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 ___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
December 31, 2008, 2007 and 2006
with Report of Independent
Registered Public Accounting Firm

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of PETRÓLEO BRASILEIRO S.A. - PETROBRAS and subsidiaries (the Company) is responsible for establishing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

The Company s internal control over financial reporting is a process designed by, or under the supervision of, the Company s Audit Committee, Chief Executive Officer, Chief Financial Officer and effected by the Company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission COSO. Based on that assessment management has concluded that as of December 31, 2008 the Company s internal control over financial reporting is effective.

The Company s internal control over financial reporting as of December 31, 2008 has been audited by KPMG Auditores Independentes, the Company s independent registered public accounting firm, which opinion is stated in their report, dated March 27, 2009, included herein.

José Sergio Gabrielli de Azevedo	Almir Guilherme Barbassa
Chief Executive Officer	Chief Financial Officer
March 27, 2009	March 27, 2009

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

CONSOLIDATED FINANCIAL STATEMENTS

Contents

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Petróleo Brasileiro S.A. - Petrobras and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. We also have audited the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements, and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statements presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A Company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petróleo Brasileiro S.A. Petrobras and subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Petróleo Brasileiro S.A. - Petrobras and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in COSO.

/ s / KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil
March 27, 2009

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

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

	As of December 31,	
	2008	**2007**
Assets		
Current assets		
Cash and cash equivalents (Note 4)	**6,499**	6,987
Marketable securities (Note 5)	**124**	267
Accounts receivable, net (Note 6)	**6,613**	6,538
Inventories (Note 7)	**7,990**	9,231
Deferred income taxes (Note 3)	**500**	498
Recoverable taxes (Note 8)	**3,281**	3,488
Advances to suppliers	**626**	683
Other current assets	**1,125**	1,448
	26,758	29,140
Property, plant and equipment, net (Note 9)	**84,719**	84,282
Investments in non-consolidated companies and other investments (Note 10)	**3,198**	5,112
Non-current assets		
Accounts receivable, net (Note 6)	**923**	1,467
Advances to suppliers	**2,471**	1,658
Petroleum and alcohol account - receivable from Federal Government (Note 11)	**346**	450
Government securities	**-**	670
Marketable securities (Note 5)	**1,738**	2,144
Restricted deposits for legal proceedings and guarantees (Note 19 (a))	**798**	977
Recoverable taxes (Note 8)	**3,095**	2,477
Goodwill (Note 18)	**118**	313
Prepaid expenses	**513**	473
Other assets	**1,018**	552
	11,020	11,181
Total assets	**125, 695**	129,715

See the accompanying notes to the consolidated financial statements.

	As of December 31,	
	2008	**2007**
Liabilities and shareholders equity		
Current liabilities		
Trade accounts payable	**7,763**	7,816
Short-term debt (Note 12)	**2,399**	1,458
Current portion of long-term debt (Note 12)	**1,531**	1,273
Current portion of project financings (Note 14)	**1,780**	1,692
Current portion of capital lease obligations (Note 15)	**251**	227
Income taxes payable	**332**	560
Taxes payable, other than income taxes	**3,273**	3,950
Payroll and related charges	**1,398**	1,549
Dividends and interest on capital payable (Note 17 (b))	**3,652**	3,220
Employees postretirement benefits obligation Pension and Health Care (Note 16 (a))	**492**	623
Other payables and accruals	**1,885**	2,100
	24,756	24,468
Long-term liabilities		
Long-term debt (Note 12)	**16,031**	12,148
Project financings (Note 14)	**5,015**	4,586
Capital lease obligations (Note 15)	**344**	511
Employees postretirement benefits obligation - Pension and Health Care (Note 16 (a))	**5,787**	11,317
Deferred income taxes (Note 3)	**7,080**	4,802
Provision for abandonment (Note 9 (a))	**2,825**	3,462
Contingencies (Note 19 (a))	**356**	352
Other liabilities	**933**	558
	38,371	37,736
Minority interest	**659**	2,332
Shareholders equity		
Shares authorized and issued (Note 17 (a))		
Preferred share 2008 and 2007 3,700,729,396 shares (*)	**15,106**	8,620
Common share 2008 and 2007 -5,073,347,344 shares (*)	**21,088**	12,196
Capital reserve - fiscal incentive	**221**	877
Retained earnings		
Appropriated	**15,597**	34,863
Unappropriated	**25,889**	6,618
Accumulated other comprehensive income		
Cumulative translation adjustments	**(15,846)**	4,155

Postretirement benefit reserves adjustments net of tax (US$19 and US$1,273 for December 31, 2008 and 2007, respectively) - Pension cost and Health Care cost (Note 16 (a))	**37**	(2,472)
Unrealized gains on available-for-sale securities, net of tax	**(144)**	331
Unrecognized loss on cash flow hedge, net of tax	**(39)**	(9)
	61,909	65,179
Total liabilities and shareholders equity	**125,695**	129,715

(*) Considers effect of 2 for 1 stock split that occurred on April 25, 2008 (see Note 17(a)).

See the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
December 31, 2008, 2007 and 2006
Expressed in Millions of United States Dollars
(except number of shares and earnings per share)

	Year ended December 31,		
	2008	**2007**	**2006**
Sales of products and services	**146,529**	112,425	93,893
Less:			
Value-added and other taxes on sales and services	**(25,046)**	(20,668)	(17,906)
Contribution of Intervention in the Economic Domain Charge - CIDE	**(3,226)**	(4,022)	(3,640)
Net operating revenues	**118,257**	87,735	72,347
Cost of Sales	**(72,865)**	(49,789)	(40,184)
Depreciation, depletion and amortization	**(5,928)**	(5,544)	(3,673)
Exploration, including exploratory dry holes	**(1,775)**	(1,423)	(934)
Impairment (Note 9 (b) and Note 18(a))	**(519)**	(271)	(21)
Selling, general and administrative expenses	**(7,429)**	(6,250)	(4,824)
Research and development expenses	**(941)**	(881)	(730)
Employee benefit expense for non-active participants	**(841)**	(990)	(1,017)
Other operating expenses	**(2,665)**	(2,136)	(1,120)
Total costs and expenses	**(92,963)**	(67,284)	(52,503)
Operating income	**25,294**	20,451	19,844
Equity in results of non-consolidated companies (Note 10)	**(21)**	235	28
Financial income (Note 13)	**1,641**	1,427	1,165
Financial expenses (Note 13)	**(848)**	(554)	(1,340)
Monetary and exchange variation (Note 13)	**1,584**	(1,455)	75
Other taxes	**(433)**	(662)	(594)
Other expenses, net	**(225)**	(143)	(17)
	1,698	(1,152)	(683)
Income before income taxes and minority interest	**26,992**	19,299	19,161

See the accompanying notes to the consolidated financial statements.

	Year ended December 31,		
	2008	**2007**	**2006**
Income tax expense (Note 3)			
Current	**(6,904)**	(4,826)	(5,011)
Deferred	**(2,355)**	(1,062)	(680)
	(9,259)	(5,888)	(5,691)
Minority interest in results of consolidated subsidiaries	**1,146**	(273)	(644)
Net income for the year	**18,879**	13,138	12,826
Net income applicable to each class of shares			
Common	**10,916**	7,597	7,417
Preferred	**7,963**	5,541	5,409
Net income for the year	**18,879**	13,138	12,826
Basic and diluted earnings per share (Note 17 (c))			
Common and preferred			
Before effect of extraordinary item	**2.15**	1.50(*)	1.46(*)
After effect of extraordinary item	**2.15**	1.50(*)	1.46(*)
Basic and diluted earnings per ADS			
Before effect of extraordinary item	**4.30**	3.00(*)	2.92 (*)
After effect of extraordinary item	**4.30**	3.00(*)	2.92 (*)
Weighted average number of shares outstanding			
Common	5,073,347,344	5,073,347,344(*)	5,073,347,344(*)
Preferred	3,700,729,396	3,700,729,396(*)	3,699,806,288(*)

(*) Considers effect of 2 for 1 stock split that occurred on April 25, 2008 (see Note 17(a)).

See the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2008, 2007 and 2006
Expressed in Millions of United States Dollars

	Year ended December 31,		
	2008	**2007**	**2006**
Cash flows from operating activities			
Net income for the period	**18,879**	13,138	12,826
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	**5,928**	5,544	3,673
Dry hole costs	**808**	549	493
Equity in the results of non-consolidated companies	**21**	(235)	(28)
Foreign exchange (gain)/loss	**2,211**	641	465
Financial income on gás hedge operations	**-**	-	434
Impairment	**519**	271	21
Minority interest in income of subsidiaries	**(1,146)**	273	644
Deferred income taxes	**2,355**	1,062	680
Other	**617**	394	257
Working capital adjustments			
Decrease (increase) in accounts receivable, net	**(1,098)**	(245)	386
Decrease (increase) in inventories	**(568)**	(1,619)	(533)
Increase in trade accounts payable	**2,246**	1,709	1,385
Increase in taxes payable	**(207)**	460	(323)
Advances to suppliers	**(1,684)**	787	(552)
Recoverable taxes	**(1,431)**	(1,132)	(552)
Increase (decrease) in other working capital adjustments	**770**	1,067	1,801
Net cash provided by operating activities	**28,220**	22,664	21,077
Cash flows from investing activities			
Additions to property, plant and equipment	**(29,874)**	(20,978)	(14,643)
Acquisition of Suzano and Ipiranga	**-**	(1,551)	-
Marketable securities and other investments activities	**408**	(1,497)	(38)
Net cash used in investing activities	**(29,466)**	(24,026)	(14,681)
Cash flows from financing activities			
Short-term debt, net issuances and repayments	**380**	(6)	228

Proceeds from issuance and draw-down of long-term debt	**9,570**	2,980	2,251
Principal payments of long-term debt	**(4,655)**	(3,561)	(2,555)
Repurshased securities	**-**	-	(1,046)
Proceeds of project financings	**5,479**	1,568	1,524
Payments of project financings	**(3,124)**	(2,599)	(1,209)
Payment of capital lease obligations	**(125)**	(367)	(334)
Dividends paid to shareholders and minority interest	**(4,747)**	(4,003)	(3,213)
Net cash used in financing activities	**2,778**	(5,988)	(4,354)
Increase (Decrease) in cash and cash equivalents	**1,532**	(7,350)	2,042
Effect of exchange rate changes on cash and cash equivalents	**(2,020)**	1,649	775
Cash and cash equivalents at beginning of period	**6,987**	12,688	9,871
Cash and cash equivalents at end of period	**6,499**	6,987	12,688

See the accompanying notes to the consolidated financial statements.

	Year ended December 31,		
	2008	**2007**	**2006**
Supplemental cash flow information:			
Cash paid during the period for			
Interest, net of amount capitalized	**1,515**	1,684	877
Income taxes	**5,496**	5,146	4,686
Withholding income tax on financial investments	**198**	65	26
Non-cash investment and financing transactions during the year			
Recognition of asset retirement obligation SFAS 143	**687**	1,836	632

See the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
December 31, 2008, 2007 and 2006
Expressed in Millions of United States Dollars (except per-share amounts)

	Year ended December 31,		
	2008	**2007**	**2006**
Preferred shares			
Balance at January 1,	**8,620**	7,718	4,772
Capital increase from undistributed earnings reserve (Note 17(a))	**6,235**	902	2,939
Capital increase from issue of preferred shares	**-**	-	7
Capital increase from capital reserve (Note 17 (a))	**251**	-	-
Balance at December 31,	**15,106**	8,620	7,718
Common shares			
Balance at January 1,	**12,196**	10,959	6,929
Capital increase from undistributed earnings reserve (Note 17 (a))	**8,547**	1,237	4,030
Capital increase from capital reserve (Note 17 (a))	**345**	-	-
Balance at December 31,	**21,088**	12,196	10,959
Capital reserve - fiscal incentive			
Balance at January 1,	**877**	174	159
Capital increase	**(596)**	-	-
Transfer from unappropriated retained earnings	**(60)**	703	15
Balance at December 31,	**221**	877	174
Accumulated other comprehensive loss			
Cumulative translation adjustments			
Balance at January 1,	**4,155**	(6,202)	(9,432)
Change in the year	**(20,001)**	10,357	3,230
Balance at December 31,	**(15,846)**	4,155	(6,202)
Postretirement benefit reserves adjustments net of tax - Pension cost and Health Care cost			

Balance at January 1,	**(2,472)**	(3,039)	(1,930)
Accounting change - SFAS 158	**-**	-	(1,118)
Other decreases (increases)	**3,801**	860	(38)
Tax effect on above	**(1,292)**	(293)	47
Balance at December 31,	**37**	(2,472)	(3,039)
Unrecognized gains (losses) on available-for-sale securities, net of tax			
Balance at January 1,	**331**	446	356
Unrealized gains (losses)	**(490)**	(174)	137
Realized gains	**(229)**	-	-
Tax effect on above	**244**	59	(47)
Balance at December 31,	**(144)**	331	446

See the accompanying notes to the consolidated financial statements.

	Year ended December 31,		
	2008	**2007**	**2006**
Unrecognized loss on cash flow hedge, net of tax			
Balance at January 1	**(9)**	(2)	-
Unrealized losses	**-**	-	(3)
Tax effect on above	**-**	-	1
Change in the year	**(30)**	(7)	-
Balance at December 31,	**(39)**	(9)	(2)
Appropriated retained earnings			
Legal reserve			
Balance at January 1,	**4,297**	3,045	2,225
Transfer from unappropriated retained earnings, net of gain or loss on translation	**(1,040)**	1,252	820
Balance at December 31,	**3,257**	4,297	3,045
Undistributed earnings reserve			
Balance at January 1,	**30,280**	20,074	17,439
Capital increase	**(14,782)**	(1,647)	(6,969)
Transfer from unappropriated retained earnings, net of gain or loss on translation	**(3,375)**	11,853	9,604
Balance at December 31,	**12,123**	30,280	20,074
Statutory reserve			
Balance at January 1,	**286**	585	431
Capital increase	**-**	(492)	-
Transfer from unappropriated retained earnings, net of gain or loss on translation	**(69)**	193	154
Balance at December 31,	**217**	286	585
Total appropriated retained earnings	**15,597**	34,863	23,704
Unappropriated retained earnings			
Balance at January 1,	**6,618**	10,541	11,968
Net income for the year	**18,879**	13,138	12,826

Dividends and interest on shareholders equity (per share: 2008 US$0.47 to common and preferred shares; 2007 - US$0.35(*) to common and preferred share; 2006 - US$0.42 (*) to common and preferred shares	**(4,152)**	(3,060)	(3,660)
Appropriation to reserves	**4,544**	(14,001)	(10,593)
Balance at December 31,	**25,889**	6,618	10,541
Total shareholders equity	**61,908**	65,179	44,299
Comprehensive income (loss) is comprised as follows:			
Net income for the year	**18,879**	13,138	12,826
Cumulative translation adjustments	**(20,001)**	10,357	3,230
Postretirements benefit reserves adjustments net of tax - Pension cost and Health Care cost	**2,509**	567	(25)
Unrealized gains (losses) on available-for-sale securities	**(475)**	(115)	90
Unrecognized loss on cash flow hedge	**(30)**	(9)	(2)
Total comprehensive income	**882**	23,938	16,119

(*) Considers effect of 2 for 1 stock split that occurred on April 25, 2008 (see Note 17(a)).

See the accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Expressed in Millions of United States Dollars
(except when specifically indicated)

1. The Company and its Operations

Petróleo Brasileiro S.A. - Petrobras is Brazil s national oil company and, directly or through its subsidiaries (collectively, Petrobras or the Company), is engaged in the exploration, exploitation and production of oil from reservoir wells, shale and other rocks, and in the refining, processing, trade and transport of oil and oil products, natural gas and other fluid hydrocarbons, in addition to other energy related activities. Additionally, Petrobras may promote the research, development, production, transport, distribution and marketing of all sectors of energy, as well as other related or similar activities.

2. Summary of Significant Accounting Policies

In preparing these consolidated financial statements, the Company has followed accounting policies that are in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of these financial statements requires the use of estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto.

Estimates adopted by management include: oil and gas reserves, pension and health care liabilities, depreciation, depletion and amortization, abandonment costs, contingencies and income taxes. While the Company uses its best estimates and judgments, actual results could differ from those estimates as future confirming events occur.

Certain prior years amounts have been reclassified to conform to current year presentation standards. These reclassifications are not significant to the consolidated financial statements and had no impact on the Company s net income.

(a) Basis of financial statements preparation

The accompanying consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC). U.S. GAAP differs in certain respects from Brazilian accounting practice as applied by Petrobras in its statutory financial statements prepared in accordance with Brazilian Corporate Law and regulations promulgated by the Brazilian Securities and Exchange Commission (CVM).

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of financial statements preparation (Continued)

The U.S. dollar amounts for the years presented have been translated from the Brazilian Real amounts in accordance with Statement of Financial Accounting Standards SFAS No. 52 - Foreign Currency Translation (SFAS 52) as applicable to entities operating in non-hyperinflationary economies. Transactions occurring in foreign currencies are first remeasured to the Brazilian Real and then translated to the U.S. dollar, with remeasurement gains and losses being recognized in the statements of income. While Petrobras has selected the U.S. Dollar as its reporting currency, the functional currency of Petrobras and all Brazilian subsidiaries is the Brazilian Real. The functional currency of Petrobras International Finance Company PifCo and some subsidiaries and certain of the special purpose companies that operate in the international economic environment is the U.S. dollar, and the functional currency of Petrobras Energía Participaciones S.A. - PEPSA is the Argentine Peso.

The Company has translated all assets and liabilities into U.S. dollars at the current exchange rate (R$2.337 and R$ R$1.771 to US$1.00 at December 31, 2008 and 2007, respectively), and all accounts in the statements of income and cash flows (including amounts relative to local currency indexation and exchange variances on assets and liabilities denominated in foreign currency) at the average rates prevailing during the year. The net translation loss in the amount of US$20,001 in 2008 (net translation gain in 2007 - US$10,357 and in 2006 - US$3,230) resulting from this remeasurement process was excluded from income and presented as a cumulative translation adjustment (CTA) within Accumulated other comprehensive income in the consolidated statements of changes in shareholders equity.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries in which (a) the Company directly or indirectly has either a majority of the equity of the subsidiary or otherwise has management control, or (b) the Company has determined itself to be the primary beneficiary of a variable interest entity in accordance with FIN 46(R).

2. Summary of Significant Accounting Policies (Continued)

(b) Basis of consolidation (Continued)

The following majority-owned subsidiaries and variable interest entities are consolidated:

Subsidiary companies	**Activity**
Petrobras Química S.A. - Petroquisa and subsidiaries	Petrochemical
Petrobras Distribuidora S.A. - BR and subsidiaries	Distribution
Braspetro Oil Services Company - Brasoil and subsidiaries	International operations
Braspetro Oil Company - BOC and subsidiaries	International operations
Petrobras International Braspetro B.V. - PIBBV and subsidiaries	International operations
Petrobras Gás S.A. - Gaspetro and subsidiaries	Gas transportation
Petrobras International Finance Company - PifCo and subsidiaries	Financing
Petrobras Transporte S.A. - Transpetro and subsidiaries	Transportation
Downstream Participações Ltda. and subsidiaries	Refining and distribution
Petrobras Netherlands BV - PNBV and subsidiaries	Exploration and Production
Petrobras Comercializadora de Energia Ltda. - PBEN	Energy
Petrobras Negócios Eletrônicos S.A. - E-Petro and subsidiaries	Corporate
5283 Participações Ltda.	Corporate
Fundo de Investimento Imobiliário RB Logística - FII	Corporate
FAFEN Energia S.A.	Energy
Baixada Santista Energia Ltda.	Energy
Sociedade Fluminense de Energia Ltda. - SFE	Energy
Termoaçu S.A.	Energy
Termobahia S.A.	Energy
Termoceará Ltda.	Energy
Termorio S.A.	Energy
Termomacaé Ltda.	Energy
Termomacaé Comercialização de Energia Ltda.	Energy
Ibiritermo S.A.	Energy
Usina Termelétrica de Juiz de Fora S.A.	Energy
Petrobras Biocombustível S.A.	Energy
Refinaria Abreu e Lima S.A.	Refining
Alvo Distribuidora de Combustíveis Ltda.	Distribution
Ipiranga Asfalto S.A.	Petrochemical
Córdoba Financial Services GmbH	Corporate

Special purpose entities consolidated according to FIN 46(R)	**Activity**
Albacora Japão Petróleo Ltda.	Exploration and Production
Barracuda & Caratinga Leasing Company B.V.	Exploration and Production
Companhia Petrolífera Marlim	Exploration and Production
NovaMarlim Petróleo S.A.	Exploration and Production
Cayman Cabiunas Investments Co.	Exploration and Production
Cia. de Desenvolvimento e Modernização de Plantas Industriais - CDMPI	Refining
Companhia Locadora de Equipamentos Petrolíferos S.A. - CLEP	Exploration and Production
PDET Offshore S.A.	Exploration and Production
Companhia de Recuperação Secundária S.A.	Exploration and Production
Nova Transportadora do Nordeste S.A.	Transportation
Nova Transportadora do Sudeste S.A.	Transportation
Gasene Participações Ltda.	Transportation
Manaus Geração Termelétrica Participações Ltda.	Energy
Blade Securities Limited.	Corporate
Codajás Coari Participações Ltda.	Transportation
Charter Development LLC- CDC	Exploration and Production
Companhia Mexilhão do Brasil	Exploration and Production
Fundo de Investimento em Direitos Creditórios não-padronizados do Sistema Petrobras (1)	Corporate

(1) At December 31, 2008, the Company had amounts invested in the Petrobras Group s NonStandardized Credit Rights Investment Fund (Fundo de Investimento em Direitos Creditórios não-padronizados do Sistema Petrobras - FIDC-NP). This investment fund is predominantly intended for acquiring credit rights, performed and/or non-performed, in the Petrobras System companies, and aims to optimize the Company s cash management.

(c) Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash and have an original maturity of three months or less at date of acquisition.

(d) Marketable securities

Marketable securities have been classified by the Company as available-for-sale, held-to-maturity or trading based upon intended strategies with respect to such securities.

Trading securities are marked-to-market through current period earnings, available-for-sale securities are marked-to-market through other comprehensive income, and held-to-maturity securities are recorded at amortized cost.

There were no material transfers between categories.

(e) Inventories

Inventories are stated as follows:

Raw material comprises mainly the stocks of petroleum, which are stated at the average value of the importing and production costs, adjusted, when applicable, to their realization value;

Oil products and fuel alcohol are stated, respectively, at average refining and purchase cost, adjusted when applicable to their realizable value;

Materials and supplies are stated at average purchase cost, not exceeding replacement value and imports in transit are stated at identified cost.

(f) Investments in non-consolidated companies

The Company uses the equity method of accounting for all long-term investments for which it owns between 20% and 50% of the investee s outstanding voting stock or has the ability to exercise significant influence over operating and financial policies of the investee without controlling it. The equity method requires periodic adjustments to the investment account to recognize the Company s proportionate share in the investee s results, reduced by receipt of investee s dividends.

(g) Property, plant and equipment

Costs incurred in oil and gas producing activities

The costs incurred in connection with the exploration, development and production of oil and gas are recorded in accordance with the successful efforts method. This method requires that costs the Company incurs in connection with the drilling of developmental wells and facilities in proved reserve production areas and successful exploratory wells be capitalized. In addition, costs the Company incurs in connection with geological and geophysical activities are charged to the statements of income in the year incurred, and the costs relating to exploratory dry wells on unproved reserve properties are charged to the statements of income when determined as dry or uneconomical.

Capitalized costs

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

Property acquisition costs

Costs of acquiring developed or undeveloped leaseholds including lease bonus, brokerage, and other fees are capitalized. The costs of undeveloped properties that become productive are transferred to a producing property account.

Exploratory costs

Exploratory wells that find oil and gas in an area requiring a major capital expenditure before production begins are evaluated annually to assure that commercial quantities of reserves have been found or that additional exploration work is underway or planned. Exploratory costs related to areas where commercial quantities have been found are capitalized, and exploratory costs where additional work is underway or planned continue to be capitalized pending final evaluation. Exploratory well costs not meeting either of these tests are charged to expense. All other exploratory costs (including geological and geophysical costs) are expensed as incurred. Exploratory dry holes are expensed.

Development costs

Costs of development wells inclu