PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
June 01, 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 May, 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
March 31, 2009 and 2008
with Review Report of Independent
Registered Public Accounting Firm

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

CONSOLIDATED FINANCIAL STATEMENTS

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Review report of independent registered public accounting firm

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

We have reviewed the accompanying condensed consolidated balance sheet of Petróleo Brasileiro S.A. - Petrobras and subsidiaries as of March 31, 2009, and the related condensed consolidated statements of operations, cash flows and changes in shareholders equity for the three-month periods ended March 31, 2009 and 2008. These condensed consolidated financial statements are the responsibility of the Company s management.

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

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

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil
May 29, 2009

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2009 and December 31, 2008
Expressed in Millions of United States Dollars

	March 31, 2009	**December 31, 2008**
Assets	**(unaudited)**	**(Note 1)**
Current assets		
Cash and cash equivalents (Note 5)	**8,126**	6,499
Marketable securities (Note 6)	**149**	124
Accounts receivable, net	**6,052**	6,613
Inventories (Note 7)	**7,020**	7,990
Deferred income taxes (Note 4)	**627**	500
Recoverable taxes (Note 8)	**3,311**	3,281
Advances to suppliers	**673**	626
Other current assets	**1,199**	1,125
	27,157	26,758
Property, plant and equipment, net	**90,245**	84,719
Investments in non-consolidated companies and other investments	**3,264**	3,198
Non-current assets		
Accounts receivable, net	**1,069**	923
Advances to suppliers	**2,461**	2,471
Petroleum and alcohol account - receivable from Federal Government (Note 9)	**351**	346
Marketable securities (Note 6)	**1,833**	1,738
Restricted deposits for legal proceedings and guarantees (Note 16 (a))	**838**	798
Recoverable taxes (Note 8)	**3,396**	3,095
Goodwill	**116**	118
Prepaid expenses	**527**	513
Other assets	**979**	1,018
	11,570	11,020
Total assets	**132,236**	125,695

See the accompanying notes to the consolidated financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)
March 31, 2009 and December 31, 2008
Expressed in Millions of United States Dollars (except number of shares)

	March 31, 2009	December 31, 2008
Liabilities and shareholders equity	**(unaudited)**	**(Note 1)**
Current liabilities		
Trade accounts payable	**6,702**	7,763
Short-term debt (Note 10)	**2,664**	2,399
Current portion of long-term debt (Note 10)	**1,536**	1,531
Current portion of project financings (Note 12)	**1,864**	1,780
Current portion of capital lease obligations (Note 13)	**255**	251
Income taxes payable	**347**	332
Taxes payable, other than income taxes	**3,704**	3,273
Payroll and related charges	**1,529**	1,398
Dividends and interest on capital payable (Note 15)	**4,160**	3,652
Employees postretirement benefits obligation Pension and Health Care (Note 14 (a))	**540**	492
Other payables and accruals	**2,367**	1,885
	25,668	24,756
Long-term liabilities		
Long-term debt (Note 10)	**18,470**	16,031
Project financings (Note 12)	**4,848**	5,015
Capital lease obligations (Note 13)	**322**	344
Employees postretirement benefits obligation Pension and Health Care (Note 14 (a))	**5,919**	5,787
Deferred income taxes (Note 4)	**7,584**	7,080
Provision for abandonment	**2,881**	2,825
Contingencies (Note 16 (a))	**363**	356
Other liabilities	**923**	933
	41,310	38,371
Shareholders equity		
Shares authorized and issued (Note 15)		

Preferred share - 2009 and 2008 - 3,700,729,396 shares (*)	**15,106**	15,106
Common share - 2009 and 2008 - 5,073,347,344 shares (*)	**21,088**	21,088
Capital reserve - fiscal incentive	**222**	221
Retained earnings		
Appropriated	**27,594**	15,597
Unappropriated	**15,930**	25,889
Accumulated other comprehensive income		
Cumulative translation adjustments	**(15,394)**	(15,846)
Postretirement benefit reserves adjustments net of tax (US$19 for March 31, 2009 and December 31, 2008) - Pension cost and Health Care (Note 14 (a))	**38**	37
Unrealized losses on available-for-sale securities, net of tax	**(49)**	(144)
Unrecognized loss on cash flow hedge, net of tax	**(36)**	(39)
Petrobras Shareholders Equity	**64,499**	61,909
Noncontrolling interest	**759**	659
Total Equity	**65,258**	62,568
Total liabilities and shareholders equity	**132,236**	125,695

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

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)
March 31, 2009 and December 31, 2008
Expressed in Millions of United States Dollars (except number of shares)

See the accompanying notes to the consolidated financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
March 31, 2009 and 2008
Expressed in Millions of United States Dollars (except number of shares and earnings per share)
(Unaudited)

	Three-month periods ended March 31,	
	2009	**2008**
Sales of products and services	**22,899**	33,351
Less:		
Value-added and other taxes on sales and services	**(4,219)**	(5,896)
Contribution of intervention in the economic domain charge - CIDE	**(468)**	(1,113)
Net operating revenues	**18,212**	26,342
Cost of sales	**(10,020)**	(15,380)
Depreciation, depletion and amortization	**(1,328)**	(1,450)
Exploration, including exploratory dry holes	**(420)**	(380)
Selling, general and administrative expenses	**(1,440)**	(1,706)
Research and development expenses	**(146)**	(237)
Employee benefit expense for non-active participants	**(166)**	(208)
Other operating expenses	**(436)**	(603)
Total costs and expenses	**(13,956)**	(19,964)
Operating income	**4,256**	6,378
Equity in results of non-consolidated companies	**(15)**	81
Financial income (Note 11)	**337**	441
Financial expenses (Note 11)	**(126)**	(109)
Monetary and exchange variation (Note 11)	**(211)**	(53)
Other taxes	**(63)**	(109)
Other expenses, net (Note 20 (a))	**(131)**	-
	(209)	251

Income before income taxes	**4,047**	6,629

See the accompanying notes to the consolidated financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)
March 31, 2009 and 2008
Expressed in Millions of United States Dollars (except number of shares and earnings per share)
(Unaudited)

	Three-month periods ended March 31,	
	2009	**2008**
Income taxes expense (Note 4)		
Current	**(965)**	(1,713)
Deferred	**(332)**	(348)
	(1,297)	(2,061)
Net income for the period	**2,750**	4,568
Less: Net income attributable to the noncontrolling interest	**(114)**	(67)
Net income attributable to Petrobras	**2,636**	4,501
Net income applicable to each Petrobras class of shares		
Common	**1,524**	2,603
Preferred	**1,112**	1,898
	2,636	4,501
Basic and diluted earnings per: (Note 15)		
Common and Preferred share	**0.30**	0.51(*)
Common and Preferred ADS	**0.60**	1.02(*)
Weighted average number of shares outstanding		
Common	5,073,347,344	5,073,347,344(*)
Preferred	3,700,729,396	3,700,729,396(*)

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

See the accompanying notes to the consolidated financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
March 31, 2009 and 2008
Expressed in Millions of United States Dollars
(Unaudited)

	Three-month periods ended March 31,	
	2009	**2008**
Cash flows from operating activities		
Net income for the period	**2,636**	4,501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	**1,328**	1,450
Dry hole costs	**241**	175
Equity in the results of non-consolidated companies	**15**	(76)
Foreign exchange (gain)/loss	**444**	597
Noncontrolling interest in income of subsidiaries	**114**	67
Deferred income taxes	**332**	348
Other	**176**	135
Working capital adjustments		
Decrease (increase) in accounts receivable, net	**467**	(654)
Decrease (increase) in inventories	**608**	(693)
Increase (decrease) in trade accounts payable	**(1,217)**	551
Increase in taxes payable	**367**	496
Increase in advances to suppliers	**(7)**	(391)
Increase in recoverable taxes	**(270)**	(290)
Increase (decrease) in other working capital adjustments	**668**	(89)
Net cash provided by operating activities	**5,902**	6,127
Cash flows from investing activities		
Additions to property, plant and equipment	**(6,330)**	(6,097)
Marketable securities and other investments activities	**(198)**	27
Net cash used in investing activities	**(6,528)**	(6,070)
Cash flows from financing activities		

Short-term debt, net issuances and repayments	**369**	402
Proceeds from issuance and draw-down of long-term debt	**2,819**	2,116
Principal payments of long-term debt	**(473)**	(849)
Proceeds from project financings	**148**	632
Payments of project financings	**(412)**	(513)
Payment of capital lease obligations	**(28)**	(44)
Dividends paid to shareholders	**(247)**	(2,642)
Dividends paid to noncontrolling interest in income of subsidiaries	**16**	(10)
Net cash provided by (used in) financing activities	**2,192**	(908)
Increase (Decrease) in cash and cash equivalents	**1,566**	(851)
Effect of exchange rate changes on cash and cash equivalents	**61**	65
Cash and cash equivalents at beginning of period	**6,499**	6,987
Cash and cash equivalents at end of period	**8,126**	6,201

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
March 31, 2009 and 2008
Expressed in Millions of United States Dollars
(Unaudited)

	Three-month periods ended March 31,	
	2009	**2008**
Supplemental cash flow information:		
Cash paid during the period for		
Interest, net of amount capitalized	**22**	37
Income taxes	**919**	683

See the accompanying notes to the consolidated financial statements.

PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
March 31, 2009 and 2008
Expressed in Millions of United States Dollars
(Unaudited)

	Three-month periods ended March 31,	
	2009	**2008**
Preferred shares		
Balance at January 1,	**15,106**	8,620
Balance at March 31,	**15,106**	8,620
Common shares		
Balance at January 1,	**21,088**	12,196
Balance at March 31,	**21,088**	12,196
Capital reserve - fiscal incentive		
Balance at January 1,	**221**	877
Change in the period	**1**	11
Balance at March 31,	**222**	888
Accumulated other comprehensive gain (loss)		
Cumulative translation adjustments		
Balance at January 1,	**(15,846)**	4,155
Change in the period	**452**	873
Balance at March 31,	**(15,394)**	5,028
Postretirement benefit reserves adjustments, net of tax - Pension Cost and Health Care		
Balance at January 1,	**37**	(2,472)
Change in the period	**1**	(46)
Tax effect on above	**-**	16

Balance at March 31,	**38**	(2,502)
Unrecognized gains on available-for-sale securities, net of tax		
Balance at January 1	**(144)**	331
Unrealized gains (losses)	**144**	(53)
Tax effect on above	**(49)**	18
Balance at March 31,	**(49)**	296
Unrecognized gain (loss) on cash flow hedge, net of tax		
Balance at January 1	**(39)**	(9)
Change in the period	**3**	(7)
Balance at March 31,	**(36)**	(16)

See the accompanying notes to the consolidated financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Continued)
March 31, 2009 and 2008
Expressed in Millions of United States Dollars
(Unaudited)

	Three-month periods ended March 31,	
	2009	**2008**
Appropriated retained earnings		
Legal reserve		
Balance at January 1	**3,257**	4,297
Change in the period	**818**	55
Balance at March 31,	**4,075**	4,352
Undistributed earnings reserve		
Balance at January 1	**12,123**	30,280
Change in the period	**11,006**	384
Balance at March 31,	**23,129**	30,664
Statutory reserve		
Balance at January 1	**217**	286
Change in the period	**173**	3
Balance at March 31,	**390**	289
Total appropriated retained earnings	**27,594**	35,305
Unappropriated retained earnings		
Balance at January 1	**25,889**	6,618
Net income for the period	**2,636**	4,501
Dividends and interest on shareholders equity paid	**(597)**	(501)
Other changes in the period	**(11,998)**	(453)

Balance at March 31,	**15,930**	10,165
Petrobras shareholders' equity	**64,499**	69,980
Noncontrolling interest		
Balance at January 1	**659**	2,332
Net income for the period	**114**	67
Dividends and interest on shareholders equity paid	**16**	(341)
Other changes in the period	**(30)**	25
Balance at March 31,	**759**	2,083
Total equity	**65,258**	72,063

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Continued)
March 31, 2009 and 2008
Expressed in Millions of United States Dollars
(Unaudited)

	Three-month periods ended March 31,	
	2009	**2008**
Comprehensive income is comprised as follows:		
Net income for the period	**2,636**	4,501
Cumulative translation adjustments	**452**	873
Postretirement benefit reserves adjustments, net of tax - pension and health care cost	**1**	(30)
Unrealized gain (loss) on available-for-sale securities	**95**	(35)
Unrecognized gain (loss) on cash flow hedge	**3**	(16)
Comprehensive income	**3,187**	5,293
Less: Net comprehensive income atributable to noncontrolling interest	**114**	67
Comprehensive income attributable to Petrobras	**3,301**	5,360

See the accompanying notes to the consolidated financial statements.

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PETRÓLEO BRASILEIRO S.A. - PETROBRAS AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Expressed in Millions of United States Dollars
(except when specifically indicated)
(Unaudited)

1. Basis of Financial Statements Preparation

The accompanying unaudited consolidated financial statements of Petróleo Brasileiro S.A. - Petrobras (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Accordingly they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These unaudited consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008 and the notes thereto.

The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The consolidated financial statements as of March 31, 2009 and for the three-month periods ended March 31, 2009 and 2008, included in this report, are unaudited. However, in management's opinion, such consolidated financial statements reflect all normal recurring adjustments that are necessary for a fair presentation. The results for the interim periods are not necessarily indicative of trends or of results expected for the full year ending December 31, 2009.

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

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.

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

2. Recently Adopted Accounting Standards

FASB Statement No. 157 Fair value measurements (SFAS 157)

Effective January 1, 2009, the Company implemented SFAS No. 157,   Fair Value Measurements   for nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed on a recurring basis (at least annually). There was no impact to the Company s consolidated financial statements from the implementation of SFAS No. 157 for nonfinancial assets and liabilities.

FASB Statement No. 141 (revised 2007), Business Combinations (SFAS 141-R)

In December 2007, the FASB issued SFAS 141-R, which was subsequently amended by FASB Staff Position (FSP) SFAS 141 (R)-1 in April 2009. SFAS 141-R apllies prospectively to all business combinations ocurring on or after January, 2009. This standard requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date to be measured at their respective fair values. SFAS 141-R changes the accounting treatment for the following items: acquisition-related costs and restructuring costs to be generally expensed when incurred; in-process research and development to be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition to be generally recognized in income tax expense. SFAS 141-R also includes a substantial number of new disclosures requirements.

FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160)

In December 2007, the FASB issued SFAS 160, which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 was implemented on January 1, 2009. As a result of the implementation, the Company recognized on March 31, 2009, noncontrolling interest (minority interest) of US$759 as equity in the consolidated financial statements, as a separate item in equity, and net income of US$114 attributable to the noncontrolling interest was included in consolidated net income on the face of the income statement.

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3. Derivative Instruments, Hedging and Risk Management Activities

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

In 2004, the Executive Committee of Petrobras set up the Risk Management Committee composed of executive managers from all the business departments and from a number of corporate departments. This committee, as well as having the objective of assuring integrated management of exposures to risks and formalizing the main guidelines for the Company s operation, aims at concentrating information and discussing actions for risk management, facilitating communication with the executive offices and the board of directors in aspects related to best corporate governance practices.

The risk management policy of the Petrobras System aims at contributing towards an appropriate balance between its objectives for growth and return and its level of risk exposure, whether inherent to the exercise of its activities or arising from the context within which it operates, so that, through effective allocation of its physical, financial and human resources the Company may attain its strategic goals.

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

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

(a) Commodity price risk management

The Company is exposed to commodity price risks as a result of the fluctuation of crude oil and oil product prices. The Company s commodity risk management activities are primarily undertaking through the uses of future contracts traded on stock exchanges; and options and swaps entered into with major financial institutions. The Company does not use derivatives contracts for speculative purposes.

The Company does not usually use derivatives to manage overall commodity price risk exposure, taking into consideration that the Company s business plan uses conservative price assumptions associated to the fact that, under normal market conditions, price fluctuations of commodities do not represent a substantial risk to achieving strategic objectives.

The decision to do hedging or non-hedging derivatives are reviewed periodically and recommended, or not, to the Risk Management Committee. If entering into derivative is indicated, in scenarios with a significant probability of adverse events, and approved by the Board of Directors, the derivative transactions should be carried out with the aim of protecting the Company s solvency, liquidity and execution of the corporate investment plan, considering an integrated analysis of all the Company s risk exposures.

Outstanding derivatives contracts were entered into in order to mitigate price risk exposures from specific transactions, in which positive or negative results in the derivative transactions are totally or partially offset by the opposite result in the physical positions. The transactions covered by commodity derivatives are: certain cargoes traded from import and export operations and transactions between different geographical markets.

As a result of the Company currently price risk management, the derivatives are contracted as short term operations, in order to accompany the time frames corresponding to the risk exposure. The operations are carried out on the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange (ICE), as well as on the international over-the-counter market.

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

(a) Commodity price risk management (Continued)

The Company s exposure from these contracts is limited to the difference between the contract value and market value on the volumes contracted. Crude oil future contracts are marked-to-market and related gains and losses are recognized in currently period earnings, irrespective of when the physical crude sales occur.

The main parameters used in risk management for variations of Petrobras oil and oil product prices are the cash flow at risk (CFAR) for medium-term assessments, Value at Risk (VAR) for short-term assessments, and Stop Loss. Corporate limits are defined for VAR and Stop Loss.

The main counterparts of operations for derivatives for oil and oil products are the New York Stock Exchange (NYMEX), IntercontinentalExhange and JP Morgan.

The commodity derivatives contracts are reflected at fair value as either assets or liabilities on the Company s consolidated balance sheets recognizing gain or losses in earnings, using market to market accounting, in the period of change.

As of March 31, 2009, the Company had the following outstanding commodity derivative contracts that were entered into:

Commodity Contracts **Maturity 2009**	**Notional amount in thousands of bbl* as of** **March 31, 2009**
Futures and Forwards contracts	1,096
Options contracts	3,650

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

(a) Commodity price risk management (Continued)

At March 31, 2009, the portfolio for commercial operations carried out abroad, as well as the derivatives for their protection through derivatives for oil and oil products, presented a maximum estimated loss per day (VAR - Value at Risk), calculated at a reliability level of 95%, of approximately US$8.

(b) Foreign currency risk management

Exchange risk is one of the financial risks that the Company is exposed to and it originates from changes in the levels or volatility of the exchange rate. With respect to the management of these risks, the Company seeks to identify and handle them in an integrated manner, seeking to assure efficient allocation of the resources earmarked for the derivative.

Taking advantage of operating in an integrated manner in the energy segment, the Company seeks, primarily, to identify or create natural risk mitigation , benefiting from the correlation between its income and expenses. In the specific case of exchange variation inherent to the contracts with the cost and remuneration involved in different currencies, this natural risk mitigation is carried out through allocating the cash investments between the real and the US dollar or another currency.

The management of risks is done for the net exposure. Periodical analyses of the exchange risk are prepared, assisting the decisions of the Executive Committee. The exchange risk management strategy involves the use of derivative instruments to minimize the exchange exposure of certain Company s obligations.

The Company entered into an over the counter contract, not designated as hedge accounting, for covering the trading margins inherent to exports (aviation segment) for foreign clients. The objective of the operation, contracted contemporaneously with the definition of the cost of the products exported, is to lock the trading margins agreed with the foreign clients. Internal policy limits the volume of derivative contracts to the volume of products exported.

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

(b) Foreign currency risk management (Continued)

The over the counter contract is reflected at fair value as either assets or liabilities on the Company s consolidated balance sheets recognizing gain or losses in earnings, using market to market accounting, in the period of change.

As of March 31, 2009, the Company had the following foreign currency derivative contracts, not designated as hedging accounting, that were entered into:

Foreign Currency Maturing in 2009	Notional Amount US$ million
Sell USD / Pay BRL	40

At March 31, 2009, the forward derivative contract presented a maximum estimated loss per day (VAR - Value at Risk), calculated at a reliability level of 95%, of approximately US$1.

Cash flow hedge

In September 2006, the Company contracted a hedge known as a cross currency swap for coverage of the bonds issued in Yens in order to fix the Company s costs in this operation in dollars. In a cross currency swap there is an exchange of interest rates in different currencies. The exchange rate of the Yen for the US dollar is fixed at the beginning of the transaction and remains fixed during its existence. The Company does not intend to settle these contracts before the end of the term.

The Company has elected to designate its cross currency swap as cash flow hedges. Both at the inception of a hedge and on an ongoing basis, a cash flow hedge must be expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the hedge. Derivative instruments designated as cash flow hedges are reflected as either assets or liabilities on the Company s consolidated balance sheets. Change in fair value, to the extent the hedge is effective, is reported in accumulated other comprehensive income until the cash flows of the hedged item occurs.

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

(b) Foreign currency risk management (Continued)

Cash flow hedge (Continued)

Effectiveness tests are conducted quarterly in order to measure how the changes in the fair value or the cash flow of the hedged items are being absorbed by the hedge mechanisms. The effectiveness calculation indicated that the cross currency swap is highly effective in offsetting the variation in the cash flows of the bonds issued in Yens.

As of March 31, 2009, the Company had the following cross currency swap, which was entered into:

Cross Currency Swaps

Maturing in 2016	**%**	**Notional Amount (MM JPY)**
Fixed to fixed		35,000
Average Pay Rate (USD)	5.69	
Average Receive Rate (JPY)	2.15	
		35,000

At March 31, 2009, the cross currency swap presented a maximum estimated loss per day (VAR - Value at Risk), calculated at a reliability level of 95%, of approximately US$23.

(c) Interest rate risk management

The Company s interest rate risk is a function of the Company s long-term debt and to a lesser extent, its short-term debt. The Company s foreign currency floating rate debt is principally subject to fluctuations in LIBOR and the Company s floating rate debt denominated in Reais is principally subject to fluctuations in the Brazilian long-term interest rate (TJLP) as fixed by the National Monetary Counsel. The Company currently does not utilize derivative financial instruments to manage its exposure to fluctuations in interest rates.

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

(d) Tabular presentation of the location and amounts of derivative fair values

The effect of derivative instruments on the statement of financial position for the three-month period ended March 31, 2009.

In millions of dollars	**Asset Derivatives**		**Liability Derivatives**	
As of March 31,	**2009**		**2009**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133				
Foreign exchange contracts	Other current assets	19		**-**
Total		**19**		**-**
Derivatives not designated as hedging instruments under SFAS 133				
Foreign exchange contracts	Other current assets	1	Other payables and accruals	-
Commodity contracts	Other current assets	4	Other payables and accruals	3
Total		**5**		**3**
Total Derivatives		**24**		**3**

The effect of derivative instruments on the statement of financial position for the year ended December 31, 2008.

In millions of dollars	**Asset Derivatives**		**Liability Derivatives**	
As of December 31,	**2008**		**2008**	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under SFAS 133				
Foreign exchange contracts		47		-

	Other current assets			
Total		**47**		**-**
Derivatives not designated as hedging instruments under SFAS 133				
Foreign exchange contracts	Other current assets	-	Other payables and accruals	2
Commodity contracts	Other current a			