete amortization of goodwill on the Pasadena Refinery; and (5) non-recurring profits on the sale of Bolivian refineries and Argentine companies in 2007.

## **Distribution**

Our Distribution segment comprises the oil product and ethanol distribution activities conducted by our majority owned subsidiary, Petrobras Distribuidora S.A.-BR, in Brazil.

Net income for our Distribution segment increased 88.1% in 2008 due to higher sales volumes and the reduction in operating expenses thanks to the elimination of CPMF, a tax payable in connection with certain bank account transactions, and gains from reversed accruals for legal proceedings in 2007.

This segment accounted for 34.9% of the total Brazilian fuel distribution market in 2008 compared to 34.3% in 2007.

**Corporate**

Our Corporate segment includes our financing activities not attributable to other segments, including corporate financial management, central administrative overhead and actuarial expenses related to our pension and health care plans for inactive participants.

Net loss for our Corporate segment decreased in 2008 compared to 2007, primarily due to: (1) increased net financial income from foreign exchange gains on international investments; (2) reduced pension plan expenses; and (3) the elimination of the CPMF tax.

These effects were partially offset by increased selling, general and administrative expenses, primarily attributable to higher personnel expenses.

## RESULTS OF OPERATIONS FOR 2008 COMPARED TO 2007

The comparison between our results of operations for 2008 and for 2007 has been affected by the 5.7% increase in the value of the Real against the U.S. dollar for 2008 compared to 2007.

### Revenues

Net operating revenues increased 34.8% to U.S.\$118,257 million for 2008 compared to U.S.\$87,735 million for 2007. This increase was primarily attributable to an increase of 28.8% in average prices for our products in domestic and international markets and an increase of 5.5% in sales volumes in Brazil.

Consolidated sales of products and services increased 30.3% to U.S.\$146,529 million for 2008 compared to U.S.\$112,425 million for 2007 due to the increases mentioned above.

Included in sales of products and services are the following amounts that we paid to the federal or state governments:

Value-added, PASEP, COFINS and other taxes on sales and services and social security contributions. These taxes increased 21.2% to U.S.\$25,046 million for 2008 compared to U.S.\$20,668 million for 2007, primarily due to higher prices and sales volumes; and

CIDE, the per-transaction fee due to the Brazilian government, which decreased 19.8% to U.S.\$3,226 million for 2008 compared to U.S.\$4,022 million for 2007, due to lower taxes on gasoline and diesel sales.

### Cost of Sales (Excluding Depreciation, Depletion and Amortization)

Cost of sales for 2008 increased 46.3% to U.S.\$72,865 million, compared to U.S.\$49,789 million for 2007. This increase was principally a result of:

U.S.\$6,318 million increase in the cost of imports due to a 5.9% increase in volumes and a 51.0% increase in average prices;

U.S.\$4,111 million increase in costs for our international trading activities due to increased offshore operations conducted by PifCo;

a U.S.\$3,554 million increase in production taxes and charges imposed by the Brazilian government totaling U.S.\$10,975 million for 2008 compared to U.S.\$7,420 million for 2007, due to a 35% increase in the reference price for local oil (U.S.\$3,087 million of the total), and increased output (U.S.\$467 million of the total). This increase in production taxes and charges also includes an increase in the special participation charge (an extraordinary charge payable in the event of high production or profitability from our fields); and

U.S.\$3,524 million increase in costs related to higher sales volumes in the domestic market.

### Depreciation, Depletion and Amortization

We calculate depreciation, depletion and amortization of most of our exploration and production assets using the units of production method. Depreciation, depletion and amortization expenses increased 6.9% to U.S.\$5,928 million for 2008 compared to U.S.\$5,544 million for 2007. Excluding the impact of the appreciation of the Real, the increase in depreciation, depletion and amortization resulted from higher capital expenditures and increased domestic oil and gas production.

### Exploration, Including Exploratory Dry Holes

Exploration costs, including costs for exploratory dry holes, increased 24.7% to U.S.\$1,775 million for 2008 compared to U.S.\$1,423 million for 2007. This increase was primarily attributable to a U.S.\$520 million increase in expenses related to the write-off of dry and economically unviable wells in Brazil due to: (1) increased number of drilled wells in the past few years, as a result of the Company's investment program; (2) the higher drilling costs resulted from Brazilian economic growth; and (3) the lower success exploration index, given the prospective drilling in higher risky areas located in the Santos and Espirito Santo Basins. These effects were partially offset by a U.S.\$256 million decrease in expenses related to dry holes in international operations.

### **Impairment of Oil and Gas Properties**

For 2008, we recorded an impairment charge of U.S.\$519 million, compared to U.S.\$271 million for 2007. The impairment charge in 2008 was primarily attributable to goodwill impairment at Petrobras' indirect subsidiary in the United States, Pasadena Refining System (U.S.\$223 million) and to impairment at Petrobras' Guajá field and other producing properties in Brazil due to reduced year-end international oil prices (U.S.\$171 million). The impairment charge in 2007 was primarily related to international investments, principally in Ecuador (U.S.\$174 million) due to tax and legal changes implemented by the government, the United States (U.S.\$39 million) and Angola (U.S.\$13 million). See Notes 9(b) and 18(a) to our consolidated financial statements for the year ended December 31, 2008.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased 18.9% to U.S.\$7,429 million for 2008 compared to U.S.\$6,250 million for 2007.

Selling expenses increased 19.0% to U.S.\$3,517 million for 2008 from U.S.\$2,956 million for 2007. This increase was primarily attributable to a U.S.\$367 million increase in transportation costs due primarily to increased sales volumes.

General and administrative expenses increased 18.8% to U.S.\$3,912 million for 2008, from U.S.\$3,294 million for 2007. Excluding the impact of the appreciation of the Real, the increase in general and administrative expenses was primarily due to higher personnel expenses in 2008 due to an increase in salaries and number of employees and increased costs for third-party technical consulting, auditing and data processing services in Brazil.

### **Research and Development Expenses**

Research and development expenses increased 6.8% to U.S.\$941 million for 2008 from U.S.\$881 million for 2007. This increase was primarily due to higher training and research costs for production from current reserves and new exploratory areas.

### **Employee Benefit Expense for Non-Active Participants**

Employee benefit expense for non-active participants consists of financial costs associated with our expected pension and health care costs of retired employees. Our employee benefit expense for non-active participants decreased 15.1% to U.S.\$841 million for 2008 compared to U.S.\$990 million for 2007. The decrease in employee benefit expense for non-active participants was primarily due to an increase in the expected return on plan assets as estimated by actuarial calculations from December 2007.

### **Other Operating Expenses**

Other operating expenses increased 24.8% to U.S.\$2,665 million for 2008 from U.S.\$2,136 million for 2007. A breakdown of other operating expenses by segment is included on page 30.

The most significant charges for 2008 were:

U.S.\$675 million expense for institutional relations and cultural projects;

U.S.\$545 million expense for marking inventory to market value;

U.S.\$345 million expense for idle capacity at thermoelectric power plants;

U.S.\$322 million expense related to the negotiation of collective bargaining agreements;

U.S.\$273 million expense for losses and contingencies related to legal proceedings;

U.S.\$237 million expense for contractual fines; and

U.S.\$214 million expense for health, safety, and environment (HSE).

The most significant charges for 2007 were:

U.S.\$649 million expense for institutional relations and cultural projects;

U.S.\$498 million expense related to changes in the Petros Pension Plan regulations;

U.S.\$244 million expense for HSE;

U.S.\$240 million expense for contractual fines;

U.S.\$235 million expense related to collective bargaining agreements;

U.S.\$211 million expense for losses and contingencies related to legal proceedings;

U.S.\$176 million expense for idle capacity at thermoelectric power plants; and

U.S.\$65 million expense for unscheduled stoppages of plant and equipment.

### **Equity in Results of Non-Consolidated Companies**

Equity in results of non-consolidated companies decreased to a loss of U.S.\$21 million for 2008 compared to a gain of U.S.\$235 million for 2007, due mainly to losses from investments in affiliated petrochemical companies, principally Quattor Companhia Petroquímica (U.S.\$126 million) and Braskem S.A. (U.S.\$116 million), caused by foreign exchange variation expenses related to debt.

### **Financial Income**

We derive financial income from several sources, including interest on cash and cash equivalents. The majority of our cash equivalents are short-term Brazilian government securities, including securities indexed to the U.S. dollar. We also hold U.S. dollar deposits.

Financial income increased 5.9% to U.S.\$1,641 million for 2008 compared to U.S.\$1,550 million for 2007. This increase was primarily attributable to gains on derivatives investments in 2008. A breakdown of financial income and expenses is set forth in Note 13 of our consolidated financial statements for the year ended December 31, 2008.

### **Financial Expenses**

Financial expenses increased 25.3% to U.S.\$848 million for 2008 compared to U.S.\$677 million for 2007, primarily due to the increase in losses on derivative investments. A breakdown of financial income and expenses is set forth in Note 13 of our consolidated financial statements for the year ended December 31, 2008.

### **Monetary and Exchange Variation**

Monetary and exchange variation changed to a gain of U.S.\$1,584 million for 2008 compared to a loss of U.S.\$1,455 million for 2007. This change is primarily attributable to foreign exchange gain on net monetary assets denominated in U.S. dollars.

### **Other Taxes**

Other taxes, consisting of various taxes on financial transactions, decreased 34.6% to U.S.\$433 million for 2008 compared to U.S.\$662 million for 2007. This decrease is primarily attributable to the elimination of the CPMF tax on January 1, 2008. This decrease was partially offset by an increase in the IOF tax, a tax payable on financial transactions, on January 1, 2008.

### **Other Expenses, Net**

Other expenses, net are primarily gains and losses recorded on sales of fixed assets and certain other non-recurring charges. Other expenses, net increased to a loss of U.S.\$225 million for 2008 compared to a loss of U.S.\$143 million for 2007, primarily due to the U.S.\$97 million write-off of Block 31 in Ecuador in the fourth quarter of 2008.

### **Income Tax (Expense) Benefit**

Income before income taxes and minority interest increased 39.9% to U.S.\$26,992 million for 2008 compared to U.S.\$19,299 million for 2007. Income tax expense increased 57.3% to U.S.\$9,259 million for 2008 compared to U.S.\$5,888 million for 2007. The reconciliation between the tax calculated based upon statutory tax rates to income tax expense and effective rates is set forth in Note 3 of our consolidated financial statements for the year ended December 31, 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

Our principal uses of funds are for capital expenditures, dividend payments and repayment of debt. Historically we have met these requirements with internally generated funds, short-term debt, long-term debt, project financing and sale and lease-back transactions. We believe these sources of funds, together with our strong position of cash and cash equivalents, will continue to allow us to meet our currently anticipated capital requirements. In 2009, our major cash needs include planned capital expenditures of U.S.\$28,695 million, announced dividends of U.S.\$4,242 million and payments of U.S.\$3,562 million on our long-term debt, leasing and project financing obligations.

### **Financing Strategy**

Our financing strategy is designed to help us achieve the targets set forth in our Business Plan released on January 23, 2009, which provides for capital expenditures of U.S.\$174.4 billion from 2009 through 2013. We will continue our policy of extending the term of our debt maturity profile. We also intend to reduce our cost of capital through a variety of medium and long-term financing arrangements, including the issuance of bonds in the international capital markets, supplier financing, project financing and bank financing.

### **Government Regulation**

The Brazilian Ministry of Planning, Budget and Management controls the total amount of medium and long-term debt that we and our Brazilian subsidiaries can incur through the annual budget approval process (*Plano de Dispendio Global*, or PDG). Before issuing medium and long-term debt, we and our Brazilian subsidiaries must also obtain the approval of the National Treasury Secretariat.

All of our foreign currency denominated debt, as well as the foreign currency denominated debt of our Brazilian subsidiaries, requires registration with the Central Bank. The issuance of debt by our international subsidiaries, however, is not subject to registration with the Central Bank or approval by the National Treasury Secretariat. In addition, all issuances of medium and long-term notes and debentures require the approval of our board of directors. Borrowings that exceed the approved budgeted amount for any year also require approval of the Brazilian Senate.

### **Sources of Funds**

#### ***Our Cash Flow***

On December 31, 2008, we had cash and cash equivalents of U.S.\$6,499 million compared to U.S.\$6,987 million at December 31, 2007. The decrease in our cash and cash equivalents was primarily due to increased capital expenditures during 2008 compared to 2007.

Operating activities provided net cash flows of U.S.\$28,220 million for 2008 compared to U.S.\$22,664 million for 2007. Cash generated by operating activities was mainly affected by net operating revenues, which increased U.S.\$30,522 million during 2008 compared to 2007.

Net cash used in investing activities increased to U.S.\$29,466 million for 2008 compared to U.S.\$24,026 million for 2007. This increase was due primarily to capital expenditures totaling U.S.\$29,874 million, including U.S.\$14,293 million related to exploration and production projects in Brazil, mainly in the Campos basin.

Net cash provided by financing activities amounted U.S.\$2,778 million for 2008 compared to net cash used in financing activities of U.S.\$5,988 million for 2007. This increase was primarily due to funds raised by PifCo through the issuance of Global Notes and proceeds from project financing, primarily from the Gasene, Codajás and Companhia de Desenvolvimento e Modernização de Plantas Industriais - CDMPI projects. See Notes 12 and 14 of our consolidated financial statements for the year ended December 31, 2008.

Our net debt increased to U.S.\$20,852 million as of December 31, 2008 compared to U.S.\$14,908 million as of December 31, 2007, primarily due to increased long-term debt, credit lines taken out to boost ethanol exports, funds raised by PifCo through the issuance of Global Notes, and increased project financing proceeds, as well as a reduction in cash and cash equivalents due to increased capital expenditures. The following table shows the reconciliation of net debt to total long-term debt:

<b><u>Balance sheet data</u></b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>	<b>Percent Change (December 31, 2008 versus December 31, 2007)</b>
	<b>(U.S.\$ Million)</b>		
Cash and cash equivalents	6,499	6,987	(7.0)
Short-term debt	2,399	1,458	30.2
Total long-term debt	17,562	13,421	34.6
Total project financings	6,795	6,278	8.2
Total capital lease obligations	595	738	(19.4)
Net debt <sup>(1)</sup>	20,852	14,908	39.9
Shareholders' equity <sup>(2)</sup>	61,909	65,179	(5.0)
Total capitalization <sup>(3)</sup>	89,260	87,074	2.5

<b>Reconciliation of Net debt</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
	<b>(U.S.\$ Million)</b>	
Total long-term debt	17,562	13,421
Plus short-term debt	2,399	1,458
Plus total project financings	6,795	6,278
Plus total capital lease obligations	595	738
Less cash and cash equivalents	6,499	6,987
Net debt <sup>(1)</sup>	20,852	14,908

(1) Our net debt is not computed in accordance with U.S. GAAP and should not be considered in isolation or as a substitute for total long-term debt calculated in accordance with U.S. GAAP. Our calculation of net debt may not be

comparable to the calculation of net debt by other companies. Management believes that net debt is an appropriate supplemental measure that helps investors assess our liquidity and assists management in targeting leverage improvements. Please see the table above for a reconciliation of net debt to total long-term debt.

(2) Shareholders' equity includes adjustments in the amount of U.S.\$37 million (gain) on December 31, 2008, and U.S.\$2,472 million (loss) on December 31, 2007, related to Post-retirement benefit reserves adjustments, net of tax - pension and health care costs. This gain is due to a change in the discount rate from 6% in 2007 to 7.7% in 2008 (See Note 16 (f) to our consolidated financial statements for the year ended December 31, 2008).

(3) Total capitalization is calculated as shareholders' equity plus short-term debt, total long-term debt, total project financings and total capital lease obligations.

**Short-Term Debt**

Our outstanding short-term debt serves mainly to support our imports of crude oil and oil products, and is provided almost entirely by international banks. On December 31, 2008, our short-term debt (excluding current portions of long-term debt) amounted to U.S.\$2,399 million compared to U.S.\$1,458 million on December 31, 2007.

**Long-Term Debt**

Our outstanding long-term debt consists primarily of the issuance of securities in the international capital markets, debentures in the domestic capital markets, amounts outstanding under facilities guaranteed by export credit agencies and multilateral agencies and loans from the BNDES and other financial institutions. Outstanding long-term debt, plus the current portion of our long-term debt amounted to U.S.\$17,562 million at December 31, 2008 compared to U.S.\$13,421 million at December 31, 2007. See Note 12 of our consolidated financial statements for the year ended December 31, 2008.

Included in these figures at December 31, 2008 are the following international debt issues:

Notes	Principal Amount
PEPSA s 9.00% Notes due 2009	U.S.\$181 million
PEPSA s 8.13% Notes due 2010	U.S.\$349 million
PEPSA s 3.55% Notes due 2011	U.S.\$87 million
PifCo s 9.750% Notes due 2011	U.S.\$600 million
PEPSA s 9.38% Notes due 2013	U.S.\$200 million
PifCo s 3.748% Senior Trust Certificates due 2013 (1)	U.S.\$200 million
PifCo s 9.125% Global Notes due 2013	U.S.\$750 million
PifCo s 7.75% Global Notes due 2014	U.S.\$600 million
PifCo s 6.436% Senior Trust Certificates due 2015 (1)	U.S.\$550 million
PifCo s 2.15% Japanese Yen Bonds due 2016	U.S.\$386 million
PifCo s 6.125% Global Notes due 2016	U.S.\$899 million
PEPSA s 6.66% Notes due 2017 (2)	U.S.\$300 million
PifCo s 8.375% Global Notes due 2018	U.S.\$750 million
PifCo s 5.875% Global Notes due to 2018	U.S.\$1,750 million

(1) Issued in connection with our export prepayment program. Unless otherwise noted, all debt is issued by PifCo, with support from us through a standby purchase agreement.

(2) Issued by PESA, with support from us through a standby purchase agreement.

### **Petrobras International Finance Company - PifCo**

On February 11, 2009, Petrobras International Finance Company - PifCo, a wholly owned subsidiary of Petrobras, issued Global Notes in the total amount of U.S.\$1,500 million in the international capital market, due March 15, 2019. The Notes bear interest at the rate of 7.875% per annum, payable semiannually beginning on September 15, 2009. The funds raised will be used for general corporate purposes, including financing the Petrobras Business Plan for 2009-2013.

The offering had an estimated cost of U.S.\$6.5 million, a discount of U.S.\$26 million and an effective tax rate of 8.187% per annum. The Notes constitute general senior unsecured and unsubordinated obligations of PifCo and are unconditional and irrevocably guaranteed by Petrobras.

On March 24, 2009, the PifCo drewdown US\$1,000 million in a line of credit due on March 2011. The Line bear interest at a initial rate of 3 Month Libor + 2.65% per annum, payable quarterly. The proceeds will be used to finance the purchase of oil imports to Petrobras from PifCo.

### **Project Financing**

Since 1997, we have utilized project financings to provide capital for our extensive exploration and production operations and related projects, including some natural gas processing and transportation systems. All of these projects and the related debt obligations of special purpose companies established for these financings are on-balance sheet and accounted for under the line item Project Financings . Under typical contractual arrangements, we are responsible for completing the development of the oil and gas fields, operating the fields, paying all operating expenses relating to the projects and remitting a portion of the net proceeds generated from the fields to fund the special purpose companies debt and return on equity payments. At the end of each financing project, we have the option to purchase the project assets from the special purpose company or, in some cases, acquire control over the special purpose company itself.

Outstanding project financing, plus the current portion of our project financing, totaled U.S.\$6,795 million on December 31, 2008 compared to U.S.\$6,278 million on December 31, 2007. This increase in outstanding project financing was primarily due to increased debt relating to the Gasene, Codajás and CDMPI projects. See Note 14 of our consolidated financial statements for the year ended December 31, 2008.

### **Extinguished Securities**

On December 31, 2008, and December 31, 2007, we had amounts invested abroad in an exclusive investment fund that held debt securities of some of our group companies in the amount of U.S.\$749 million and U.S.\$856 million, respectively. Once these securities are purchased by the fund, the related amounts, together with applicable interest, are removed from the presentation of marketable securities and project financing. See Note 14 of our consolidated financial statements for the year ended December 31, 2008.

### **Off Balance Sheet Arrangements**

As of December 31, 2008, there were no off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Contractual Obligations**

The following table summarizes our outstanding contractual obligations and commitments at December 31, 2008:



Payments due by period (in millions of U.S.dollars)					
	Total	Less than year	1-3 years	3-5 years	More than 5 years

	Total	Less than year	1-3 years	3-5 years	More than 5 years
<b>Balance Sheet Items:</b>					
Long Term Debt Obligations	17,562	1,531	6,392	3,363	6,276
Pension Fund Obligations (1)	16,168	923	2,124	2,555	10,566
Project Financing Obligations	6,795	1,780	1,407	670	2,938
Capital (Finance)Lease Obligations	595	251	302	30	12
<b>Total Balance Sheet Items</b>	<b>41,120</b>	<b>4,485</b>	<b>10,225</b>	<b>6,618</b>	<b>19,792</b>
<b>Other Long-Term Contractual Commitments</b>					
Natural Gas Ship-or-Pay	5,108	457	921	931	2,799
Service Contracts	44,843	17,273	16,166	5,621	5,783
Natural Gas Supply Agreements	11,687	1,112	1,938	2,178	6,459
Operating Leases	23,166	4,271	7,975	6,254	4,666
Purchase Commitments	5,154	1,446	1,284	595	1,829
International Purchase Commitments	10,933	1,543	6,229	1,449	1,712
<b>Total Other Long-Term Commitments</b>	<b>100,891</b>	<b>26,102</b>	<b>34,513</b>	<b>17,028</b>	<b>23,248</b>
<b>Total</b>	<b>142,011</b>	<b>30,587</b>	<b>44,738</b>	<b>23,646</b>	<b>43,040</b>

(1) Our pension fund obligations are guaranteed by U.S.\$14,115 million in plan assets. These assets are presented as a reduction to the net actuarial liabilities. See Note 16 (f) to our consolidated financial statements for the year ended December 31, 2008.

### Risk Management Activities

We are exposed to a number of market risks arising in the normal course of our business. We may use derivative and non-derivative instruments to manage these risks. For a description of our risk management activities, see Note 20 to our consolidated financial statements for the year ended December 31, 2008.

### Uses of Funds

#### Capital Expenditures

We invested a total of U.S.\$29,874 million in 2008, a 42.4% increase compared to our investments of U.S.\$20,978 million in 2007. Our 2008 investments were primarily directed toward increasing production in the Campos basin,

modernizing our refineries and expanding our pipeline transportation and distribution systems. Of the total capital expenditures in 2008, U.S.\$14,293 million was invested in exploration and development projects (47.8% in the Campos basin), including investments financed through project financing.

The following table sets forth our consolidated capital expenditures (including project financings and investments in thermoelectric power plants) for each of our business segments for 2008 and 2007:

**Activities**

	<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>U.S.\$ million</b>	
Exploration and Production	14,293	9,448
Supply	7,234	4,488
Gas and Energy	4,256	3,223
International:		
Exploration and Production	2,734	2,555
Supply	102	247
Distribution	20	37
Gas and Energy	52	25
Distribution	309	327
Corporate	874	628
<b>Total Capital Expenditures</b>	<b>29,874</b>	<b>20,978</b>

***Dividends and Interest on Shareholders' Equity***

Our board of directors will propose a dividend distribution of U.S.\$4,242 million at the Ordinary General Shareholder Meeting to be held on April 8, 2009. This proposal complies with our by-laws regarding the guaranteed rights of preferred shares and includes interest on shareholders' equity already approved by the board of directors.

The dividends and interest on shareholders' equity will be paid on a date to be established at the Ordinary General Shareholder Meeting. These amounts will be restated according to the SELIC rate from December 31, 2008 to the initial date of payment.

**Income Statement**  
(in millions of U.S. dollars, except for share and per share data)

3Q-2008	4Q-2008	4Q-2007		Year ended December 31,	
				2008	2007
44,199	28,039	32,442	Sales of products and services	146,529	112,425
			Less:		
(7,389)	(5,164)	(5,980)	Value-added and other taxes on sales and services	(25,046)	(20,668)
(727)	(538)	(1,138)	CIDE	(3,226)	(4,022)
36,083	22,337	25,324	Net operating revenues	118,257	87,735
(22,995)	(14,775)	(14,858)	Cost of sales	(72,865)	(49,789)
(1,662)	(1,285)	(1,728)	Depreciation, depletion and amortization	(5,928)	(5,544)
(463)	(569)	(634)	Exploration, including exploratory dry holes	(1,775)	(1,423)
-	(519)	(271)	Impairment	(519)	(271)
(2,156)	(1,766)	(1,869)	Selling, general and administrative expenses	(7,429)	(6,250)
(290)	(185)	(269)	Research and development expenses	(941)	(881)
(217)	(197)	(262)	Employee benefit expense for non-active participants	(841)	(990)
(830)	(723)	(418)	Other operating expenses	(2,665)	(2,136)
(28,613)	(20,019)	(20,309)	Total costs and expenses	(92,963)	(67,284)
7,470	2,318	5,015	Operating income	25,294	20,451
(38)	(317)	63	Equity in results of non-consolidated companies	(21)	235
175	508	715	Financial income	1,641	1,550
(170)	(224)	(102)	Financial expense	(848)	(677)
1,531	748	(825)	Monetary and exchange variation on monetary assets and liabilities, net	1,584	(1,455)
(96)	(162)	(177)	Other taxes	(433)	(662)
(86)	(233)	(152)	Other expenses, net	(225)	(143)
1,316	320	(478)		1,698	(1,152)

8,786	2,638	4,537	Income before income taxes and minority interest	26,992	19,299
			Income tax expense:		
(3,387)	568	(1,316)	Current	(6,904)	(4,826)
549	(2,224)	(381)	Deferred	(2,355)	(1,062)
			Total income tax expense		
(2,838)	(1,656)	(1,697)		(9,259)	(5,888)
			Minority interest in results of consolidated subsidiaries		
49	1,184	(28)		1,146	(273)
5,997	2,166	2,812	Net income for the period	18,879	13,138
			Weighted average number of shares outstanding		
5,073,347,344	5,073,347,344	5,073,347,344	Common	5,073,347,344	5,073,347,344(*)
3,700,729,396	3,700,729,396	3,700,729,396	Preferred	3,700,729,396	3,700,729,396(*)
			<b>Basic and diluted earnings per share</b>		
0.68	0.25	0.32	Common and Preferred	2.15	1.50(*)
			<b>Basic and diluted earnings per ADS</b>		
1.36	0.50	0.64	Common and Preferred	4.30	3.00(*)

(\*) For purposes of comparison all share, ADS, per share and per ADS information in this report have been adjusted to reflect the stock split that became effective on April 25, 2008. See Note 17 of our consolidated financial statements for the year ended December 31, 2008.

**Balance Sheet Data**  
(in millions of U.S. dollars, except for share data)

	As of December 31, 2008	As of December 31, 2007
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	6,499	6,987
Marketable securities	124	267
Accounts receivable, net	6,613	6,538
Inventories	7,990	9,231
Recoverable taxes	3,281	3,488
Other current assets	2,251	2,629
Total current assets	26,758	29,140
<b>Property, plant and equipment, net</b>	84,719	84,282
<b>Investments in non-consolidated companies and other investments</b>	3,198	5,112
<b>Non-current assets</b>		
Accounts receivable, net	923	1,467
Advances to suppliers	2,471	1,658
Petroleum and Alcohol Account Receivable from Federal Government	346	450
Government securities	-	670
Marketable securities	1,738	2,144
Restricted deposits for legal proceedings and guarantees	798	977
Recoverable taxes	3,095	2,477
Others	1,649	1,338
Total non-current assets	11,020	11,181
<b>Total assets</b>	125,695	129,715
<b><u>Liabilities and shareholders' equity</u></b>		
<b>Current liabilities</b>		
Trade accounts payable	7,763	7,816
Short-term debt	2,399	1,458
Current portion of long-term debt	1,531	1,273
Current portion of project financings	1,780	1,692
Current portion of capital lease obligations	251	227
Taxes payable	3,605	4,510
Payroll and related charges	1,398	1,549
Dividends and interest on capital payable	3,652	3,220
Other current liabilities	2,377	2,723
Total current liabilities	24,756	24,468

<b>Long-term liabilities</b>		
Long-term debt	16,031	12,148
Project financings	5,015	4,586
Capital lease obligations	344	511
Employees' benefits obligation - Pension and Health care	5,787	11,317
Deferred income taxes	7,080	4,802
Other liabilities	4,114	4,372
Total long-term liabilities	38,371	37,736
<b>Minority interest</b>	659	2,332
<b>Shareholders' equity</b>		
Shares authorized and issued:		
Preferred stock 2008 and 2007 3,700,729,396 shares	15,106	8,620
Common stock 2008 and 2007 5,073,347,344 shares	21,088	12,196
Reserves and others	25,715	44,363
Total shareholders' equity	61,909	65,179
<b>Total liabilities and shareholders' equity</b>	125,695	129,715

**Statement of Cash Flows Data**  
(in millions of U.S. dollars)

				Year ended December 31,	
	3Q-2008	4Q-2008	4Q-2007	2008	2007
			<b>Cash flows from operating activities</b>		
5,997	2,166	2,812	Net income for the period	18,879	13,138
			Adjustments to reconcile net income to net cash provided by operating activities:		
1,662	1,285	1,728	Depreciation, depletion and amortization	5,928	5,544
244	141	455	Dry hole costs	808	549
33	317	(63)	Equity in the results of non-consolidated companies	21	(235)
1,771	(295)	114	Foreign exchange (gain)/loss	2,211	641
(49)	(1,185)	28	Minority interest in income of subsidiaries	(1,146)	273
(550)	2,225	381	Deferred income taxes	2,355	1,062
4	907	423	Other	1,136	665
			Working capital adjustments		
(425)	1,848	(174)	Decrease (increase) in accounts receivable, net	(1,098)	(245)
(1,304)	3,929	(978)	Decrease (increase) in inventories	(568)	(1,619)
935	(2,367)	434	Increase in taxes payable	(207)	460
804	147	1,257	Increase in trade accounts payable	2,246	1,709
(818)	(866)	782	Advances to suppliers	(1,684)	787
(498)	(731)	(192)	Recoverable taxes	(1,431)	(1,132)
(367)	669	(262)	Increase (decrease) in other working capital adjustments	770	1,067
7,439	8,190	6,745	<b>Net cash provided by operating activities</b>	28,220	22,664
(7,665)	(9,770)	(8,326)	<b>Net cash flows from investing activities</b>	(29,466)	(24,026)
521	4,223	678	<b>Net cash flows from financing activities</b>	2,778	(5,988)
295	2,643	(903)	Increase (Decrease) in cash and cash equivalents	1,532	(7,350)
(1,661)	(1,426)	469	Effect of exchange rate changes on cash and cash equivalents	(2,020)	1,649
6,648	5,282	7,421	Cash and cash equivalents at beginning of period	6,987	12,688
5,282	6,499	6,987		6,499	6,987

**Cash and cash equivalents at the end  
of period**

27

---

## Income Statement by Segment

Year ended December 31, 2008

U.S.\$ million

	<b>E&amp;P</b>	<b>SUPPLY</b>	<b>GAS &amp; ENERGY</b>	<b>INTERN.</b>	<b>DISTRIB.</b>	<b>CORPOR.</b>	<b>ELIMIN.</b>	<b>TOTAL</b>
<b>STATEMENT OF INCOME</b>								
Net operating revenues to third parties	973	69,318	7,627	10,024	30,315	-	-	118,257
Inter-segment net operating revenues	58,051	26,884	1,175	916	577	-	(87,603)	-
<b>Net operating revenues</b>	<b>59,024</b>	<b>96,202</b>	<b>8,802</b>	<b>10,940</b>	<b>30,892</b>	<b>-</b>	<b>(87,603)</b>	<b>118,257</b>
Cost of sales	(21,130)	(94,641)	(7,642)	(8,735)	(28,317)	-	87,600	(72,865)
Depreciation, depletion and amortization	(3,544)	(1,109)	(367)	(564)	(165)	(179)	-	(5,928)
Exploration, including exploratory dry holes	(1,303)	-	-	(472)	-	-	-	(1,775)
Impairment	(171)	-	-	(348)	-	-	-	(519)
Selling, general and administrative expenses	(419)	(2,486)	(483)	(788)	(1,425)	(1,972)	144	(7,429)
Research and development expenses	(494)	(151)	(40)	(3)	(8)	(245)	-	(941)
Employee benefit expense for non-active participants	-	-	-	-	-	(841)	-	(841)
Other operating expenses	(117)	(319)	(612)	(473)	(90)	(1,054)	-	(2,665)
<b>Cost and expenses</b>	<b>(27,178)</b>	<b>(98,706)</b>	<b>(9,144)</b>	<b>(11,383)</b>	<b>(30,005)</b>	<b>(4,291)</b>	<b>87,744</b>	<b>(92,963)</b>
<b>Operating income (loss)</b>	<b>31,846</b>	<b>(2,504)</b>	<b>(342)</b>	<b>(443)</b>	<b>887</b>	<b>(4,291)</b>	<b>141</b>	<b>25,294</b>

Equity in results of non-consolidated companies	-	(245)	103	71	49	1	-	(21)
Financial income (expenses), net	-	-	-	-	-	2,377	-	2,377
Other taxes	(37)	(64)	(53)	(126)	(11)	(142)	-	(433)
Other expenses, net	(152)	(143)	(212)	(107)	320	69	-	(225)
<b>Income (Loss) before income taxes and minority interest</b>	31,657	(2,956)	(504)	(605)	1,245	(1,986)	141	26,992
Income tax benefits (expense)	(10,764)	922	205	(213)	(406)	1,045	(48)	(9,259)
Minority interest	138	38	76	10	-	884	-	1,146
<b>Net income (loss) for the year</b>	21,031	(1,996)	(223)	(808)	839	(57)	93	18,879

## Income Statement by Segment

Year ended December 31, 2007

U.S.\$ million

	<b>E&amp;P</b>	<b>SUPPLY</b>	<b>GAS &amp; ENERGY</b>	<b>INTERN.</b>	<b>DISTRIB.</b>	<b>CORPOR.</b>	<b>ELIMIN.</b>	<b>TOTAL</b>
<b>STATEMENT OF INCOME</b>								
Net operating revenues to third parties	2,455	50,531	3,673	8,132	22,944	-	-	87,735
Inter-segment net operating revenues	39,536	19,018	1,239	969	376	-	(61,138)	-
<b>Net operating revenues</b>	<b>41,991</b>	<b>69,549</b>	<b>4,912</b>	<b>9,101</b>	<b>23,320</b>	<b>-</b>	<b>(61,138)</b>	<b>87,735</b>
Cost of sales	(15,147)	(61,881)	(4,514)	(7,042)	(21,124)	-	59,919	(49,789)
Depreciation, depletion and amortization	(3,335)	(1,077)	(259)	(567)	(155)	(151)	-	(5,544)
Exploration, including exploratory dry holes	(648)	-	-	(775)	-	-	-	(1,423)
Impairment of oil and gas properties	(26)	(19)	-	(226)	-	-	-	(271)
Selling, general and administrative expenses	(305)	(1,999)	(597)	(692)	(1,198)	(1,577)	118	(6,250)
Research and development expenses	(447)	(171)	(94)	(2)	(6)	(161)	-	(881)
Employee benefit expense for non-active participants	-	-	-	-	-	(990)	-	(990)
Other operating expenses	(245)	(219)	(435)	(108)	(54)	(1,085)	10	(2,136)
<b>Cost and expenses</b>	<b>(20,153)</b>	<b>(65,366)</b>	<b>(5,899)</b>	<b>(9,412)</b>	<b>(22,537)</b>	<b>(3,964)</b>	<b>60,047</b>	<b>(67,284)</b>
<b>Operating income (loss)</b>	<b>21,838</b>	<b>4,183</b>	<b>(987)</b>	<b>(311)</b>	<b>783</b>	<b>(3,964)</b>	<b>(1,091)</b>	<b>20,451</b>

Equity in results of non-consolidated companies	-	71	104	64	-	(4)	-	235
Financial income (expenses), net	-	-	-	-	-	(582)	-	(582)
Other taxes	(43)	(75)	(36)	(72)	(90)	(346)	-	(662)
Other expenses, net	(196)	(8)	(28)	82	(17)	24	-	(143)
<b>Income (Loss) before income taxes and minority interest</b>	21,599	4,171	(947)	(237)	676	(4,872)	(1,091)	19,299
Income tax benefits (expense)	(7,343)	(1,394)	357	(424)	(230)	2,775	371	(5,888)
Minority interest	(184)	8	(244)	(154)	-	301	-	(273)
<b>Net income (loss) for the year</b>	14,072	2,785	(834)	(815)	446	(1,796)	(720)	13,138

## Other Operating Expenses by Segment

Year ended December 31, 2008

U.S.\$ million

	<b>E&amp;P</b>	<b>SUPPLY</b>	<b>GAS &amp; ENERGY</b>	<b>INTERN.</b>	<b>DISTRIB.</b>	<b>CORPOR.</b>	<b>ELIMIN.</b>	<b>TOTAL</b>
Institutional relations and culture projects	(43)	(31)	(6)	-	(42)	(553)	-	(675)
Allowance for marking inventory to market value	-	(188)	(59)	(298)	-	-	-	(545)
Idle capacity at thermoelectric power plants	-	-	(345)	-	-	-	-	(345)
Expenses related to collective bargaining agreement	(152)	(49)	(11)	(11)	-	(99)	-	(322)
Losses from legal proceedings	(18)	(44)	(11)	(109)	(10)	(81)	-	(273)
Contractual fines	-	-	(237)	-	-	-	-	(237)
HSE expenses	(38)	(34)	(2)	-	-	(140)	-	(214)
Unscheduled stoppages of plant and equipment	(64)	(45)	-	-	-	-	-	(109)
Ship or pay commitments	-	-	-	(54)	-	-	-	(54)
Other	198	72	59	(1)	(38)	(181)	-	109
	(117)	(319)	(612)	(473)	(90)	(1,054)	-	(2,665)

Year ended December 31, 2007

U.S.\$ million

	<b>E&amp;P</b>	<b>SUPPLY</b>	<b>GAS &amp; ENERGY</b>	<b>INTERN.</b>	<b>DISTRIB.</b>	<b>CORPOR.</b>	<b>ELIMIN.</b>	<b>TOTAL</b>
Institutional relations and culture projects	(39)	(33)	-	-	(35)	(542)	-	(649)
Expenses related to Petros Plan amendments	(104)	(61)	(5)	(4)	(19)	(305)	-	(498)
HSE expenses	(11)	(69)	(2)	(5)	-	(157)	-	(244)
Contractual fines	-	-	(240)	-	-	-	-	(240)

Expenses related to collective bargaining agreement	(91)	(55)	(8)	(5)	(12)	(64)	-	(235)
Losses from legal proceedings	(96)	(40)	-	(9)	(36)	(30)	-	(211)
Idle capacity at thermoelectric power plants	-	-	(176)	-	-	-	-	(176)
Unscheduled stoppages of plant and equipment	(13)	(52)	-	-	-	-	-	(65)
Ship or pay commitments	-	-	-	(51)	-	-	-	(51)
Loss related to ICMS tax	-	51	-	-	-	-	-	51
Other	109	40	(4)	(34)	48	13	10	182
	(245)	(219)	(435)	(108)	(54)	(1,085)	10	(2,136)

## Selected Balance Sheet Data by Segment

Year ended December 31, 2008								
U.S.\$ million								
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
<b>Current assets</b>	2,662	9,647	2,466	2,327	2,646	10,387	(3,377)	26,758
Cash and cash equivalents	-	-	-	-	-	6,499	-	6,499
Other current assets	2,662	9,647	2,466	2,327	2,646	3,888	(3,377)	20,259
<b>Investments in non-consolidated companies and other investments</b>	171	1,168	474	1,142	166	77	-	3,198
<b>Property, plant and equipment, net</b>	45,836	15,806	10,719	9,341	1,621	1,418	(22)	84,719
<b>Non-current assets</b>	2,657	900	1,334	629	342	5,701	(543)	11,020
<b>Total assets</b>	51,326	27,521	14,993	13,439	4,775	17,583	(3,942)	125,695

## Selected Balance Sheet Data by Segment

Year ended December 31, 2007								
U.S.\$ million								
	E&P	SUPPLY	GAS & ENERGY	INTERN.	DISTRIB.	CORPOR.	ELIMIN.	TOTAL
<b>Current assets</b>	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
<b>Investments in non-consolidated companies and other investments</b>	85	2,348	550	1,278	640	211	-	5,112
<b>Property, plant and equipment, net</b>	48,288	14,480	10,615	7,596	1,838	1,475	(10)	84,282
<b>Non-current assets</b>	1,622	665	1,507	659	326	6,741	(339)	11,181
<b>Total assets</b>	53,175	31,218	15,536	11,717	5,652	19,137	(6,720)	129,715

## Selected Data for International Segment

**Year ended December 31, 2008**  
**INTERNATIONAL**  
**U.S.\$ million**

	<b>E&amp;P</b>	<b>SUPPLY</b>	<b>GAS &amp; ENERGY.</b>	<b>DISTRIB.</b>	<b>CORPOR.</b>	<b>ELIMIN.</b>	<b>TOTAL</b>
<b>INTERNATIONAL</b>							
<b>ASSETS</b>	10,274	2,592	807	354	1,805	(2,393)	13,439
<b>STATEMENT OF INCOME</b>							
<b>Net Operating Revenues</b>	2,841	7,313	473	2,676	2	(2,365)	10,940
Net operating revenues to third parties	1,383	5,611	424	2,604	2	-	10,024
Inter-segment net operating revenues	1,458	1,702	49	72	-	(2,365)	916
<b>Net income (loss) for the year</b>	96	(649)	82	12	(357)	8	(808)

**Year ended December 31, 2007**  
**INTERNATIONAL**  
**U.S.\$ million**

	<b>E&amp;P</b>	<b>SUPPLY</b>	<b>GAS &amp; ENERGY.</b>	<b>DISTRIB.</b>	<b>CORPOR.</b>	<b>ELIMIN.</b>	<b>TOTAL</b>
<b>INTERNATIONAL</b>							
<b>ASSETS</b>	8,337	2,514	753	414	1,403	(1,704)	11,717
<b>STATEMENT OF INCOME</b>							
<b>Net Operating Revenues</b>	2,609	6,086	528	2,038	14	(2,174)	9,101
Net operating revenues to third parties	1,136	4,480	480	2,015	14	7	8,132
Inter-segment net operating revenues	1,473	1,606	48	23	-	(2,181)	969
<b>Net income (loss) for the year</b>	(372)	70	107	(37)	(565)	(18)	(815)



This press release contains statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realized. Prospective investors are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors. The Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements, which speak only as of the date made.

---

*www.petrobras.com.br/ri/english*

**Contacts:** PETRÓLEO BRASILEIRO S. A. PETROBRAS

Investor Relations Department | E-mail: [petroinvest@petrobras.com.br](mailto:petroinvest@petrobras.com.br) / [acionistas@petrobras.com.br](mailto:acionistas@petrobras.com.br)  
Av. República do Chile, 65 2<sup>nd</sup> floor - 20031-912 - Rio de Janeiro, RJ | Tel.: 55 (21) 3224-1510 / 9947

This document may contain forecasts that merely reflect the expectations of the Company's management. Such terms as anticipate, believe, expect, forecast, intend, plan, project, seek, should, along with similar or analogous terms are used to identify such forecasts. These predictions evidently involve risks and uncertainties, whether foreseen or not by the Company. Therefore, the future results of operations may differ from current expectations, and readers must not base their expectations exclusively on the information presented herein.

## SIGNATURE

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

Date: March 30, 2009

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.

---