

PETROBRAS INTERNATIONAL FINANCE CO  
Form 20-F  
May 26, 2011

**As filed with the Securities and Exchange Commission on May 25, 2011**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 20-F**

**ANNUAL REPORT**

**PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**for the fiscal year ended December 31, 2010**

**Commission File Number 001-15106**

**Commission File Number: 001-33121**

**Petróleo Brasileiro S.A.—Petrobras**

**Petrobras International Finance Company**

**(Exact name of registrant as specified in  
its charter)**

**(Exact name of registrant as specified in  
its charter)**

**Brazilian Petroleum Corporation—Petrobras**

**(Translation of registrant's name into  
English)**

**The Federative Republic of Brazil**

**Cayman Islands**

**(Jurisdiction of incorporation or  
organization)**

**(Jurisdiction of incorporation or  
organization)**

**Avenida República do Chile, 65**

**4th Floor, Harbour Place**

**20031-912 - Rio de Janeiro - RJ**

**103 South Church Street**

**Brazil**

**P.O. Box 1034GT - BWI**

**(Address of principal executive offices)**

**George Town, Grand Cayman**

**Almir Guilherme Barbassa  
(55 21) 3224-2040 -  
barbassa@petrobras.com.br**

**Cayman Islands**

**(Address of principal executive offices)**

**Avenida República do Chile, 65 – 23<sup>d</sup> Floor  
20031-912 – Rio de Janeiro – RJ**

**Brazil**

**(Name, telephone, e-mail and/or facsimile  
number and address of company contact  
person)**

**Sérvio Túlio da Rosa Tinoco**

**(55 21) 3224-1410 –**

**ttinoco@petrobras.com.br**

**Avenida República do Chile, 65 – 3<sup>d</sup> Floor  
20031-912 – Rio de Janeiro – RJ**

**Brazil**

**(Name, telephone, e-mail and/or facsimile  
number and address of company contact  
person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<b><u>Title of each class:</u></b>	<b><u>Name of each exchange on which registered:</u></b>
Petrobras Common Shares, without par value* Petrobras American Depositary Shares, or ADSS (evidenced by American Depositary Receipts, or ADRs), each representing 2 Common Shares	New York Stock Exchange* New York Stock Exchange
Petrobras Preferred Shares, without par value* Petrobras American Depositary Shares (as evidenced by American Depositary Receipts), each representing 2 Preferred Shares	New York Stock Exchange* New York Stock Exchange
6.125% Global Notes due 2016, issued by PifCo	New York Stock Exchange
3.875% Global Notes due 2016, issued by PifCo	New York Stock Exchange
5.875% Global Notes due 2018, issued by PifCo	New York Stock Exchange
7.875% Global Notes due 2019, issued by PifCo	New York Stock Exchange
5.75% Global Notes due 2020, issued by PifCo	New York Stock Exchange
5.375% Global Notes due 2021, issued by PifCo	New York Stock Exchange
6.875% Global Notes due 2040, issued by PifCo	New York Stock Exchange
6.750% Global Notes due 2041, issued by PifCo	New York Stock Exchange

\* Not for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**TITLE OF EACH CLASS:**

9.750% Senior Notes due 2011, issued by PifCo

9.125% Global Notes due 2013, issued by PifCo

7.75% Global Notes due 2014, issued by PifCo

8.375% Global Notes due 2018, issued by PifCo

**The number of outstanding shares of each class of stock of Petrobras and PifCo as of December 31, 2010 was:**

7,442,454,142 Petrobras Common Shares, without par value

5,602,042,788 Petrobras Preferred Shares, without par value

300,050,000 PifCo Common Shares, at par value U.S.\$1 per share

**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.**

**Yes R No £**

**If this report is an annual or transitional report, indicate by check mark if the registrant is not required to file reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.**

**Yes £ No R**

**Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.**

**Yes R No £**

**Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).**

**Yes R [Petrobras] No £**

**Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):**

**Large accelerated filer**  [Petrobras]      **Accelerated filer**  £      **Non-accelerated filer**  R [PifCo]

**Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:**

**U.S.GAAP**  R      **International Financial Reporting Standards as issued by the International Accounting Standards Board**  £      **Other**  £

**If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.**

**Item 17**  £    **Item 18**  £

**If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).**

**Yes**  £    **No**  R

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## **FORWARD-LOOKING STATEMENTS**

Many statements made in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act), that are not based on historical facts and are not assurances of future results. Many of the forward-looking statements contained in this annual report may be identified by the use of forward-looking words, such as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimate” and “potential,” among others. We have made forward-looking statements that address, among other things:

- our marketing and expansion strategy;
- our exploration and production activities, including drilling;
- our activities related to refining, import, export, transportation of petroleum, natural gas and oil products, petrochemicals, power generation, biofuels and other sources of renewable energy;
- our projected and targeted capital expenditures and other costs, commitments and revenues;
- our liquidity and sources of funding;
- development of additional revenue sources; and
- the impact, including cost, of acquisitions.

Our forward-looking statements are not guarantees of future performance and are subject to assumptions that may prove incorrect and to risks and uncertainties that are difficult to predict. Our actual results could differ materially from those expressed or forecast in any forward-looking statements as a result of a variety of factors. These factors include, among other things:

- our ability to obtain financing;
- general economic and business conditions, including crude oil and other commodity prices, refining margins and prevailing exchange rates;
- our ability to find, acquire or gain access to additional reserves and to develop our current reserves successfully;
- global economic conditions;
- our ability to find, acquire or gain access to additional reserves and to develop our current reserves successfully;

- uncertainties inherent in making estimates of our oil and gas reserves, including recently discovered oil and gas reserves;
- competition;
- technical difficulties in the operation of our equipment and the provision of our services;
- changes in, or failure to comply with, laws or regulations;
- receipt of governmental approvals and licenses;

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- international and Brazilian political, economic and social developments;
- natural disasters, accidents, military operations, acts of sabotage, wars or embargoes;
- the cost and availability of adequate insurance coverage; and
- other factors discussed below under “Risk Factors.”

For additional information on factors that could cause our actual results to differ from expectations reflected in forward-looking statements, please see “Risk Factors” in this annual report.

All forward-looking statements attributed to us or a person acting on our behalf are qualified in their entirety by this cautionary statement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.

The crude oil and natural gas reserve data presented or described in this annual report are only estimates and our actual production, revenues and expenditures with respect to our reserves may materially differ from these estimates.

This is the annual report of both Petr leo Brasileiro S.A.—Petrobras (Petrobras) and its direct wholly owned Cayman Islands subsidiary, Petrobras International Finance Company (PifCo). PifCo’s operations, which consist principally of purchases and sales of crude oil and oil products, are described in further detail below.

Unless the context otherwise requires, the terms “Petrobras,” “we,” “us,” and “our” refer to Petr leo Brasileiro S.A.—Petrobras and its consolidated subsidiaries and special purpose companies, including Petrobras International Finance Company. The term “PifCo” refers to Petrobras International Finance Company and its subsidiaries.

**GLOSSARY OF PETROLEUM INDUSTRY TERMS**

Unless the context indicates otherwise, the following terms have the meanings shown below:

ANEEL	The <i>Agência Nacional de Energia Elétrica</i> (National Electrical Energy Agency), or ANEEL, is the federal agency that regulates the electricity industry in Brazil.
ANP	The <i>Agência Nacional de Petróleo, Gás Natural e Biocombustíveis</i> (National Petroleum, Natural Gas and Biofuels Agency), or ANP, is the federal agency that regulates the oil, natural gas and renewable fuels industry in Brazil.
API°	Standard measure of oil density developed by the American Petroleum Institute.
Barrels	Barrels of crude oil.
BSW	Basic sediment and water, a measurement of the water and sediment content of flowing crude oil.
Catalytic cracking	A process by which hydrocarbon molecules are broken down (cracked) into lighter fractions by the action of a catalyst.
Coker	A vessel in which bitumen is cracked into its fractions.
Condensate	Light hydrocarbon substances produced with natural gas, which condense into liquid at normal temperature and pressure.
CNPE	The <i>Conselho Nacional de Política Energética</i> (National Energy Policy Council), or CNPE, is an advisory body of the President of the Republic responsible for formulating energy policies and guidelines.
Deep water	Between 300 and 1,500 meters (984 and 4,921 feet) deep.
Distillation	A process by which liquids are separated or refined by vaporization followed by condensation.
EWT	Extended well test.
Exploration Area	A region in Brazil under a regulatory contract without a known hydrocarbon accumulation or with a hydrocarbon accumulation that has not yet been declared commercial.
FPSO	Floating Production, Storage and Offloading Unit.
Heavy crude oil	Crude oil with API density less than or equal to 22°.
Intermediate crude oil	Crude oil with API density higher than 22° and less than or equal to 31°.
Light crude oil	Crude oil with API density higher than 31°.
LNG	Liquefied natural gas.
LPG	Liquefied petroleum gas, which is a mixture of saturated and unsaturated hydrocarbons, with up to five carbon atoms, used as domestic fuel.

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MME	The federal Ministry of Mines and Energy, or MME.
NGLs	Natural gas liquids, which are light hydrocarbon substances produced with natural gas, which condense into liquid at normal temperature and pressure.
Oil	Crude oil, including NGLs and condensates.
Pre-salt reservoir	A geological formation containing oil or natural gas deposits located beneath an evaporitic layer.
Post-salt reservoir	A geological formation containing oil or natural gas deposits located above an evaporitic layer.
Proved reserves	Consistent with the definitions in the SEC's Amended Rule 4-10(a) of Regulation S-X, proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price is the average price during the 12-month period prior to December 31, 2010, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. The project to extract the hydrocarbons must have commenced or we must be reasonably certain that we will commence the project within a reasonable time.
Proved developed reserves.	Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based. Proved developed reserves are reserves that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

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Proved undeveloped reserves	<p>Proved undeveloped reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.</p> <p>Undrilled locations are classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time. Proved undeveloped reserves do not include reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.</p>
SS	Semi-submersible unit.
Synthetic oil and synthetic gas	<p>A mixture of hydrocarbons derived by upgrading (i.e., chemically altering) natural bitumen from oil sands, kerogen from oil shales, or processing of other substances such as natural gas or coal. Synthetic oil may contain sulfur or other non-hydrocarbon compounds and has many similarities to crude oil.</p>
TLWP	Tension Leg Wellhead Platform.
Total depth	Total depth of a well, including vertical distance through water and below the mudline.
Ultra-deep water	Over 1,500 meters (4,921 feet) deep.



**CONVERSION TABLE**

1 acre	= 0.004047 km <sup>2</sup>	
1 barrel	= 42 U.S. gallons	= Approximately 0.13 t of oil
1 boe	= 1 barrel of crude oil equivalent	= 6,000 cf of natural gas
1 m <sup>3</sup> of natural gas	= 35.315 cf	= 0.0059 boe
1 km	= 0.6214 miles	
1 km <sup>2</sup>	= 247 acres	
1 meter	= 3.2808 feet	
1 t of crude oil	= 1,000 kilograms of crude oil	= Approximately 7.5 barrels of crude oil (assuming an atmospheric pressure index gravity of 37° API)

**ABBREVIATIONS**

bbbl	Barrels
bn	Billion (thousand million)
bnbbbl	Billion barrels
bncf	Billion cubic feet
bnm <sup>3</sup>	Billion cubic meters
boe	Barrels of oil equivalent
bbbl/d	Barrels per day
cf	Cubic feet
GOM	Gulf of Mexico
GW	Gigawatts
GWh	One gigawatt of power supplied or demanded for one hour
km	Kilometer
km <sup>2</sup>	Square kilometers
m <sup>3</sup>	Cubic meter
mbbl	Thousand barrels
mbbl/d	Thousand barrels per day
mboe	Thousand barrels of oil equivalent
mboe/d	Thousand barrels of oil equivalent per day
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
mm <sup>3</sup>	Thousand cubic meters
mm <sup>3</sup> /d	Thousand cubic meters per day
mmbbl	Million barrels
mmbbl/d	Million barrels per day
mmboe	Million barrels of oil equivalent
mmboe/d	Million barrels of oil equivalent per day
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
mmm <sup>3</sup>	Million cubic meters
mmm <sup>3</sup> /d	Million cubic meters per day
mmt/y	Million metric tons per year
MW	Megawatts
MWavg	Amount of energy (in MWh) divided by the time (in hours) in which such energy is produced or consumed
MWh	One megawatt of power supplied or demanded for one hour
ppm	Parts per million
P\$	Argentine pesos
R\$	Brazilian <i>reais</i>
t	Metric ton
tcf	Trillion cubic feet
U.S.\$	United States dollars
/d	Per day
/y	Per year



## PRESENTATION OF FINANCIAL INFORMATION

In this annual report, references to “*real*,” “*reais*” or “R\$” are to Brazilian and references to “U.S. dollars” or “U.S.\$” are to the United States dollars. Certain figures included in this annual report have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

### Petrobras

The audited consolidated financial statements of Petrobras and our consolidated subsidiaries as of December 31, 2010 and 2009, and for each of the three years in the period ended December 31, 2010, and the accompanying notes, contained in this annual report have been presented in U.S. dollars and prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. See Item 5. “Operating and Financial Review and Prospects” and Note 2(a) to our audited consolidated financial statements. U.S. GAAP differs in certain respects from International Financial Reporting Standards (IFRS), as issued by the International Financial Reporting Standards Board (IASB) and 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). Brazilian Corporate Law was amended in 2007 to permit accounting practices adopted in Brazil (Brazilian GAAP) to converge with IFRS. We have prepared our consolidated financial statements, in *reais*, in accordance with IFRS beginning with the three-month period ended March 31, 2010. We are currently evaluating the possibility of discontinuing U.S. GAAP reporting and adopting IFRS as issued by the IASB as the basis for the audited consolidated financial statements contained in our annual report on Form 20-F for the year ended December 31, 2011.

Our functional currency is the Brazilian *real*. As described more fully in Note 2(a) to our audited consolidated financial statements, the U.S. dollar amounts as of the dates and for the periods presented in our audited consolidated financial statements have been recalculated or translated from the *real* amounts in accordance with the criteria set forth in Accounting Standard Codification – ASC Topic 830 – Foreign Currency Matters. U.S. dollar amounts presented in this annual report have been translated from *reais* at the period-end exchange rate for balance sheet items and the average exchange rate prevailing during the period for income statement and cash flow items.

Unless the context otherwise indicates:

- historical data contained in this annual report that were not derived from the audited consolidated financial statements have been translated from *reais* on a similar basis;
- forward-looking amounts, including estimated future capital expenditures, have all been based on our Petrobras 2020 Strategic Plan, which covers the period from 2009 to 2020, and on our 2010-2014 Business Plan, and have been projected on a constant basis and have been translated from *reais* at an estimated average exchange rate of R\$1.78 to U.S.\$1.00, in accordance with our 2010-2014 Business Plan. In addition, in accordance with our 2010-2014 Business

Plan and our 2011 Annual Business Plan, future calculations involving an assumed price of crude oil have been calculated using a Brent crude oil price of U.S.\$93 per barrel for 2011, U.S.\$82 per barrel for 2012, U.S.\$82 per barrel for 2013, U.S.\$82 per barrel for 2014 and U.S.\$82 per barrel for 2015 adjusted for our quality and location differences, unless otherwise stated; and

- estimated future capital expenditures are based on the most recently budgeted amounts, which may not have been adjusted to reflect all factors that could affect such amounts.

## **PifCo**

PifCo's functional currency is the U.S. dollar. Substantially all of PifCo's sales are made in U.S. dollars and all of its debt is denominated in U.S. dollars. Accordingly, PifCo's audited consolidated financial statements as of December 31, 2010 and 2009, and for each of the three years in the period ended December 31, 2010, and the accompanying notes contained in this annual report have been presented in U.S. dollars and prepared in accordance with U.S. GAAP and include PifCo's wholly owned subsidiaries: Petrobras Europe Limited (PEL), Petrobras Finance Limited (PFL), Bear Insurance Company Limited (BEAR) and Petrobras Singapore Private Limited (PSPL).

## **RECENT DEVELOPMENTS**

### **Global Offering of Shares**

On September 29, 2010, we issued 2,293,907,960 common shares, including common shares in the form of American Depositary Shares (ADSs), and 1,788,515,136 preferred shares, including preferred shares in the form of ADSs, in a global public offering consisting of a registered offering in Brazil and an international offering, which included a registered offering in the United States. On October 1, 2010, we issued an additional 75,198,838 common shares (including common shares in the form of ADSs) and 112,798,256 preferred shares (including preferred shares in the form of ADSs) pursuant to the exercise of the underwriters' over-allotment option. The aggregate proceeds of the global offering to us, after underwriting discounts and commissions and including the exercise of the underwriters' over-allotment option, was approximately U.S.\$70 billion. We applied the net proceeds from the global offering to pay the initial purchase price under the Assignment Agreement described below and to continue to develop all of our business segments in accordance with Petrobras' 2010-2014 Business Plan.

### **Assignment Agreement (*Cessão Onerosa*)**

On September 3, 2010, we entered into an agreement with the Brazilian federal government (the Assignment Agreement), under which the government assigned to us the right to conduct activities for the exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. For further information on the Assignment Agreement, see Item 10. "Material contracts—Petrobras—Assignment Agreement."

## **PRESENTATION OF INFORMATION CONCERNING RESERVES**

Petrobras continues to utilize the SEC rules for estimating and disclosing oil and gas reserve quantities included in this annual report. In accordance with these rules, adopted by Petrobras at year-end 2009, the year-end 2010 and 2009 reserve volumes have been estimated using the average prices calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period include non-traditional reserves, such as synthetic oil and gas. Year-end 2008 reserve volumes were estimated using year-end prices. In addition, the amended rules also adopted a reliable technology definition that permits reserves to be added based on field-tested technologies. The adoption of the SEC's rules for estimating and disclosing oil and gas reserves and the FASB's issuance of the Accounting Standards Update No. 2010-03 "Oil and Gas Reserve Estimation and Disclosure" in December 2010 generated no material impact on our reported reserves or on our consolidated financial position or results of operations. DeGolyer and MacNaughton (D&M) provided estimates of most of our net domestic reserves as of December 31, 2010. D&M also provided estimates of most of our net international reserves where we are the operator as of December 31, 2010. All reserve estimates involve some degree of uncertainty. See Item 3. "Key Information—Risk Factors—Risks Relating to Our Operations" for a description of the risks relating to our reserves and our reserve estimates.

On January 14, 2011, we filed reserve estimates for Brazil with the ANP, in accordance with Brazilian rules and regulations, totaling 12.91 billion barrels of crude oil and condensate and 14.24 trillion cubic feet of natural gas. The reserve estimates filed with the ANP and those provided herein differ by approximately 25.9%. This difference is due to: (i) the ANP requirement to estimate proved reserves through the technical-economical abandonment of production wells, as opposed to limiting reserve estimates to the life of the concession contracts as required by Rule 4-10 of Regulation S-X; and (ii) different technical criteria for booking proved reserves, including the use of current oil prices as opposed to the SEC requirement that the 12-month average price be used to determine the economic producibility of reserves in Brazil.

We also file reserve estimates from our international operations with various governmental agencies under the guidelines of the Society of Petroleum Engineers, or SPE. The aggregate reserve estimates from our international operations, under SPE guidelines, amounted to 0.47 billion barrels of crude oil and NGLs and 1,406 billion cubic feet of natural gas, which is approximately 15% higher than the reserve estimates calculated under Regulation S-X, as provided herein. This difference occurs because of different technical criteria for booking proved reserves, including the use of current oil prices as opposed to the SEC requirement that the 12-month average price be used to determine the economic producibility of international reserves. In addition, we have not yet included all volumes from the Gulf of Mexico fields because there is no production history available for analogous reservoirs.

**PART I**

**Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

**Selected Financial Data**

*Petrobras*

The following tables set forth our selected consolidated financial data, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data for each of the five years in the period ended December 31, 2010 has been derived from our audited consolidated financial statements, which were audited by KPMG Auditores Independentes for the years ended December 31, 2010, 2009, 2008, 2007 and 2006. The information below should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements and the accompanying notes and Item 5. "Operating and Financial Review and Prospects." Certain prior year amounts for 2009, 2008, 2007 and 2006 have been reclassified to conform to current year presentation standards. These reclassifications had no impact on our net income or any material effect on our consolidated financial statements.



**BALANCE SHEET DATA—PETROBRAS**

	<b>As of December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(U.S.\$ million)</b>				
<b>Assets:</b>					
Total current assets	63,863	42,644	26,758	29,140	30,955
Property, plant and equipment, net	218,567	136,167	84,719	84,282	58,897
Investments in non-consolidated companies and other investments	6,312	4,350	3,198	5,112	3,262
Total non-current assets	19,941	17,109	11,020	11,181	5,566
Total assets	<b>308,683</b>	<b>200,270</b>	<b>125,695</b>	<b>129,715</b>	<b>98,680</b>
<b>Liabilities and shareholders' equity:</b>					
Total current liabilities	33,552	30,965	24,756	24,468	21,976
Total long-term liabilities(1)	31,263	24,844	17,731	21,534	16,829
Long-term debt(2)	60,471	49,041	20,640	16,202	13,610
Total liabilities	<b>125,286</b>	<b>104,850</b>	<b>63,127</b>	<b>62,204</b>	<b>52,415</b>
Shareholders' equity					
Shares authorized and issued:					
Preferred share	45,840	15,106	15,106	8,620	7,718
Common share	63,906	21,088	21,088	12,196	10,959
Capital reserve and other comprehensive income	71,748	57,864	25,715	44,363	25,622
Petrobras' shareholders' equity	181,494	94,058	61,909	65,179	44,299
Non-controlling interest	1,903	1,362	659	2,332	1,966
Total equity	<b>183,397</b>	<b>95,420</b>	<b>62,568</b>	<b>67,511</b>	<b>46,265</b>
Total liabilities and shareholders' equity	<b>308,683</b>	<b>200,270</b>	<b>125,695</b>	<b>129,715</b>	<b>98,680</b>

(1) Excludes long-term debt.

(2) Excludes current portion of long-term debt.

**INCOME STATEMENT DATA—PETROBRAS**

	<b>For the Year Ended December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(U.S.\$ million, except for share and per share data)</b>				
Net operating revenues	120,052	91,869	118,257	87,735	72,347
Operating income(1)	24,158	21,869	25,294	20,451	19,844
Net income for the year attributable to Petrobras(2)	19,184	15,504	18,879	13,138	12,826

Weighted average number of shares outstanding:(3)					
Common	5,683,061,430	5,073,347,344	5,073,347,344	5,073,347,344	5,073,347,344
Preferred	4,189,764,635	3,700,729,396	3,700,729,396	3,700,729,396	3,699,806,288
Operating income per:(1)(3)					
Common and Preferred Shares	2.45	2.49	2.88	2.33	2.26
Common and Preferred ADS(4)	4.90	4.98	5.76	4.66	4.52
Basic and diluted earnings per:(2)(3)					
Common and Preferred Shares	1.94	1.77	2.15	1.50	1.46
Common and Preferred ADS(4)	3.88	3.54	4.30	3.00	2.92
Cash dividends per:(3)(5)					
Common and Preferred shares	0.69	0.59	0.47	0.35	0.42
Common and Preferred ADS(4)	1.37	1.18	0.94	0.70	0.84

(1) Beginning in 2008, we have accounted for employee benefit expenses for non-active participants as part of operating expenses rather than non-operating expenses. This reclassification had no effect on our consolidated net income, other than disclosure of our consolidated statements of income. Operating income amounts for all periods give effect to this reclassification.

(2) Our net income represents our income from continuing operations.

(3) We carried out a two-for-one stock split on April 25, 2008. Share and per share amounts for all periods give effect to the stock split.

(4) We carried out a four-for-one reverse stock split in July 2007 that changed the ratio of underlying shares to ADSs from four shares for each ADS to two shares for each ADS. Per share amounts for all periods give effect to the stock split.

(5) Represents dividends paid during the year.

*PifCo*

The following tables set forth PifCo's selected consolidated financial data, presented in U.S. dollars and prepared in accordance with U.S. GAAP. The data for each of the five years in the period ended December 31, 2010 have been derived from PifCo's audited consolidated financial statements, which were audited by KPMG Auditores Independentes for the years ended December 31, 2010, 2009, 2008, 2007 and 2006. The information below should be read in conjunction with, and is qualified in its entirety by reference to, PifCo's audited consolidated financial statements and the accompanying notes and Item 5. "Operating and Financial Review and Prospects."

**BALANCE SHEET DATA—PifCo**

	<b>For the Year Ended December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(U.S.\$ million)</b>				
<b>Assets:</b>					
Total current assets	14,438	22,986	30,383	28,002	19,241
Property and equipment, net	1	2	2	1	1
Total other assets	3,543	3,377	2,918	4,867	2,079
<b>Total assets</b>	<b>17,982</b>	<b>26,365</b>	<b>33,303</b>	<b>32,870</b>	<b>21,321</b>
<b>Liabilities and stockholder's deficit:</b>					
Total current liabilities	5,893	13,175	28,012	27,686	9,264
Total long-term liabilities(1)	—	—	—	—	7,442
Long-term debt(2)	12,431	13,269	5,884	5,187	4,640
<b>Total liabilities</b>	<b>18,324</b>	<b>26,444</b>	<b>33,896</b>	<b>32,873</b>	<b>21,346</b>
Total stockholder's deficit	(342)	(79)	(593)	(3)	(25)
<b>Total liabilities and stockholder's deficit</b>	<b>17,982</b>	<b>26,365</b>	<b>33,303</b>	<b>32,870</b>	<b>21,321</b>

(1) Excludes long-term debt.

(2) Excludes current portion of long-term debt.

**INCOME STATEMENT DATA—PifCo**

	<b>For the Year Ended December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(U.S.\$ million)</b>				
Net operating revenue	34,759	28,850	42,443	26,732	22,070
Operating income (loss)	2	578	(927)	127	(38)
<b>Net (loss)/income for the year</b>	<b>(262)</b>	<b>487</b>	<b>(772)</b>	<b>29</b>	<b>(211)</b>



## RISK FACTORS

### Risks Relating to Our Operations

#### ***Exploration and production of oil in deep and ultra-deep waters involves risks.***

Exploration and production of oil involves risks that are increased when carried out in deep and ultra-deep waters. The majority of our exploration and production activities are carried out in deep and ultra-deep waters, and the proportion of our deepwater activities will remain constant or increase due to the location of our pre-salt reservoirs in deep and ultra-deep waters. Our activities, particularly deep and ultra-deep water drilling, present several risks such as the risk of spills, explosions in platforms and drilling operations and natural disasters. The occurrence of any of these events or other incidents could result in personal injuries, loss of life, severe environmental damage with the resulting containment, clean-up and repair expenses, equipment damage and liability in civil and administrative proceedings.

Our insurance policies do not cover all liabilities, and insurance may not be available for all risks. There can be no assurance that incidents will not occur in the future, that insurance will adequately cover the entire scope or extent of our losses or that we will not be found liable in connection with claims arising from these and other events.

#### ***Substantial or extended declines and volatility in the international prices of crude oil, oil products and natural gas as well as a significant depreciation of the real in relation to the U.S. dollar may have a material adverse effect on us.***

The majority of our revenue is derived primarily from sales of crude oil and oil products and, to a lesser extent, natural gas. We do not, and will not, have control over the factors affecting international prices for crude oil, oil products and natural gas. Changes in crude oil prices typically result in changes in prices for oil products and natural gas. Historically, international prices for crude oil, oil products and natural gas have fluctuated widely as a result of many factors. These factors include:

- global and regional economic and geopolitical developments in crude oil producing regions, particularly in the Middle East;
- the ability of the Organization of Petroleum Exporting Countries (OPEC) to set and maintain crude oil production levels and defend prices;
- global and regional supply and demand for crude oil, oil products and natural gas;
- global financial crises, such as the global financial crisis of 2008;
- competition from other energy sources;

- domestic and foreign government regulations; and
- weather conditions.

Volatility and uncertainty in international prices for crude oil, oil products and natural gas may continue. Substantial or extended declines in international crude oil prices may have a material adverse effect on our business, results of operations and financial condition, and the value of our proved reserves. Significant decreases in the price of crude oil may cause us to reduce or alter the timing of our capital expenditures, and this could adversely affect our production forecasts in the medium term and our reserve estimates in the future. In addition, our pricing policy in Brazil is intended to be at parity with international product prices over the long term. In general we do not adjust our prices for diesel, gasoline and LPG during periods of volatility in the international markets. As a result, material rapid or sustained increases in the international price of crude oil and oil products may result in reduced downstream margins for us, and we may not realize all the gains that our competitors realize in periods of higher international prices. We are also exposed to this risk during periods of depreciation of the *real*

in relation to the U.S. dollar, as we sell oil and oil products in Brazil in *reais* and international prices for crude oil and oil products are set in U.S. dollars. A depreciation of the *real* reduces our prices in U.S. dollar terms and may lead to reduced margins in U.S. dollars.

***Our ability to maintain our long-term growth objectives for oil production depends on our ability to successfully develop our reserves, and failure to do so could prevent us from achieving our long-term goals for growth in production.***

Our ability to maintain our long-term growth objectives for oil production, including those defined in our 2010-2014 Business Plan, is highly dependent upon our ability to successfully develop our existing reserves and, in the long term, upon our ability to obtain additional reserves. The development of the sizable reservoirs in deep and ultra-deep waters, including the pre-salt reservoirs that have been assigned to us by the Brazilian federal government, has demanded and will continue to demand significant capital investments. A primary operational challenge, particularly for the pre-salt, will be allocating our resources to build the necessary infrastructure at considerable distances from the shore and securing qualified labor force and offshore oil services to develop reservoirs of such size and magnitude in a timely manner, a challenge that is particularly heightened by the fact that we are required to acquire a minimum level of goods and services from Brazilian providers. We cannot guarantee that we will have or will be able to obtain, in the time frame that we expect, sufficient resources for the installation of infrastructure, hiring of qualified labor force and provisioning of offshore oil services necessary to exploit the reservoirs in deep and ultra-deep waters that the Brazilian federal government has licensed and assigned to us, or that it may license to us in the future, including as a result of the enactment of the new regulatory model for the oil and gas industry in Brazil.

Our exploration activities also expose us to the inherent risks of drilling, including the risk that we will not discover commercially productive crude oil or natural gas reserves. The costs of drilling wells are often uncertain, and numerous factors beyond our control (such as unexpected drilling conditions, equipment failures or incidents, and shortages or delays in the availability of drilling rigs and the delivery of equipment) may cause drilling operations to be curtailed, delayed or cancelled. These risks are heightened when we drill in deep and ultra-deep water. In addition, increased competition in the oil and gas sector in Brazil may increase the costs of obtaining additional reservoirs in bidding rounds for new concessions. We may not be able to maintain our long-term growth objectives for oil production unless we conduct successful exploration and development activities of our large reservoirs in a timely manner.

***We may not obtain, or it may be difficult for us to obtain, financing for our planned investments, which may have a material adverse effect on us.***

Under our 2010-2014 Business Plan, we intend to invest U.S.\$224 billion between 2010 and 2014. This amount does not include our funding requirements to acquire our rights under the Assignment Agreement or the capital expenditures that will be required to explore and develop the areas covered by the Assignment Agreement. In order to implement our 2010-2014 Business Plan, including the development of our oil and natural gas exploration

activities in the pre- and post-salt layers and the development of refining capacity sufficient to process increasing production volumes, we will need to raise significant amounts of debt capital in the financial and capital markets, including by, among other means, loans and issuing debt securities. We cannot guarantee that we will be able to obtain the necessary financing in a timely and advantageous manner in order to implement our 2010-2014 Business Plan.

The Brazilian federal government maintains control over our investment budget and establishes limits on our investments and long-term debt. As a state-controlled entity, we must submit our budget for approval every year to the Ministry of Planning, Budget and Management, the MME and the Brazilian Congress. Our approved budget may not be sufficient to make all of the investments that we envision, and may prevent us from acquiring additional indebtedness in a certain fiscal year. In this case, if we are not able to obtain financing at reasonable terms and conditions that do not require approval by the Brazilian federal government and the Brazilian Congress, we may not be able to complete all or part of our planned investments, including those we have agreed to make to develop our oil and natural gas exploration activities, which will adversely affect our business.



***Our crude oil and natural gas reserve estimates involve some degree of uncertainty, which could adversely affect our ability to generate income.***

The proved crude oil and natural gas reserves set forth in this annual report are our estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions (i.e., prices and costs as of the date the estimate is made) according to applicable regulations. Our proved developed crude oil and natural gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. There are uncertainties in estimating quantities of proved reserves related to prevailing crude oil and natural gas prices applicable to our production, which may lead us to make revisions to our reserve estimates. Downward revisions in our reserve estimates could lead to lower future production, which could have an adverse effect on our results of operations and financial condition.

***We do not own any of the subsoil accumulations of crude oil and natural gas in Brazil.***

Access to crude oil and natural gas reserves is essential to an oil and gas company's sustained production and generation of income. Under Brazilian law, the Brazilian federal government owns all subsoil accumulations of crude oil and natural gas in Brazil and the concessionaire owns the oil and gas it produces from those subsoil accumulations pursuant to concession agreements. We possess the exclusive right to develop the volumes of crude oil and natural gas included in our reserves pursuant to concession agreements awarded to us by the Brazilian federal government and we own the hydrocarbons we produce under those concession agreements. Our ability to generate income would be adversely affected if the Brazilian federal government were to restrict or prevent us from exploiting these crude oil and natural gas reserves. In addition, we may be subject to fines by the ANP and our concessions may be revoked if we do not comply with our obligations under our concessions.

***The new regulatory model for the oil and gas industry in Brazil and the Assignment Agreement may be challenged in Brazilian courts.***

The new regulatory model for the oil and gas industry in Brazil, enacted in 2010, establishes new rules for the exploration and production of oil and natural gas in the pre-salt areas in Brazil. See Item 4. "Information on the Company—Regulation of the Oil and Gas Industry in Brazil—Current Regulatory Framework." The assignment agreement we entered into with the Brazilian federal government on September 3, 2010 (Assignment Agreement), under which the government assigned to us exploration and production rights to oil, natural gas and other fluid hydrocarbons in pre-salt areas not under concession, of 5 billion barrels of oil equivalent, is a separate law that was also approved by Congress and enacted in 2010.

Challenges to the constitutionality or legality of the new regulatory model for the oil and gas industry in Brazil, including challenges to the Assignment Agreement, may be brought before the Brazilian Supreme Court (*Supremo Tribunal Federal*, or STF) or the Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*, or STJ). Challenges to the constitutionality or

legality of the new regulatory model may relate to our status as the exclusive operator in all pre-salt areas not yet under concession, in addition to other areas that the CNPE may deem strategic, and the fact that exploration and production rights in such areas will be granted to us without a public bidding process. Challenges to the constitutionality or legality of the Assignment Agreement may relate to the direct award of exploration and production rights to us without a public bidding, contract price paid for the transfer of rights or the conditions, methodologies and results arising from the revision process pursuant to the terms of the Assignment Agreement. If the new regulatory model for the oil and gas industry in Brazil, including the Assignment Agreement, is determined to be wholly or partly unconstitutional or illegal, uncertainties about the regulation of the oil and gas sector in which we operate may arise, including questions about the validity of the legal relationships that are based on the new regulatory model, including the rights acquired under the Assignment Agreement.

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In addition, we cannot assure you that the price paid for the transfer of rights will not be challenged. We and our directors may be the subject of legal proceedings questioning the approval and the execution of the Assignment Agreement as being detrimental to the interests of our non-controlling shareholders.

We do not know whether a challenge to the constitutionality or legality of the new regulatory model for the oil and gas industry in Brazil, including the Assignment Agreement, will arise, nor can we predict, in the event it does arise, the outcome of any such legal proceeding.

***The Assignment Agreement we entered into with the Brazilian federal government is a related party transaction.***

The transfer of oil and gas exploration and production rights to us related to specific pre-salt areas is governed by the Assignment Agreement, which is a contract between the Brazilian federal government, our controlling shareholder, and us. The negotiation of the Assignment Agreement involved significant issues, including negotiations regarding (1) the area covered by the transfer of rights, consisting of exploratory blocks; (2) the volume, on a barrels of oil equivalent basis, that we may extract from this area; (3) the price to be paid for the transfer of rights; (4) the terms of the subsequent revision of the contract price and volume under the Assignment Agreement; and (5) the terms providing for the reallocation of volumes among the exploratory blocks assigned to us. This contract includes provisions for a subsequent revision of the contract terms, which are subject to oil and industry prices at the time the revision is made. Once the revision process is concluded pursuant to the terms of the Assignment Agreement, if it is determined that the revised contract price is higher than the initial contract price, we will either make an additional payment to the Brazilian federal government or reduce the amount of barrels of oil equivalent subject to the Assignment Agreement. If it is determined, on the other hand, that the revised contract price is lower than the initial contract price, the Brazilian federal government will make a payment to us. This will require a negotiation with the Brazilian federal government pursuant to the terms of the Assignment Agreement.

The Assignment Agreement provides for the reallocation of volumes among the exploratory blocks assigned to us if oil and gas production is deemed economically unviable in one or more blocks for geologic reasons that would prevent the fulfillment of the Assignment Agreement as a result of the revision process. Such reallocation would result in a revision of the volume of barrels of oil equivalent we would have to produce per block, which could prevent us from producing the maximum amount of barrels of oil equivalent contemplated under the Assignment Agreement. In the event that we cannot produce such maximum amount, the Brazilian federal government has contractually undertaken the obligation to compensate us for the volumes not produced pursuant to the terms of the Assignment Agreement.

Over the course of the life of the Assignment Agreement, novel issues may arise in the implementation of the revision process and reallocation provisions that will require negotiations between related parties.

***We are subject to numerous environmental and health regulations that have become more stringent in the recent past and may result in increased liabilities and increased capital expenditures.***

Our activities are subject to a wide variety of federal, state and local laws, regulations and permit requirements relating to the protection of human health and the environment, both in Brazil and in other jurisdictions in which we operate. Particularly in Brazil, our oil and gas business is subject to extensive regulation by several governmental agencies, including the ANP, the ANEEL, the Brazilian Water Transportation Agency (*Agência Nacional de Transportes Aquaviários*) and the Brazilian Land Transportation Agency (*Agência Nacional de Transportes Terrestres*).

Failure to observe or comply with these laws and regulations could result in penalties that could adversely affect our operations. In Brazil, for example, we could be exposed to administrative and criminal sanctions, including warnings, fines and closure orders for non-compliance with these environmental regulations, which, among other things, limit or prohibit emissions or spills of toxic substances produced in connection with our operations. Waste disposal and emissions regulations may also require us to clean up or retrofit our facilities at substantial cost and could result in substantial liabilities. The *Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis* (Brazilian Institute of the Environment and Renewable Natural Resources, or IBAMA) and the ANP routinely inspect our facilities, and may impose fines, restrictions on operations, or other sanctions in connection with its inspections. In addition, we are subject to environmental laws that require us to incur significant costs to cover damage that a project may cause to the environment. These additional costs may have a negative impact on the profitability of the projects we intend to implement or may make such projects economically unfeasible.

As environmental regulations become more stringent, and as new laws and regulations relating to climate change, including carbon controls, become applicable to us, it is probable that our capital expenditures for compliance with environmental regulations and to effect improvements in our health, safety and environmental practices will increase substantially in the future. We cannot guarantee that we will be able to maintain or renew our licenses and permits if they are revoked or if the applicable environmental authorities oppose or delay their issuance or renewal. Increased expenditures to comply with environmental regulations, mitigate the environmental impact of our operations or restore the biological and geological characteristics of the areas in which we operate may result in reductions in other strategic investments. Any substantial increase in expenditures for compliance with environmental regulations or reduction in strategic investments may have a material adverse effect on our results of operations or financial condition.

***We may incur losses and spend time and money defending pending litigations and arbitrations.***

We are currently a party to numerous legal proceedings relating to civil, administrative, environmental, labor and tax claims filed against us. These claims involve substantial amounts of money and other remedies. Several individual disputes account for a significant part of the total amount of claims against us, including a tax dispute amounting to approximately U.S.\$2.7 billion. See Item 8. “Financial Information—Legal Proceedings.” In the event that claims involving a material amount and for which we have no provisions were to be decided against us, or in the event that the losses estimated turn out to be significantly higher than the provisions made, the aggregate cost of unfavorable decisions could have a material adverse effect on our financial condition and results of operations. We may also be subject to litigation and administrative proceedings in connection with our concessions and other government authorizations, which could result in the revocation of such concessions and government authorizations. In addition, our management may be required to direct its time and attention to defending these claims, which could preclude them from focusing on our core business. Depending on the outcome, certain litigation could result in restrictions on our operations and have a material adverse effect on certain of our businesses.

***We are vulnerable to increased financing expenses resulting from increases in prevailing market interest rates and exchange rate fluctuation.***

As of December 31, 2010, approximately 60.3% — U.S.\$41,462 million of our total indebtedness — consisted of floating rate debt. In light of cost considerations and market analysis, we decided not to enter into derivative contracts or make other arrangements to hedge against the risk of an increase in interest rates. Accordingly, if market interest rates (principally LIBOR) rise, our financing expenses will increase, which could have an adverse effect on our results of operations and financial condition.

Fluctuations in exchange rates, especially a depreciation of the *real* in relation to the U.S. dollar rate, may also increase our financing expenses as most of our revenues have been

denominated in *reais*, while some of our operating expenses and capital expenditures and a substantial portion of our indebtedness are, and are expected to continue to be, denominated in or indexed to U.S. dollars and other foreign currencies.

***We are not insured against business interruption for our Brazilian operations and most of our assets are not insured against war or sabotage.***

We do not maintain coverage for business interruptions of any nature for our Brazilian operations, including business interruptions caused by labor action. If, for instance, our workers were to strike, the resulting work stoppages could have an adverse effect on us. In addition, we do not insure most of our assets against war or sabotage. Therefore, an attack or an operational incident causing an interruption of our business could have a material adverse effect on our financial condition or results of operations.

***We are subject to substantial risks relating to our international operations.***

We operate in several countries, particularly in South America and West Africa, that can be politically, economically and socially unstable. The results of operations and financial condition of our subsidiaries in these countries may be adversely affected by fluctuations in their local economies, political instability and governmental actions relating to the economy, including:

- the imposition of price controls;
- the imposition of restrictions on hydrocarbon exports;
- the fluctuation of local currencies against the *real*;
- the nationalization of oil and gas reserves;
- increases in export tax and income tax rates for crude oil and oil products; and
- unilateral (governmental) institutional and contractual changes, including controls on investments and limitations on new projects.

If one or more of the risks described above were to materialize we may lose part or all of our reserves in the affected country and we may not achieve our strategic objectives in these countries or in our international operations as a whole, which may result in a material adverse effect on our results of operations and financial condition. For more information about our operations outside Brazil, see Item 4. "Information on the Company—International."

**Risks Relating to PifCo**

***PifCo's operations and debt servicing capabilities are dependent on us.***

PifCo's financial position and results of operations are directly affected by our decisions. PifCo is a direct wholly owned subsidiary of Petrobras incorporated in the Cayman Islands as an exempted company with limited liability. Currently, PifCo purchases crude oil and oil products from third parties and sells them to us. PifCo also purchases crude oil and oil products from us and sells them outside Brazil. Accordingly, intercompany activities and transactions, and

therefore PifCo's financial position and results of operations, are affected by decisions made by us. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties, mainly outside Brazil. Commercial operations are carried out under market conditions and at market prices.

PifCo is gradually reducing its sales of crude oil and oil products to us and will gradually reduce its sales of crude oil and oil products to third parties, and will eventually cease these commercial operations altogether. At that time, PifCo will become a finance subsidiary functioning as a vehicle for us to raise capital for our operations outside of Brazil through the issuance of debt securities in the international capital markets, among other means. PifCo's ability to service and repay its indebtedness is consequently dependent on our own operations. Financing for PifCo's commercial operations is provided by us, as well as third-party credit providers in favor of whom we provide credit support. Our support of PifCo's debt obligations has been and will continue to be made through unconditional and irrevocable guaranties of payment.



Our own financial condition and results of operations, as well as our financial support of PifCo, directly affect PifCo's operational results and debt servicing capabilities. For a more detailed description of certain risks that may have a material adverse impact on our financial condition or results of operations and therefore affect PifCo's ability to meet its debt obligations, see "Risks Relating to Our Operations."

***PifCo depends on us to service its indebtedness to third parties.***

PifCo is gradually reducing its sales of crude oil and oil products to us and will gradually reduce its sales of crude oil and oil products to third parties and will eventually cease these commercial operations altogether, as described above. PifCo regularly incurs indebtedness and will continue to do so as our finance subsidiary. PifCo depends, and will continue to depend, on financing and credit support from us to service its indebtedness to third parties. All such indebtedness has the benefit of a guaranty or other equivalent credit support from us. If for any reason we are not permitted to continue to finance PifCo's operations or continue to provide credit support to the indebtedness it incurs, this would have a materially adverse effect on PifCo's ability to meet its debt obligations.

**Risks Relating to Our Relationship with the Brazilian Federal Government**

***The Brazilian federal government, as our principal shareholder, may cause us to pursue certain macroeconomic and social objectives that may have a material adverse effect on us.***

The Brazilian federal government, as the principal shareholder of a mixed capital company such as ours, has pursued, and may pursue in the future, certain of its macroeconomic and social objectives through us, as permitted by law. Brazilian law requires the Brazilian federal government to own a majority of our voting stock, and so long as it does, the Brazilian federal government will have the power to elect a majority of the members of our board of directors and, through them, a majority of the executive officers who are responsible for our day-to-day management. As a result, we may engage in activities that give preference to the objectives of the Brazilian federal government rather than to our own economic and business objectives.

In particular, we continue to assist the Brazilian federal government to ensure that the supply and pricing of crude oil and oil products in Brazil meet Brazilian consumption requirements. Accordingly, we may make investments, incur costs and engage in sales on terms that may have an adverse effect on our results of operations and financial condition. Prior to January 2002, prices for crude oil and oil products were regulated by the Brazilian federal government, occasionally set below prices prevailing in the world oil markets. We cannot assure you that price controls will not be reinstated in Brazil.

***We may not be able to obtain financing for some of our planned investments, and failure to do so could adversely affect our operating results and financial condition.***

The Brazilian federal government maintains control over our investment budget and establishes limits on our investments and long-term debt. As a state-controlled entity, we must submit our proposed annual budgets to the Ministry of Planning, Budget and Management, the MME and the Brazilian Congress for approval. If our approved budget reduces our proposed investments and incurrence of new debt and we cannot obtain financing that does not require Brazilian federal government approval, we may not be able to make all the investments we envision, including those we have agreed to make to expand and develop our crude oil and natural gas fields. If we are unable to make these investments, our operating results and financial condition may be adversely affected.

## **Risks Relating to Brazil**

***The Brazilian federal government has historically exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on our business and may have a material adverse effect on us.***

The Brazilian federal government's economic policies may have important effects on Brazilian companies, including us, and on market conditions and prices of Brazilian securities. Our financial condition and results of operations may be adversely affected by the following factors and the Brazilian federal government's response to these factors:

- devaluations and other exchange rate movements;
- inflation;
- exchange control policies;
- price instability;
- interest rates;
- liquidity of domestic capital and lending markets;
- tax policy;
- regulatory policy for the oil and gas industry, including pricing policy; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement changes in policy or regulations that may affect any of the factors mentioned above or other factors in the future may lead to economic uncertainty in Brazil and increase the volatility of the Brazilian securities market and securities issued abroad by Brazilian companies, which may have a material adverse effect on our results of operations and financial condition.

## **Risks Relating to Our Equity and Debt Securities**

***The size, volatility, liquidity and/or regulation of the Brazilian securities markets may curb the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs.***

Petrobras shares are some of the most liquid in the São Paulo Stock Exchange (BM&FBOVESPA), but overall, the Brazilian securities markets are smaller, more volatile and less liquid than the major securities markets in the United States and other jurisdictions, and may be regulated differently from the way in which U.S. investors are accustomed. Factors

that may specifically affect the Brazilian equity markets may limit the ability of holders of ADSs to sell the common or preferred shares underlying our ADSs at the price and time they desire.

***The market for PifCo's notes may not be liquid.***

Some of PifCo's notes are not listed on any securities exchange and are not quoted through an automated quotation system. We can make no assurance as to the liquidity of or trading markets for PifCo's notes. We cannot guarantee that the holders of PifCo's notes will be able to sell their notes in the future. If a market for PifCo's notes does not develop, holders of PifCo's notes may not be able to resell the notes for an extended period of time, if at all.

***Holders of ADSs may be unable to exercise preemptive rights with respect to the common or preferred shares underlying the ADSs.***

Holders of ADSs who are residents of the United States may not be able to exercise the preemptive rights relating to the common or preferred shares underlying our ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the common or preferred shares relating to these preemptive rights, and therefore we may not file any such registration statement. If a registration statement is not filed and an exemption from registration does not exist, JPMorgan Chase Bank, N.A., as depositary, will attempt to sell the preemptive rights, and holders of ADSs will be entitled to receive the proceeds of the sale. However, the preemptive rights will expire if the depositary cannot sell them. For a more complete description of preemptive rights with respect to the common or preferred shares, see Item 10. “Additional Information—Memorandum and Articles of Association of Petrobras—Preemptive Rights.”

***If holders of our ADSs exchange their ADSs for common or preferred shares, they risk losing the ability to remit foreign currency abroad and forfeiting Brazilian tax advantages.***

The Brazilian custodian for our common or preferred shares underlying our ADSs must obtain a certificate of registration from the Central Bank of Brazil to be entitled to remit U.S. dollars abroad for payments of dividends and other distributions relating to our preferred and common shares or upon the disposition of the common or preferred shares. If holders of ADSs decide to exchange their ADSs for the underlying common or preferred shares, they will be entitled to continue to rely, for five Brazilian business days from the date of exchange, on the custodian’s certificate of registration. After that period, such holders may not be able to obtain and remit U.S. dollars abroad upon the disposition of the common or preferred shares, or distributions relating to the common or preferred shares, unless they obtain their own certificate of registration or register under Resolution No. 2,689, of January 26, 2000, of the National Monetary Council (*Conselho Monetário Nacional*, or CMN), which entitles registered foreign investors to buy and sell on the BM&FBOVESPA. In addition, if such holders do not obtain a certificate of registration or register under Resolution No. 2,689, they may be subject to less favorable tax treatment on gains with respect to the common or preferred shares.

If such holders attempt to obtain their own certificate of registration, they may incur expenses or suffer delays in the application process, which could delay their ability to receive dividends or distributions relating to the common or preferred shares or the return of their capital in a timely manner. The custodian’s certificate of registration or any foreign capital registration obtained by such holders may be affected by future legislative or regulatory changes and we cannot assure such holders that additional restrictions applicable to them, the disposition of the underlying common or preferred shares, or the repatriation of the proceeds from the process will not be imposed in the future.

***Holders of ADSs may face difficulties in protecting their interests.***

Our corporate affairs are governed by our bylaws and Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or elsewhere outside Brazil. In addition, the rights of an ADS holder, which are derivative of the rights of holders of our common or preferred shares, as the case may be, to protect their interests against actions by our board of directors are different under Brazilian Corporate Law than under the laws of other jurisdictions. Rules against insider trading and self-dealing and the preservation of shareholder interests may also be different in Brazil than in the United States. There is also a less active plaintiff's bar dedicated to the enforcement of shareholders' rights in Brazil than in the United States. In addition, shareholders in Brazilian companies ordinarily do not have standing to bring a class action.

We are a state-controlled company organized under the laws of Brazil and all of our directors and officers reside in Brazil. Substantially all of our assets and those of our directors and officers are located in Brazil. As a result, it may not be possible for holders of ADSs to effect service of process upon us or our directors and officers within the United States or other jurisdictions outside Brazil or to enforce against us or our directors and officers judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain requirements are met, holders of ADSs may face greater difficulties in protecting their interest in actions against us or our directors and officers than would shareholders of a corporation incorporated in a state or other jurisdiction of the United States.

***Holders of our ADSs may encounter difficulties in the exercise of voting rights and preferred shares and the ADSs representing preferred shares generally do not give holders of ADSs voting rights.***

Holders of ADSs may encounter difficulties in the exercise of some of their rights as a shareholder if they hold our ADS rather than the underlying shares. For example, if we fail to provide the depository with voting materials on a timely basis, holders of ADSs may not be able to vote by giving instructions to the depository on how to vote for them.

In addition, a portion of our ADSs represents our preferred shares. Under Brazilian law and our bylaws, holders of preferred shares generally do not have the right to vote in meetings of our stockholders. This means, among other things, that holders of ADSs representing preferred shares are not entitled to vote on important corporate transactions or decisions. See Item 10. “Additional Information—Memorandum and Articles of Incorporation of Petrobras—Voting Rights” for a discussion of the limited voting rights of our preferred shares.

***We would be required to pay judgments of Brazilian courts enforcing our obligations under the guaranty relating to PifCo’s notes only in reais.***

If proceedings were brought in Brazil seeking to enforce our obligations in respect of the guaranty relating to PifCo’s notes, we would be required to discharge our obligations only in *reais*. Under the Brazilian exchange control rules, an obligation to pay amounts denominated in a currency other than *reais*, which is payable in Brazil pursuant to a decision of a Brazilian court, may be satisfied in *reais* at the rate of exchange, as determined by the Central Bank of Brazil, in effect on the date of payment.

***A finding that we are subject to U.S. bankruptcy laws and that the guaranty executed by us were a fraudulent conveyance could result in PifCo noteholders losing their legal claim against us.***

PifCo’s obligation to make payments on the PifCo notes is supported by our obligation under the corresponding guaranty. We have been advised by our external U.S. counsel that the guaranty is valid and enforceable in accordance with the laws of the State of New York and the United States. In addition, we have been advised by our general counsel that the laws of Brazil do not prevent the guaranty from being valid, binding and enforceable against us in accordance with its terms. In the event that U.S. federal fraudulent conveyance or similar laws are applied to the guaranty, and we, at the time we entered into the relevant guaranty:

- were or are insolvent or rendered insolvent by reason of our entry into such guaranty;
- were or are engaged in business or transactions for which the assets remaining with us constituted unreasonably small capital; or

- intended to incur or incurred, or believed or believe that we would incur, debts beyond our ability to pay such debts as they mature; and
- in each case, intended to receive or received less than reasonably equivalent value or fair consideration therefor,

then our obligations under the guaranty could be avoided, or claims with respect to that agreement could be subordinated to the claims of other creditors. Among other things, a legal challenge to the guaranty on fraudulent conveyance grounds may focus on the benefits, if any, realized by us as a result of PifCo's issuance of these notes. To the extent that the guaranty is held to be a fraudulent conveyance or unenforceable for any other reason, the holders of the PifCo notes would not have a claim against us under the relevant guaranty and will solely have a claim against PifCo. We cannot assure you that, after providing for all prior claims, there will be sufficient assets to satisfy the claims of the PifCo noteholders relating to any avoided portion of the guaranty.



## **Item 4. Information on the Company**

### **History and Development**

Petróleo Brasileiro S.A.—Petrobras—was incorporated in 1953 to conduct the Brazilian federal government’s hydrocarbon activities. We began operations in 1954 and have been carrying out crude oil and natural gas production and refining activities in Brazil on behalf of the government.

As part of a comprehensive reform of the oil and gas regulatory system, the Brazilian Congress amended the Brazilian Constitution in 1995 to authorize the Brazilian federal government to contract with any state or privately-owned company to carry out upstream, oil refining, cross-border commercialization and transportation activities in Brazil of oil, natural gas and their respective products. On August 6, 1997, Brazil enacted Law No. 9,478, which established a concession-based regulatory framework, ended our exclusive right to carry out oil and gas activities, and allowed competition in all aspects of the oil and gas industry in Brazil. Since that time, we have been operating in an increasingly deregulated and competitive environment. Law No. 9,478 also created an independent regulatory agency, the ANP, to regulate the oil, natural gas and renewable fuel industry in Brazil and to create a competitive environment in the oil and gas sector. Effective January 2, 2002, Brazil deregulated prices for crude oil, oil products and natural gas. See “Regulation of the Oil and Gas Industry in Brazil—Price Regulation.”

In 2010, three new laws were enacted to regulate exploration and production activities in pre-salt areas not subject to existing concessions: Law No. 12,351, Law No. 12,304, and Law No. 12,276. The enacted legislation does not regulate existing pre-salt concessions, which cover approximately 28% of the pre-salt region.

Pursuant to Law No. 12,276, we entered into an agreement with the Brazilian federal government on September 3, 2010 (Assignment Agreement), under which the government assigned to us the right to activities for the exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. The initial purchase price for our rights under the Assignment Agreement was R\$74,807,616,407, which was equivalent to U.S.\$42,533,327,500 as of September 1, 2010. On September 29, 2010, we issued 2,293,907,960 common shares (including common shares in the form of ADSs) and 1,788,515,136 preferred shares (including preferred shares in the form of ADSs) in a global public offering consisting of a registered offering in Brazil and an international offering that included a registered offering in the United States. On October 1, 2010, we issued an additional 75,198,838 common shares (including common shares in the form of ADSs) and 112,798,256 preferred shares (including preferred shares in the form of ADSs) pursuant to the exercise of the underwriters’ over-allotment option. We applied part of the net proceeds from the global offering to pay the initial purchase price under the Assignment Agreement. In order to ensure transparency, our board of directors created a special committee comprised of minority shareholder representatives to monitor the transfer of rights transaction. We complied with all Brazilian Corporate Law requirements in carrying out the capitalization process, including the protection of the rights

of our minority shareholders.

Our common and preferred shares have been traded on the BM&FBOVESPA since 1968. Petrobras was incorporated as a state-controlled company under Law No. 2,004 (effective October 3, 1953), and a majority of our voting capital must be owned by the Brazilian federal government. As of December 31, 2010, the Brazilian federal government owned 48.3% of our outstanding capital stock and 63.6% of our voting shares. We operate through subsidiaries, joint ventures, and associated companies established in Brazil and many other countries. Our principal executive office is located at Avenida República do Chile 65, 20031-912 Rio de Janeiro, RJ, Brazil and our telephone number is (55-21) 3224-4477.

## Overview of the Group

We are an integrated oil and gas company that is the largest corporation in Brazil and one of the largest companies in Latin America in terms of revenues. As a result of our legacy as Brazil's former sole supplier of crude oil and oil products and our ongoing commitment to development and growth, we operate most of Brazil's producing oil and gas fields and hold a large base of proved reserves and a fully developed operational infrastructure. In 2010, our average domestic daily oil production was 2,004 mboe/d, an estimated 97.5% of Brazil's total. Over 79% of our domestic proved reserves are in large, contiguous and highly productive fields in the offshore Campos Basin, which allows us to optimize our infrastructure and limit our costs of exploration, development and production. In 41 years of developing Brazil's offshore basins we have developed special expertise in deepwater exploration and production, which we exploit both in Brazil and in other offshore oil provinces.

We operate substantially all the refining capacity in Brazil. Most of our refineries are located in Southeastern Brazil, within the country's most populated and industrialized markets and adjacent to the Campos Basin that provides most of our crude oil. Our domestic refining capacity of 2,007 mbb/d is well balanced with our domestic refining throughput of 1,798 mbb/d and sales of oil products to domestic markets of 1,960 mbb/d. We are also involved in the production of petrochemicals. We distribute oil products through our own "BR" network of retailers and to wholesalers.

We participate in most aspects of the Brazilian natural gas market. We expect the percentage of natural gas in Brazil's energy matrix to grow in the future as we expand our production of both associated and non-associated gas, mainly from offshore fields in the Campos, Espírito Santo and Santos Basins, and extend Brazil's gas transportation infrastructure. We use LNG terminals and import natural gas from Bolivia to meet demand and diversify our supply. We also participate in the domestic power market primarily through our investments in gas-fired thermoelectric power plants. In addition, we participate in the fertilizer business, which is another important source of natural gas demand.

Outside of Brazil, we are present in more than 20 countries. In South America, our operations extend from exploration and production to refining, marketing, retail services and natural gas pipelines. In North America, we produce oil and gas and have refining operations in the United States. In Africa, we produce oil in Angola and Nigeria, and in Asia, we have refining operations in Japan. In other countries, we are engaged only in oil and gas exploration.

Comprehensive information and tables on reserves and production is presented at the end of Item 4. See "—Additional Reserves and Production Information."

### Our activities comprise five business segments:

- **Exploration and Production:** oil and gas exploration, development and production in Brazil;
- **Refining, Transportation and Marketing:** downstream activities in Brazil, including refining, logistics, transportation, oil products and crude oil exports and imports and petrochemicals;

- **Distribution:** distribution of oil products to wholesalers and through our “BR” retail network in Brazil;
- **Gas and Power:** gas transportation and distribution, electric power generation using natural gas and renewable energy sources and fertilizer production; and
- **International:** exploration and production, refining, transportation and marketing, distribution and gas and power operations outside of Brazil.

Our Corporate segment comprises 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. Since 2009, our Corporate segment has included the results from our Biofuels operations. In prior years, results from our Biofuels operations were included in our Gas and Power segment.

The following table sets forth key information for each business segment in 2010:

	<b>Key Information by Business Segment, 2010</b>						
	<b>Exploration and Production</b>	<b>Refining, and Transportation and Marketing</b>	<b>Gas and Distribution</b>	<b>Power</b>	<b>International</b>	<b>Corporate</b>	<b>Eliminat</b>
	<b>(U.S.\$ million)</b>						
g revenues	54,284	97,540	37,308	8,507	13,463	—	(91,
o before income tax	24,556	2,278	1,101	1,014	1,076	(3,416)	(
at December 31	137,193	69,487	7,529	29,907	16,170	53,707	(5,
nditures	22,222	15,356	482	4,099	2,167	752	

## Exploration and Production

### Exploration and Production Key Statistics

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(U.S.\$ million)</b>		
<b>Exploration and Production:</b>			
Net operating revenues	54,284	38,777	59,024
Income before income tax	24,556	14,588	31,657
Total assets at December 31	137,193	77,596	51,326
Capital expenditures	22,222	16,488	14,293

Oil and gas exploration and production activities in Brazil are the largest component of our portfolio. We have gradually increased production over the past four decades, from 164 mbbbl/d of crude oil, condensate and natural gas liquids in Brazil in 1970 to 2,004 mbbbl/d in 2010. We aim to grow oil and gas reserves and production sustainably and be recognized for excellence in Exploration and Production operations.

The primary focus of our E&P segment is to:

- Continue to explore and develop the Campos Basin, leveraging the current infrastructure to drill in deeper horizons in existing concessions, including pre-salt reservoirs, and using new technologies for secondary recovery in producing fields;
- Explore and develop Brazil's two other most promising offshore basins, Espírito Santo (light oil, heavy oil and gas) and Santos (gas and light oil), with a particular focus on pre-salt development;
- Develop associated and non-associated gas resources in the Santos Basin and elsewhere to meet Brazil's growing demand for gas and to increase the contribution of Brazilian gas production as a proportion of total domestic gas supply; and

- Sustain and increase production from onshore and shallow fields through drilling and enhanced recovery operations.

During 2010, our oil and gas production from Brazil averaged 2,165.5 mboe/d, of which 76.7% was oil and 23.3% was natural gas. On December 31, 2010, our estimated net proved crude oil and natural gas reserves in Brazil were 12.14 billion boe, of which 86% was crude oil and 14% was natural gas. Brazil provided 89.8% of our worldwide production in 2010 and accounted for 95% of our worldwide reserves at December 31, 2010 on a barrels of oil equivalent basis. Historically, approximately 85% of our total Brazilian production has been oil. In connection with the development of the pre-salt, the contribution of natural gas to total hydrocarbon production is expected to grow. In 2010, we drilled a total of 561 development wells, of which 78 were offshore and 483 were onshore.

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As of December 31, 2010, we had 138 exploration agreements covering 198 blocks, corresponding to a gross exploratory acreage of 130,000 km<sup>2</sup> (32.1 million acres), or a net exploratory acreage of 105,000 km<sup>2</sup> (25.9 million acres), and 31 evaluation plans. We are exclusively responsible for conducting the exploration activities in 66 of the 138 exploration agreements. As of December 31, 2010, we had exploration partnerships with 75 foreign and domestic companies. We conduct exploration activities under 120 of our 138 partnership agreements.

We focus much of our exploration effort on deepwater drilling, where the discoveries are substantially larger and our technology and expertise create a competitive advantage. In 2010, we invested a total of U.S.\$4.08 billion in exploration activities in Brazil. We drilled a total of 116 gross exploratory wells in 2010, of which 49 were offshore and 67 onshore, with a success ratio of 57%.

Brazil's richest oil fields are located offshore, most of them in deep waters. Since 1971, when we started exploration in the Campos Basin, we have been active in these waters and we have become globally recognized as innovators in the technology required to explore and produce hydrocarbons in deep and ultra-deep water. We operate more production (on a boe basis) from fields in deep and ultra-deep water than any other company. In 2010, offshore production accounted for 87% of our production and deepwater production accounted for 76% of our production in Brazil. In 2010, we operated 201 wells in water deeper than 1,000 meters (3,281 feet), and we drilled around 24 exploratory wells in water deeper than 1,000 meters (3,281 feet).

Offshore exploration, development and production costs are generally higher than those onshore, but we have been able to offset these higher costs by higher drilling success ratios, larger discoveries and greater production volumes. We have historically been successful in finding and developing significant oil reservoirs offshore, which has allowed us to achieve economies of scale by spreading the total costs of exploration, development and production over a large base. By focusing on opportunities that are close to existing production infrastructure, we limit the incremental capital requirements of new field development.

Historically, our offshore exploration and production activities were focused on post-salt reservoirs. The discovery of the Lula field (formerly Tupi) in 2006 marked the beginning of a new chapter in our E&P history. In recent years, we have focused our offshore exploration efforts on pre-salt reservoirs located in a region approximately 800 km (497 miles) long and 200 km (124 miles) wide stretching from the Campos to the Santos Basins. Our existing contracts in this area cover 26.6% (approximately 45,615 km<sup>2</sup> or 11.3 million acres) of the pre-salt areas, including the pre-salt areas assigned to us under Concession Contracts and the Assignment Agreement. An additional 4% (approximately 9,000 km<sup>2</sup> or 2.2 million acres) is under concession to other oil companies for exploration. The remaining 69.4% (approximately 103,000 km<sup>2</sup> or 25.4 million acres) of the pre-salt region is open acreage area, not licensed yet, and the licensing of new pre-salt areas will be made under a production-sharing regime under Law No. 12,351, enacted on December 22, 2010.

Since 2005, we have drilled 52 exploratory wells as operator in this 149,000 km<sup>2</sup> (36.8 million acres) pre-salt area, 88% of which have yielded discoveries of hydrocarbon resources. We hold interests ranging from 20% to 100% in the pre-salt exploration areas under concession to us. In the southern part of the Santos Basin, where the salt layer is thick and the hydrocarbons have been more perfectly preserved, we have made several particularly promising discoveries since 2006, including those made in Blocks BM-S-11 (Iara, Lula and Cernambi fields) and BM-S-9 (Carioca and Guar). In the northern part of the region, we made significant discoveries in 2008 and early 2010 in the area known as Parque das Baleias and in the Barracuda, Marlim and Caratinga fields, all of which are in the Campos Basin. As a result, we are committing substantial resources to develop these pre-salt discoveries, which are located in deep and ultra-deep waters at total depths of up to 8,000 meters (26,245 feet).

Our 2010-2014 Business Plan, which was released in June 2010 prior to the signing of the Assignment Agreement, foresees investments of U.S.\$33 billion from 2010 to 2014 (not including investments by our partners) to develop our then-existing concessions in the pre-salt areas, or approximately 31% of our total domestic capital expenditures for exploration and production through 2014. In May 2011, our board of directors approved the annual revision of the Santos Basin pre-salt development plan (PLANSAL), which foresees capital expenditures of up to U.S.\$73 billion through 2015 in the Santos Basin pre-salt areas, 74% of which is being provided by us and the remainder by our partners. This annual revision to the PLANSAL also provides for the development of the areas transferred to us by the Assignment Agreement while successfully reducing capital expenditures planned for the development of the Santos Basin pre-salt areas by 45% since 2008.

We have also implemented a variety of programs designed to increase oil recovery from existing fields and reduce natural declines from producing fields.

Our exploration and production activities outside Brazil are included in our International business segment. See “—International.”





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Information about our principal oil and gas producing fields in Brazil is summarized in the table below.

<b>Principal Oil and Gas Producing Fields in Brazil</b>					
<b>Basin</b>	<b>Fields</b>	<b>Petrobras %</b>	<b>Type</b>	<b>Fluid(1)</b>	
Alagoas	Pilar	100%	Onshore	Light Oil/Natural Gas	
Camamu	Manati	35%	Shallow	Natural Gas	
Campos	Albacora	100%	Shallow	Intermediate Oil	
	Albacora Leste	90%	Deepwater	Intermediate Oil	
			Deepwater	Intermediate Oil	
				Ultra-deepwater	
	Baleia Azul	100%	Deepwater	Intermediate Oil	
	Baleia Franca	100%	Deepwater	Intermediate Oil	
	Barracuda	100%	Deepwater	Intermediate Oil	
	Bijupirá/Salema	22.4%(2)	Deepwater	Intermediate Oil	
	Cachalote	100%	Deepwater	Intermediate Oil	
	Caratinga	100%	Deepwater	Intermediate Oil	
	Espadarte	100%	Deepwater	Intermediate Oil	
	Jubarte	100%	Deepwater	Heavy Oil	
	Maromba	62.5%	Deepwater	Heavy Oil	
	Marlim	100%	Deepwater	Heavy Oil	
	Marlim Leste	100%	Deepwater	Intermediate Oil	
	Marlim Sul	100%	Deepwater	Intermediate Oil	
			Ultra-deepwater		
	Namorado	100%	Shallow	Intermediate Oil	
	Ostra	35%	Deepwater	Heavy Oil	
	Pampo	100%	Shallow	Intermediate Oil	
	Pargo	100%	Shallow	Intermediate Oil	
	Roncador	100%	Ultra-deepwater	Intermediate Oil	
	Voador	100%	Deepwater	Heavy Oil	
Espírito Santo	Fazenda Alegre	100%	Onshore	Heavy Oil	
	Peroá	100%	Shallow	Light Oil	
	Golfinho	100%	Deepwater	Intermediate Oil	
			Ultra-deepwater	Intermediate Oil	
	Canapu	100%	Deepwater	Natural Gas	
Camarupim	76%	Deepwater	Natural Gas		
Potiguar	Canto do Amaro	100%	Onshore	Intermediate Oil/Natural Gas Heavy Oil/Natural Gas	

Recôncavo	Jandaia	100%	Onshore	Light Oil
	Miranga	100%	Onshore	Light Oil/Natural Gas
Santos	Merluza	100%	Shallow	Natural Gas
	Mexilhão	100%	Shallow	Natural Gas
	Uruguá	100%	Deepwater	Intermediate Oil/Natural Gas
	Tambaú	100%	Deepwater	Natural Gas
	Lula	65%	Ultra-deepwater	Intermediate Oil
	Cernambi	65%	Ultra-deepwater	Intermediate Oil
Sergipe	Carmópolis	100%	Onshore	Intermediate Oil
	Siririzinho	100%	Onshore	Intermediate Oil
Solimões	Leste do Urucu	100%	Onshore	Light Oil/Natural Gas
	Rio Urucu	100%	Onshore	Light Oil/Natural Gas

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(1) Heavy oil = up to 22° API; intermediate oil = 22° API to 31° API; light oil = greater than 31° API

(2) Petrobras is not the operator in this field.

We have historically conducted exploration, development and production activities in Brazil through concession contracts, which we have obtained through participation in bid rounds conducted by the ANP. Some of our existing concessions were granted by the ANP without an auction in 1998, as provided by Law No. 9,478. These are known as the "Round Zero" concession contracts. Since such time, we have participated in all of the auction rounds, most recently in December 2008.

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Our domestic oil and gas exploration and production efforts are primarily focused on three major basins offshore in Southeastern Brazil: Campos, Espírito Santo and Santos. The following map shows our concession areas in Brazil as of December 2010.

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The map below shows the location of the pre-salt reservoirs as well as the status of our exploratory activities there.

### *Campos Basin*

The Campos Basin, which covers approximately 115,000 km<sup>2</sup> (28.4 million acres), is the most prolific oil and gas basin in Brazil as measured by proved hydrocarbon reserves and annual production. Since we began exploring this area in 1971, over 60 hydrocarbon accumulations have been discovered, including eight large oil fields in deep water and ultra-deep water. The Campos Basin is our largest oil- and gas-producing region, producing an average 1,676.9 mbbbl/d of oil and 13.6 mmm<sup>3</sup>/d (480.3 mmcf/d) of associated natural gas during 2010, 81.5% of our total production from Brazil. In 2010 we produced oil at an average rate of 1,676.9 mbbbl/d from 43 fields in the Campos Basin and held proved crude oil reserves representing

84% of our total proved crude oil reserves in Brazil. We held proved natural gas reserves in the Campos Basin representing 48% of our total proved natural gas reserves in Brazil. We operated 40 floating production systems, 14 fixed platforms and 6,680 km (4,151 miles) of pipeline and flexible pipes in water depths from 80 to 1,886 meters (262 to 6,188 feet), delivering oil with an average API gravity of 22.9° and an average BSW of 1%.

We have also made important progress in pre-salt E&P activities in the Campos Basin. In the pre-salt region of the Campos Basin, we have drilled a total of 25 wells. In February 2010 we made a promising discovery of 28° API oil at our ultra-deep exploratory well in the Barracuda area, which followed a significant discovery of intermediate oil (30° API) in the Parque das Baleias area in November 2008. In the Jubarte field in the Campos Basin off the coast of the State of Espírito Santo, an EWT using a single well pilot system produced at an average rate of 17 mbb/d from September 2008 to February 2011. We expect to accelerate pre-salt production in Parque das Baleias using existing infrastructure in the area. We started producing from the Baleia Franca field in the second half of 2010 using the existing FPSO Capixaba. In 2012, we expect to start up a pilot system exclusively dedicated to pre-salt exploration in the Baleia Azul region using another FPSO.

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In 2010, the startup of operations at FPSO Capixaba located in the Cachalote field and P-57 located in the Jubarte field in the offshore Campos Basin added combined capacities of 280 mbb/d of oil and 5.5 mmm<sup>3</sup>/d of natural gas.

We expect that future new source production from the Campos Basin will be predominantly from deepwater oil fields. We are currently developing nine major projects in the Campos Basin: Marlim Sul Module 3, Roncador Modules 3 and 4, Papa-Terra, Aruanã (BM-C-36) EWT and long-term production system, Jubarte Phase II, Parque das Baleias and the pre-salt reservoirs of Baleia Azul.

At December 31, 2010, we held exploration rights to 21 blocks in the Campos Basin, comprising 6,374 km<sup>2</sup> (1.5 million acres).

**Principal Campos Basin Development Projects**

Field	Unit Type	Unit	Production Capacity		Water Depth (meters)	Start Up (year)	Notes
			Crude Oil (bbl/d)	Nominal Natural Gas Capacity (mcf/d)			
Marlim Sul-Module 3	SS	P-56	100,000	211,884	1,700	2011	
Lead Aruanã (BM-C-36) EWT	FPSO	Cidade de Rio das Ostras	27,000	10,594	950	2011	Existing FPSO chartered from Teekay
Baleia Azul	FPSO	Anchieta	100,000	88,285	1,400	2012	Existing FPSO chartered from SBM
Roncador-Module 3	SS	P-55	180,000	211,884	1,790	2012	
Roncador-Module 4	FPSO	P-62	180,000	211,884	1,550	2013	
Papa-Terra-Module 1	TLWP	P-61	0	0	1,180	2013	Production by P-63
Papa-Terra-Module 2	FPSO	P-63	150,000	31,783	1,170	2013	
Baleia Azul	FPSO	P-58	180,000	211,884	1,400	2013	
Lead Aruanã (BM-C-36)	FPSO	Brasil	100,000	63,565	950	2013	Existing FPSO chartered from SBM
Jubarte Phase II	FPSO	P-57	180,000	70,628	1,260	2010	Production ramp-up in 2011

*Espírito Santo Basin*

We have made several discoveries of light oil and natural gas in the Espírito Santo Basin, which covers approximately 75,000 km<sup>2</sup> (18.5 million acres) offshore and 14,000 km<sup>2</sup> (3.5 million acres) onshore. At December 31, 2010, we were producing oil at an average rate of 68.7 mbbbl/d from 47 fields and held proved crude oil reserves representing 0.71% of our total proved crude oil reserves in Brazil. At December 31, 2010, we were producing natural gas at an average rate of 4.2 mmm<sup>3</sup>/d (148.3 mmcf/d) and held proved natural gas reserves representing 6% of our total proved natural gas reserves in Brazil.

In 2010, we began operations at the Canapu project served by the FPSO Cidade de Vitória with capacity to produce 2 mmm<sup>3</sup>/d (70.6 mmcf/d).

In addition to developing new production projects, we are also optimizing existing resources in the Espírito Santo area by constructing the Sul Norte Capixaba gas pipeline with capacity to transport 7 mmm<sup>3</sup>/d (247.2 mmcf/d). The pipeline, which runs from the Parque das Baleias area to the Cacimbas gas treatment unit, is expected to come online in 2012.

On December 31, 2010, we held exploration rights to 19 blocks, three onshore and 16 offshore, comprising 8,086 km<sup>2</sup> (1.9 million acres).



## *Santos Basin*

The Santos Basin, which covers approximately 348,900 km<sup>2</sup> (86 million acres) off the city of Santos, in the State of São Paulo, is one of the most promising exploration areas offshore Brazil and the focus of our plans to develop domestic natural gas. In 2010, we produced oil at an average rate of 32.7 mbbbl/d from two fields and one exploration area and held proved crude oil reserves representing 7% of our total proved crude oil reserves in Brazil. Our average natural gas production in 2010 was 0.8 mmm<sup>3</sup>/d (28.3 mmcf/d) and our proved natural gas reserves in the Santos Basin represented 24% of our total proved natural gas reserves in Brazil.

In recent years we have been carrying out plans to increase our gas production and build supporting infrastructure in the Santos and Espírito Santo Basins. These plans are now reaching fruition, and we expect that they will increase our average gas production capacity in the Santos Basin from 0.8 mmm<sup>3</sup>/d (28.3 mmcf/d) in 2010 to 15.4 mmm<sup>3</sup>/d (543.9 mmcf/d) by the end of 2011. In 2010 we started up post-salt operations at FPSO Cidade de Santos platform located in the Uruguá field, which produces 30 mbbbl/d of light oil and is expected to produce 1 mmm<sup>3</sup>/d (35.3 mmcf/d) of gas in 2011 and as much as 7.9 mmm<sup>3</sup>/d (279.0 mmcf/d) of gas in 2012. Mexilhão, located in shallow waters in the Santos Basin Block BS-400, is scheduled to come online in 2011 with initial production of approximately 1.9 mmm<sup>3</sup>/d (67.0 mmcf/d), potentially increasing to 9.3 mmm<sup>3</sup>/d (328.4 mmcf/d) in 2012. An EWT at the SS-11 Atlantic Zephyr platform, located in the BM-S-40 block, also started up in 2010. We are using the results of the EWT to develop a long-term production system for this block, including a plan to install the FPSO Cidade de Itajaí, with an expected capacity of 80 mbbbl/d of oil.

The Santos Basin pre-salt was also a central focus of E&P activities in 2010. We continue to concentrate our efforts on gathering information about the pre-salt reservoirs in the region and testing drilling technologies to improve efficiency and minimize costs in the near term. During the next phase, which we will start in 2013, we plan to install several FPSOs in the Santos Basin pre-salt. The subsequent phase, beginning in 2017, will include the application of improved technologies and engineering specifically designed for the pre-salt fields.

In May 2009, we initiated production in the pre-salt region of the Santos Basin with an EWT at Tupi (now called the Lula field) that has produced on average 15 mbbbl/d. In 2010, we declared the commerciality of that area, presenting development plans for the Lula and Cernambi fields and installing the first system capable of producing in the long-term at Lula, FPSO Cidade de Angra dos Reis, with a production capacity of 100 mbbbl/d. We also started the second EWT in the pre-salt region of the Santos Basin at Guará.

In 2010, we drilled eight new wells, increasing to 20 the number of wells in the pre-salt region of the Santos Basin. We expect to start drilling up to 24 new wells in this region in 2011.

All six blocks and one contingent block assigned to us under the Assignment Agreement are located in the pre-salt region of the Santos Basin. We are developing these blocks in an integrated manner with the areas we already have under concession. Over the next four years, we will move ahead with our exploration program and are targeting first oil at the

Franco prospect by 2015.

On December 31, 2010, we held exploration rights to 47 blocks in the Santos Basin, comprising 29,302 km<sup>2</sup> (7.2 million acres).

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**Principal Santos Basin Development Projects**  
**Natural Gas**

<b>Field</b>	<b>Unit Type</b>	<b>Production Unit</b>	<b>Crude Oil Nominal Capacity (bbl/d)</b>	<b>Nominal Capacity (mcf/d)</b>	<b>Water Depth (meters)</b>	<b>Start Up (year)</b>	<b>Notes</b>
Mexilhão	Fixed Platform	PMXL-1	0	529,710	170	2011	
Lula Nordeste EWT	FPSO	BW Cidade de São Vicente	30,000	35,314	2,100	2011	Existing FPSO chartered from BW Offshore
Guará EWT	FPSO	Dynamic Producer	30,000	35,314	2,100	2011	Existing FPSO chartered from PETROBRAS
Tiro e Sidon (BM-S-40)	SS	Cidade de Itajai	80,000	70,628	200	2012	Chartered from Teekay
Guara Pilot	FPSO	Cidade de São Paulo	120,000	176,573	2,141	2013	Chartered from Schahin/Mo
Lula Nordeste Pilot	FPSO	Cidade de Paraty	120,000	176,573	2,100	2013	Chartered from Queiroz Galvão/SE
Guara – Module 2	FPSO	n/d	150,000	211,884	2,100	2014	
Cernambi – Module 1	FPSO	n/d	150,000	211,884	2,100	2014	

*Other Basins*

We produce hydrocarbons and hold exploration acreage in 19 other basins in Brazil. Of these, the most significant are the shallow offshore Camamu Basin and the onshore Potiguar, Recôncavo, Sergipe, Alagoas and Solimões Basins. While our onshore production is primarily in mature fields, we plan to sustain and slightly increase production from these fields in the future by using enhanced recovery methods.

We had a total of 286 production agreements as of December 31, 2010, and were the 100% owner in 256 of them. We are operators under nine of our 30 partnership agreements.

*Critical Resources in Exploration and Production*

We have sought to ensure that critical service sector resources are sufficient to permit us to move ahead with our E&P plans. Because offshore Brazil is geographically isolated from other offshore drilling areas, and because we often drill in unusually deep waters, we plan carefully for our future drilling rig needs. By using a combination of our own rigs and units that we contract for periods of three years or longer, we have historically ensured the availability of drilling units to meet our needs, and paid lower average daily rates than if we had contracted the units on a spot basis. We continually evaluate our need for rigs, renew our drilling contracts, contract ahead for rigs as needed, and stimulate new rig construction by signing

long-term operating leases with drilling contractors for rigs that are not yet built.

In the last three years we have successfully eased pressures related to a limited supply of deepwater rigs. Whereas in 2008 we only had three rigs capable of drilling in water depths greater than 2000 meters (6,560 feet), we had 13 as of December 31, 2010, and we expect to have 30 by 2013. We have entered into three to ten-year contracts for 22 additional drilling rigs to engage in deepwater exploration of our offshore fields. These rigs will arrive in Brazil and begin operations during 2011 and 2012. Of these 22 rigs, one will have the capacity to operate in water depths of up to 1,500 meters (4,920 feet), one will have the capacity to operate in water depths of up to 1,900 meters (6,233 feet), three will be capable of operating in water depths of up to 2,000 meters (6,560 feet), seven will be capable of operating in water depths of up to 2,400 meters (7,830 feet), and 10 will be capable of drilling in water depths of up to 3,000 meters (9,840 feet). All of these rigs will be chartered by us and have been built or are being built in shipyards outside Brazil.

In addition to these 22 new drilling rigs already contracted, we have also announced plans for 28 rigs to be built in Brazil, supporting the development of the Brazilian rig building industry so that it can meet our long-term needs. To this end, we have awarded one contract for seven drilling rigs to be built in the Atlântico Sul shipyard in Pernambuco State. These rigs will be owned by Sete Brasil S.A. (Sete BR), a Brazilian company in which we hold a 10% interest. We expect to fulfill our future drilling requirements with a combination of rigs built in Brazil, supplemented when needed by the international fleet of deepwater rigs.

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For our shallow water segment, we are building and will operate two jack-up drilling units designed to operate in water depths of up to 107 meters (350 feet) with High Pressure High Temperature (HPHT) capabilities. We expect to begin operating these units in 2012.

**Drilling Units in Use by Exploration and Production on December 31 of Each Year**

	2010		2009		2008	
	Leased	Owned	Leased	Owned	Leased	Owned
Onshore	22	12	31	13	25	11
Offshore, by water depth (WD)	44	8	36	8	31	8
Jack-up rigs	1	4	2	4	2	4
Floating rigs:	43	4	34	4	29	4
500 to 1000 meters WD	11	2	9	2	9	2
1001 to 2000 meters WD	19	2	20	2	17	2
2001 to 3000 meters WD	13	0	5	0	3	0

We announced in November 2010 that we had signed two contracts worth a total of U.S.\$3.46 billion for the construction of eight hulls for FPSOs to be used in the pre-salt area of the Santos Basin. The FPSOs will be built in the State of Rio Grande do Sul. These units are part of the new strategy for the construction of production units that emphasizes project simplification and the use of standardized equipment. By producing identical hulls in series we expect to accelerate construction, gain economies of scale and minimize costs.

We are also increasing our use of industry standard equipment instead of developing our own customized equipment. We intend to minimize costs by increasing supervision over suppliers and dividing engineering procurement and construction packages into smaller pieces.

**Refining, Transportation and Marketing****Refining, Transportation and Marketing Key Statistics**

	2010	2009	2008
	(U.S.\$ million)		
<b>Refining, Transportation and Marketing:</b>			
Net operating revenues	97,540	74,307	95,659
Income (loss) before income tax	2,278	9,980	(3,017)
Total assets at December 31	69,487	49,969	27,166
Capital expenditures	15,356	10,466	7,234

We are an integrated company with a dominant market share in our home market. We own and operate 12 refineries in Brazil, with a total net distillation capacity of 2,007 mbb/d, and are one of the world's largest refiners. As of December 31, 2010, we operated 90% of Brazil's total refining capacity. We supplied almost all of the refined product needs of third-party

wholesalers, exporters and petrochemical companies, in addition to the needs of our Distribution segment. We operate a large and complex infrastructure of pipelines and terminals and a shipping fleet to transport oil products and crude oil to domestic and export markets. Most of our refineries are located near our crude oil pipelines, storage facilities, refined product pipelines and major petrochemical facilities, facilitating access to crude oil supplies and end-users.

We also import and export crude oil and oil products. We import certain oil products, particularly diesel, for which Brazilian demand exceeds refining capacity. We expect the need for imports to decline in the future as we build additional refining capacity and upgrade our refineries to facilitate the processing of domestically produced crudes.

Our Refining, Transportation and Marketing segment also includes petrochemical operations that add value to the hydrocarbons we produce and meet the needs of the growing Brazilian economy.

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We participate in refining, transportation and marketing operations outside of Brazil through our International business segment. See “—International.”

*Refining*

Our refining capacity in Brazil as of December 31, 2010, was 2,007 mbb/d and our average throughput during 2010 was 1,798 mbb/d.

The following table shows the installed capacity of our Brazilian refineries as of December 31, 2010, and the average daily throughputs of our refineries in Brazil and production volumes of principal oil products in 2010, 2009 and 2008.

**Capacity and Average Throughput of Refineries**

Name (Alternative Name)	Location	Crude Distillation Capacity at December 31, 2010 (mbbl/d)	Average Throughput		
			2010	2009	2008
LUBNOR	Fortaleza (CE)	7	8	7	6
RECAP (Capuava)	Capuava (SP)	53	36	44	45
REDUC (Duque de Caxias)	Rio de Janeiro (RJ)	242	256	238	256
REFAP (Alberto Pasqualini)	Canoas (RS)	189	145	169	142
REGAP (Gabriel Passos)	Betim (MG)	151	143	140	143
REMAN (Isaac Sabbá)	Manaus (AM)	46	42	41	39
REPAR (Presidente Getúlio Vargas)	Araucária (PR)	189	170	185	183
REPLAN (Paulínia)	Paulinia (SP)	396	316	341	324
REVAP (Henrique Lage)	São Jose dos Campos (SP)	252	238	241	205
RLAM (Landulpho Alves)	Mataripe (BA)	279	250	220	254
RPBC (Presidente Bernardes)	Cubatão (SP)	170	160	165	168
RPCC (Potiguar Clara Camarão)	Guamaré (RN)	34	33		
Total		2,007	1,798	1,791	1,765

In recent years, we have made substantial investments in our refinery system for the following purposes:

- Improve gasoline and diesel quality to comply with stricter environmental regulations;
- Increase crude slate flexibility to process more Brazilian crude, taking advantage of light/heavy crude price differentials; and
- Reduce the environmental impact of our refining operations.

In 2010, we invested a total of U.S.\$6,681 million in our refineries, of which U.S.\$5,342 million was invested for hydrotreating units to improve the quality of our diesel and gasoline, U.S.\$1,203 million for coking units to convert heavy oil into lighter products, and U.S.\$136 million for debottlenecking projects.

During 2011, we expect to complete the following investment projects at our refineries:

- Diesel quality upgrades at RECAP and RLAM; and
- Gasoline quality upgrades at REFAP, RPBC, REDUC, REGAP, REVAP, RLAM and RECAP.

The following refinery upgrades are underway for expected completion between 2012 and 2014:

- Diesel quality upgrades at REGAP, REPAR, REPLAN and RPBC;



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- Gasoline quality upgrades at REPAR; and
- Delayed coking units at Abreu e Lima Refinery, Comperj, Premium Refinery –<sup>s</sup>II Phase and REPAR.

The following refinery upgrade projects are scheduled for completion after 2014:

- Diesel quality upgrades at REDUC; and
- Mild thermal cracking units to improve diesel and gasoline quality at REMAN.

By the end of 2013, we will reduce the maximum sulfur content of the diesel produced in our refineries from 1800 ppm to 500 ppm, and six of our refineries will be producing 50 ppm sulfur diesel. By the beginning of 2014, we will reduce the maximum sulfur content of the gasoline produced in our refineries from 1,000 ppm to 50 ppm.

*Major Refinery Projects*

Brazil has one of the world's most dynamic economies with above average rates of demand growth for automotive fuels. We are planning capacity expansions to meet the needs of this growing market and add value to our growing volumes of crude oil production in Brazil. We are currently building two new refining facilities:

- Complexo Petroquímico do Rio de Janeiro—Comperj, an integrated refining and petrochemical complex. We broke ground in 2008, and began construction in 2010. The 165 mbb/d refining operation is scheduled to start up in 2013. A second phase, scheduled for 2018, will increase capacity to 330 mbb/d and add petrochemicals manufacturing.
- Abreu e Lima, a refinery in Northeastern Brazil in a proposed partnership with Petróleos de Venezuela S.A. (PDVSA), the Venezuelan state oil company. This refinery is designed to process 230 mbb/d of crude oil to produce 162 mbb/d of low sulfur diesel (10 ppm) as well as LPG, naphtha, bunker fuel and petroleum coke. We expect operations to come on stream in 2013.

We are in the planning stage for two new refineries in Northeastern Brazil. Both refineries will be designed to process 20° API heavy crude oil, maximize production of low sulfur diesel, and also produce LPG, naphtha, low sulfur kerosene, bunker fuel and petroleum coke. Both will be integrated with marine storage terminals.

- Premium I in the State of Maranhão will be built in two phases of 300 mbb/d each.
- Premium II in the State of Ceará will have processing capacity of 300 mbb/d.

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The following tables summarize output of oil products and sales by product in Brazil for the last three years.

	<b>Domestic Output of Oil Products: Refining and marketing operations, mbb/d</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Diesel	716	737	694
Gasoline	351	331	343
Fuel oil	243	243	255
Naphtha	133	143	136
LPG	132	135	142
Jet fuel	80	74	65
Other	176	159	153
<b>Total domestic output of oil products</b>	<b>1,832</b>	<b>1,823</b>	<b>1,787</b>
Installed capacity	2,007	1,942	1,942
Utilization (%)	90	92	91
<b>Domestic crude oil as % of total feedstock processed</b>	<b>82</b>	<b>79</b>	<b>78</b>

(1) Unaudited.

(2) As registered by the ANP.

	<b>Domestic Sales Volumes, mbb/d</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Diesel	809	740	760
Gasoline	394	338	344
Fuel oil	100	101	110
Naphtha	167	164	151
LPG	218	210	213
Jet fuel	92	77	75
Other	180	140	84
<b>Total oil products</b>	<b>1,960</b>	<b>1,770</b>	<b>1,737</b>
Ethanol and other products	99	96	88
Natural gas	319	240	321
<b>Total domestic market</b>	<b>2,378</b>	<b>2,106</b>	<b>2,146</b>
Exports	698	707	676
International sales and other operations	593	541	552
<b>Total international market</b>	<b>1,291</b>	<b>1,248</b>	<b>1,228</b>
<b>Total sales volumes</b>	<b>3,669</b>	<b>3,354</b>	<b>3,374</b>

*Delivery Commitments*

We sell crude oil under a variety of contractual obligations, primarily through long-term and spot-market contracts. Our spot-market contracts specify the delivery of fixed and determinable quantities, subject to a price negotiation with third parties on a delivery-by-delivery basis. We are contractually committed under one long-term supply contract to deliver a total of approximately 300 mbbbl/d in 2011, 200 mbbbl/d in 2012 and 200 mbbbl/d in 2013 of crude oil. We have met all contractual delivery commitments, and we believe our domestic proved reserves are sufficient to allow us to continue to deliver all contracted volumes. We expect our contractual delivery obligations to increase over the next nine years as we increase our crude oil production. For 2011, approximately 55% of our exported domestic crude oil production will be committed to meeting our contractual delivery commitments to third parties.

### *Imports and Exports*

We use exports and imports of crude oil and oil products to balance our domestic production and refinery capacity with market needs and optimize our refining margins. Much of the crude oil we produce in Brazil is heavy or intermediate, and we import some light crude to balance the slate for our refineries, which were originally designed to run on lighter imported crude, and export heavier crude that is surplus to our needs.

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We import diesel, for which there is insufficient production capacity in our Brazilian refineries. We export fuel oil, of which 65 mbbbl/d was exported as bunker fuel. Our imports and exports of other products, such as gasoline, depend on demand levels and relative pricing in the Brazilian market. The table below shows our exports and imports of crude oil and oil products in 2010, 2009 and 2008:

<b>Exports and Imports of Crude Oil and Oil Products, mbbbl/d</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Exports(1)</b>			
Crude oil	497	478	439
Fuel oil (including bunker fuel)	153	150	152
Gasoline	14	38	40
Other	33	39	42
Total exports	697	705	673
<b>Imports</b>			
Crude oil	316	396	373
Diesel and other distillates	177	78	127
LPG	58	45	40
Gasoline	9	0	0
Naphtha	42	25	23
Other	13	3	7
Total imports	615	547	570

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(1) Includes sales made by PifCo to unaffiliated third parties, including sales of oil and oil products purchased internationally.

### *Logistics and Infrastructure*

We own and operate an extensive network of crude oil and oil products pipelines in Brazil that connect our terminals, refineries and other primary distribution points. On December 31, 2010, our onshore and offshore, crude oil and oil products pipelines extended 15,199 km (9,397 miles). We operate 28 marine storage terminals and 20 other tank farms with nominal aggregate storage capacity of 63 million barrels. Our marine terminals handle an average 10,422 tankers annually. We are working in partnership with other companies to develop and expand Brazil's ethanol pipeline and logistics network.

Until 1998, we held the monopoly on oil and natural gas pipelines in Brazil and shipping oil products to and from Brazil. The deregulation of the Brazilian oil sector in that year provided for open competition in the construction and operation of pipeline facilities and gave the ANP the power to authorize entities other than Petrobras to transport crude oil, natural gas and oil products. In accordance with this deregulation, we transferred our transportation and storage network and fleet to a separate wholly owned subsidiary, Petrobras Transporte S.A.—Transpetro, to allow third parties to access our excess capacity on a non-discriminatory basis. We enjoy preferred access to the Transpetro network based on our historical usage

levels and, in practice, third parties make very limited use of this network.

We operate a fleet of owned and chartered vessels. These provide shuttle services between our producing basins offshore Brazil and the Brazilian mainland, and shipping to other parts of South America and internationally. The fleet includes double-hulled vessels, which operate internationally where required by law, and single-hulled vessels, which operate in South America and Africa only. We are increasing our fleet of owned vessels to replace older vessels, decrease our dependency on chartered vessels and exposure to charter rates tied to the U.S. dollar, and accommodate growing production volumes. Upgrades will include replacing single-hulled tankers with double-hulled vessels and replacing vessels nearing the end of their 25-year useful life. Our long-term strategy continues to focus on the flexibility afforded by operating a combination of owned and chartered vessels.

We plan to take delivery of 49 new vessels by 2015, all to be built in Brazilian shipyards. We have ongoing contracts with five shipyards for delivery of 41 large oil tankers, bunkering vessels and LPG carriers between 2011 and 2015. We expect to contract an additional eight product tankers in 2011.

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The table below shows our operating fleet and vessels under contract as of December 31, 2010.

**Owned and Chartered Vessels in Operation and Under Construction Contracts at December 31, 2010**

	In Operation		Under Contract/Construction	
	Number	Tons Deadweight Capacity	Number	Tons Deadweight Capacity
Owned fleet:				
Tankers	40	2,495,451	33	3,570,350
LPG tankers	6	40,171	8	42,200
Anchor Handling Tug Supply (AHTS)	1	2,163	0	0
Floating, Storage and Offloading (FSO)	1	28,903	0	0
Layed-up vessel	4	148,620	0	0
<b>Total</b>	<b>52</b>	<b>2,715,308</b>	<b>41</b>	<b>3,612,550</b>
Chartered vessels: :				
Tankers	214	21,841,155		
LPG tankers	25	515,568		
<b>Total</b>	<b>239</b>	<b>22,356,723</b>		

### *Petrochemicals*

Our petrochemicals operations provide a growing market for the crude oil and other hydrocarbons we produce, increase our value added and provide domestic sources for products that would otherwise be imported. Our strategy is to increase domestic production of basic petrochemicals and engage in second generation and biopolymer activities through investments in companies in Brazil and abroad, capturing synergies within all our businesses.

In the past, the Brazilian petrochemicals industry was fragmented with a large number of small companies, many of which were not internationally competitive and were therefore poor customers for our petrochemical feedstocks. In a series of mergers and a capital subscription completed in 2010, we have participated in consolidating and restructuring the Brazilian petrochemicals industry by creating Brazil's largest petrochemicals company and one of the largest producers of thermoplastic resin in the Americas, Braskem S.A. (Braskem). Braskem is a publically traded company in which we hold a 36.1% interest. The controlling shareholder, with 38.3%, is Odebrecht S.A. (Odebrecht). Braskem operates 31 petrochemical plants,

produces basic petrochemical and plastics, and conducts related distribution and waste processing operations.

The table below sets forth the primary production capacities of Braskem as of December 31, 2010:

**Braskem: Nominal Capacity by Petrochemical Type  
(mmt/y)**

<b>Braskem</b>	
Ethylene	3.77
Propylene	1.59
Polyethylene	3.06
Polypropylene	2.88
PVC	0.51
Cumene	0.32

On April 1, 2011, we announced the acquisition of Innova S.A. from Petrobras Energia International S.A., a wholly owned subsidiary of Petrobras Argentina S.A., for U.S.\$332 million. Innova S.A. is located in the Petrochemical Complex of Triunfo in the State of Rio Grande do Sul in Southern Brazil. The acquisition will allow us to further our goals related to the development of the Brazilian petrochemicals sector while permitting Petrobras Argentina S.A. to concentrate on activities in Argentina.

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We have three new petrochemicals projects under construction or in various stages of engineering or design:

- Complexo Petroquímico do Rio de Janeiro—Comperj: we have plans to develop a petrochemicals complex to be integrated with the Comperj refinery to produce materials for the plastics industry;
- PetroquímicaSuape Complex in Pernambuco: to produce purified terephthalic acid (PTA), polyethylene terephthalate (PET) resin, and polymer and polyester filament textiles; and
- Companhia de Coque Calcinado de Petróleo—Coquepar: calcined petroleum coke plants in Rio de Janeiro and Paraná.

## Distribution

### Distribution Key Statistics

	2010	2009	2008
	(U.S.\$ million)		
<b>Distribution:</b>			
Net operating revenues	37,308	29,672	30,892
Income before income tax	1,101	960	1,245
Total assets at December 31	7,529	6,127	4,775
Capital expenditures	482	369	309

We are Brazil's leading oil products distributor, operating through our own retail network, through our own wholesale channels, and by supplying other fuel wholesalers and retailers. Our Distribution segment sells oil products that are primarily produced by our Refining, Transportation and Marketing segment (RTM), and works to expand the domestic market for these oil products and for other fuels, including LPG, ethanol and biodiesel.

The primary focus of our Distribution segment is to:

- Lead the market in the domestic distribution of oil products and biofuels, increasing our market share and profitability through an integrated supply chain; and
- Become the preferred brand of our consumers while upholding and promoting social and environmental responsibility.

We supply and operate Petrobras Distribuidora S.A.—BR, which accounts for 38.8% of the total Brazilian retail and wholesale distribution market. BR distributes oil products, ethanol and biodiesel, and vehicular natural gas to retail, commercial and industrial customers. In 2010, BR sold the equivalent of 797.5 mbb/d of oil products and other fuels to wholesale and retail customers, of which the largest portion (44.4%) was diesel.



At December 31, 2010, our BR branded service station network was Brazil's leading retail marketer, with 7,306 service stations, or 19.2% of the stations in Brazil. BR-owned and franchised stations make up 30.9% of Brazil's retail sales of diesel, gasoline, ethanol, vehicular natural gas and lubricants.

Most BR stations are owned by franchisees that use the BR brand name under license and purchase exclusively from us; we also provide franchisees with technical support, training and advertising. We own 767 of the BR stations and are required by law to subcontract the operation of these owned stations to third parties. We believe that our market share position is supported by a strong BR brand image and by the remodeling of service stations and addition of lubrication centers and convenience stores.

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Our wholesale distribution of oil products and biofuels under the BR brand to commercial and industrial customers accounts for 56.1% of the total Brazilian wholesale market. Our customers include aviation, transportation and industrial companies, as well as utilities and government entities.

We also sell oil products produced by RTM to other retailers and to wholesalers.

Our LPG distribution business, Liquigas Distribuidora, held a 22.3% market share and ranked second in LPG sales in Brazil in 2010, according to the ANP.

Oil products sales in Brazil increased 9.0% in 2010 compared to 2009. This increase was due mainly to Brazil's economic growth and its corresponding growth in household income and consumer credit.

We participate in the retail sector in other South American countries through our International business segment. See "—International."

## Gas and Power

### Gas and Power Key Statistics

	2010	2009	2008
	(U.S.\$ million)		
<b>Gas and Power:</b>			
Net operating revenues	8,507	5,966	9,345
Income (loss) before income tax	1,014	496	(443)
Total assets at December 31	29,907	25,361	15,348
Capital expenditures	4,099	5,116	4,256

For more than two decades, we have been working actively to develop simultaneously Brazil's natural gas reserves, production, infrastructure and markets. As a result of our efforts, natural gas in 2009 supplied 8.7% of Brazil's total energy needs, compared to 3.7% in 1998, and is projected to supply 14.2% of Brazil's total energy needs by 2020, according to Empresa de Pesquisa Energética, a branch of the MME.

In 2010, our Exploration and Production operations produced 63.3 mmm<sup>3</sup>/d (2,235.44 mmcf/d) of natural gas. The development plans for these operations are expected to result in substantial increases in gas production from the Espírito Santo and Santos Basins off the Brazilian coast, including from pre-salt reservoirs. We expect domestic gas production to play an increasingly important role in the supply mix, but we will continue to import gas from Bolivia and use LNG imports selectively to provide supplemental supplies, particularly to meet surges in demand from the power sector.

Our Gas and Power segment is responsible for monetizing and delivering the gas produced by our Exploration and Production segment, and gas purchased from other sources, including

imported LNG. The segment comprises gas transmission and distribution, LNG regasification, the manufacture of nitrogen-based fertilizers, gas-fired power generation, and power generation from renewable sources, including solar, wind and small-scale hydroelectric.

The primary focus on our Gas and Power segment is to:

- Add value by monetizing Petrobras' associated and non-associated natural gas resources;
  - Assure flexibility and reliability in the commercialization of natural gas;
  - Expand the use of LNG to meet Brazilian gas demand and diversify our supply of natural gas;
  - Optimize our thermoelectric power plant portfolio and supplement it with power generation from renewables;
- and

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Create an additional flexible means of monetizing our natural gas resources by investing in capacity to manufacture nitrogen fertilizers.

**Natural Gas**

Following a multi-year infrastructure development program, including investments of approximately U.S.\$13.33 billion (R\$26.98 billion) in the last five years, we have built an integrated system centered around two main, interlinked, pipeline networks that allows us to deliver natural gas from our main offshore natural gas producing fields in the Campos and Espírito Santo Basins, as well as from two LNG terminals and a gas pipeline connection with Bolivia.

Our natural gas pipelines span 9,239 km (5,741.2 miles), including:

- Malha Sudeste (Southeast Network) (2,273.7 km/1,412.8 miles) serving Brazil's most industrialized region, including Rio de Janeiro and São Paulo;
- Malha Nordeste (Northeast Network) (2,183.4 km/1,356.7 miles);
- Gasene (Southeast Northeast Interconnection Gas Pipeline) (1,387 km/861.8 miles);
- A 2,593 km (1,611.2 miles) Brazilian portion of the Bolivia-Brazil natural gas pipeline in Southeastern Brazil; and
- Urucu-Coari-Manaus pipeline (802.5 km/498.7 miles) and branches, connecting the Solimões Basin to Manaus and other northern cities.

In 2010, we invested U.S.\$3.41 billion in our pipeline network, completed the Gasene interconnector, and extended our total network by 1,696 km (1,054 miles) as compared to 2009. The following pipelines commenced operations in 2010:

<b>Natural Gas Pipelines Starting Operations in 2010</b>			
<b>Name</b>	<b>Route</b>	<b>Length (km/miles)</b>	<b>Capacity</b>
Gascac	Cacimbas-Catu (completes Gasene)	954 km (593 miles)	up to 20 mmm <sup>3</sup> /d (706.6 mmm <sup>3</sup> /d)
Gasduc III	Cabiúnas-Reduc	181 km (112.5 miles)	40 mmm <sup>3</sup> /d (1,412 mmm <sup>3</sup> /d)
Gasbel II	Volta Redonda - Queluzito	268.9 km (167 miles)	up to 5 mmm <sup>3</sup> /d (176.6 mmm <sup>3</sup> /d)
Paulínia-Jacutinga	Paulínia-Jacutinga	93 km (58 miles)	up to 5.0 mmm <sup>3</sup> /d (176.6 mmm <sup>3</sup> /d)
Pilar-Ipojuca	Pilar-Ipojuca	189.1 km (117.5 miles)	up to 15 mmm <sup>3</sup> /d (529.1 mmm <sup>3</sup> /d)
GASCAV-UTG Sul	Cabiúnas - UTG	10 km (6.2 mile)	2 mmm <sup>3</sup> /d (70.63 mmm <sup>3</sup> /d)
Capixaba			

In 2011, we plan to invest a further U.S.\$1.5 billion for incremental additions to our gas transportation system.



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The map below shows our existing pipelines and our pipelines under construction.

We own and operate two LNG terminals, one in Rio de Janeiro with a send-out capacity of 20 mmm<sup>3</sup>/d (706 mmcf/d), and the other in Pecém (Ceará) in Northeastern Brazil with a send-out capacity of 7 mmm<sup>3</sup>/d (247 mmcf/d). The terminals are supported by two LNG regasification vessels with capacities of 14 mmm<sup>3</sup>/d (494 mmcf/d) and 7 mmm<sup>3</sup>/d (247 mmcf/d). These terminals and regasification ships give us the flexibility to import gas to supplement domestic natural gas supplies. In 2010, we purchased 41 LNG cargoes, of which 36 were imported into Brazil and 5 were sold in international markets. In addition, we plan to build a third LNG terminal in the State of Bahia, the construction of which will begin in 2012 and which we expect to be completed in 2013.

We hold interests ranging from 24% to 100% in 20 of Brazil's 27 local gas distribution companies. In Espírito Santo State we hold exclusive rights to distribute natural gas through

our BR subsidiary. We estimate that we had a 23% net equity interest in the combined 49.0 mmm<sup>3</sup>/d (1,730 mmcf/d) of natural gas distributed by Brazil's local distribution companies in 2010.

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According to our estimates, our two most significant holdings, CEG Rio and Bahiagás, are Brazil's third and fourth largest gas distributors. These companies, together with independent distributors Comgás and CEG supply 64% of the Brazilian market.

**Principal Natural Gas Local Distribution Holdings**

Name	State	Group Share %	Average Gas	Customers
			Sales in 2010 (mmm <sup>3</sup> /d)	
CEG RIO	Rio de Janeiro	37.41	6,075	24,506
BAHIAGÁS	Bahia	41.50	3,677	5,719
GASMIG	Minas Gerais	40.00	2,635	292
COPERGÁS	Pernambuco	41.50	2,342	3,415

The table below shows the sources of our natural gas supply, our sales and internal consumption of natural gas, and revenues in our local gas distribution operations for each of the past three years.

**Supply and Sales of Natural Gas in Brazil, mmm<sup>3</sup>/d**

	2010	2009	2008
<b>Sources of natural gas supply</b>			
Domestic production	28.6	23.0	30.3
Imported from Bolivia	27.1	22.4	30.4
LNG	7.6	0.7	0.0
Total natural gas supply	<b>63.3</b>	46.1	<b>60.7</b>
<b>Sales of natural gas</b>			
Sales to local gas distribution companies(1)	37.2	32.4	36.8
Sales to gas-fired power plants	12.2	4.1	12.8
Total sales of natural gas	<b>49.4</b>	36.5	<b>49.6</b>
<b>Internal consumption</b> (refineries, fertilizer and gas-fired power plants)(2)	13.9	9.6	11.1
<b>Revenues</b> (U.S.\$ billion)(3)	4.7	3.5	5.1

(1) Includes sales to local gas distribution companies in which we have an equity interest.

(2) Includes gas used in the transport system.

(3) Excludes internal consumption.

Natural gas consumption in Brazil by industrial, commercial and retail customers increased 15% in 2010 compared to 2009. This increase was due mainly to Brazil's economic growth and more competitive pricing of natural gas sold through short-term auctions. Natural gas consumption in the power generation industry increased 198% from 2009 to 2010 due to



reduced rainfall and higher industrial output. Natural gas consumption by refineries and fertilizer plants increased 20%.

### *Long-Term Natural Gas Commitments*

When we began investment in the Bolivia-Brazil pipeline in 1996, we entered into long-term contracts with three companies:

- Gas Supply Agreement (GSA) with the Bolivian state-owned company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), to purchase certain minimum volumes of natural gas at prices linked to the international fuel oil price through 2019, after which the agreement may be extended until all contracted volume has been delivered. On December 18, 2009, Petrobras and YPFB signed the fourth amendment to the GSA, which provides for additional payments to YPFB for liquids contained in the natural gas purchased by Petrobras through the GSA, of between U.S.\$100 million and U.S.\$180 million per year, retroactive to May 2007. As of February 2010, Petrobras has paid all obligations owed for 2007. Additional payments for subsequent years will be paid after YPFB fulfills conditions precedent established in the amendment;
- Ship-or-Pay agreement with Gás Transboliviano (GTB), owner and operator of the Bolivian portion of the pipeline to transport certain minimum volumes of natural gas through 2019; and

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Ship-or-Pay agreement with Transportadora Brasileira Gasoduto Bolivia-Brasil (TBG), owner and operator of the Brazilian portion of the pipeline to transport certain minimum volumes of natural gas through 2019.

Our volume obligations under the ship-or-pay arrangements were generally designed to match our gas purchase obligations under the GSA. The tables below show our contractual commitments under these agreements for the five-year period from 2011 through 2015.

**Commitments to Purchase and Transport Natural Gas in Connection with  
Bolivia-Brazil Pipeline**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Purchase commitments to YPFB</b>					
Volume obligation (mmm <sup>3</sup> /d)(1)	24.06	24.06	24.06	24.06	24.06
Volume obligation (mmcf/d)(1)	850.00	850.00	850.00	850.00	850.00
Brent crude oil projection (U.S.\$)(2)	72.00	77.40	82.90	82.30	81.30
Estimated payments (U.S.\$ million)(3)	1,899.65	1,874.02	2,007.05	2,073.52	2,049.25
<b>Ship-or-pay contract with GTB</b>					
Volume commitment (mmm <sup>3</sup> /d)	30.00	30.00	30.00	30.00	30.00
Volume commitment (mmcf/d)	1,059.00	1,059.00	1,059.00	1,059.00	1,059.00
Estimated payments (U.S.\$ million)(5)	137.10	137.78	138.46	139.14	139.82
<b>Ship-or-pay contract with TBG</b>					
Volume commitment (mmm <sup>3</sup> /d)(4)	35.28	35.28	35.28	35.28	35.28
Volume commitment (mmcf/d)	1,246.09	1,246.09	1,246.09	1,246.09	1,246.09
Estimated payments (U.S.\$ million)(5)	498.15	501.32	510.42	526.34	526.87

(1) 25.3% of contracted volume supplied by Petrobras Bolivia.

(2) Brent price forecast based on our 2020 Strategic Plan.

- (3) Estimated payments are calculated using gas prices expected for each year based on our Brent price forecast. Gas prices may be adjusted in the future based on contract clauses and amounts of natural gas purchased by Petrobras may vary annually.
- (4) Includes ship-or-pay contracts relating to TBG's capacity increase.
- (5) Amounts calculated based on current prices defined in natural gas transport contracts.

### *Gas Sales Contracts*

In recent years, we have introduced a variety of supply contracts designed to create flexibility in matching customer demand with our gas supply capabilities. These include flexible, interruptible and preferential gas supply contracts as well as auction mechanisms for short-term contracts. In 2010, we introduced weekly electronic auctions offering short-term natural gas volumes that had been reserved for gas-fired power plants, but were not dispatched.

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The table below shows our future gas supply commitments from 2011 to 2015, including sales to both local gas distribution companies and gas-fired power plants.

<b>Future Commitments under Natural Gas Sales Contracts, mmm<sup>3</sup>/d</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>To local gas distribution companies:</b>					
Related parties(1)	17.40	18.90	19.71	20.13	20.23
Third parties	18.05	18.04	17.75	17.65	17.80
<b>To gas-fired power plants:</b>					
Related parties(1)	4.23	4.41	3.44	3.45	3.46
Third parties	5.02	6.52	8.28	9.78	9.87
Total(2)	<b>44.70</b>	<b>47.87</b>	<b>49.17</b>	<b>51.01</b>	<b>51.36</b>
Estimated contract revenues (U.S.\$ billion)(3)(4)	5.7	6.1	6.2	6.3	6.4

(1) For purposes of this table, “related parties” include all local gas distribution companies and power generation plants in which we have an equity interest and “third parties” refer to those in which we do not have an equity interest.

(2) Estimated volumes are based on “take or pay” agreements in our contracts, expected volumes and contracts under negotiation (including renewals of existing contracts), not maximum sales.

(3) Figures show revenues net of taxes. Estimates are based on outside sales and do not include internal consumption or transfers.

(4) Prices may be adjusted in the future and actual amounts may vary.

### *Short-Term Natural Gas Commitments*

In 2009, we contributed to the development of a short-term market for natural gas sales, focusing on the industrial market as an alternative to the market for power generation when the power plants are not being dispatched. Sales under these short-term contracts were accomplished by an electronic auction system conducted by means of the Internet. These auctions commercialized natural gas volumes reserved for but not otherwise utilized by local gas distributors, and allowed us to offer end users more competitive prices. On average, 4.4 mmm<sup>3</sup>/d of natural gas were sold under these short-term contracts in 2009, with volumes reaching 7.8 mmm<sup>3</sup>/d in 2010. The last auction resulted in a sales record of 9.4 mmm<sup>3</sup>/d for a four-month delivery period.

In April 2010, we implemented a new method for selling short-term natural gas. On a weekly basis, we offer for sale to the non-thermoelectric market volumes of natural gas that had been originally reserved for gas-fired power plants but that were not dispatched. Under this

method, weekly sales begin with orders from gas distribution companies for deliveries to be made within the subsequent four-week period. Depending on the availability and cost of natural gas during that period, we have the option of either accepting or rejecting the orders. This new method allowed us to sell an average of 300,000 m<sup>3</sup>/d of natural gas, with a sales record of 1.6 mmm<sup>3</sup>/d in May 2010.

### *Fertilizers*

We are expanding production of nitrogenous fertilizers in order to meet the growing needs of Brazilian agriculture, to substitute for imports, and to expand the market for natural gas. Effective January 1, 2010, we transferred our fertilizer business from the Refining, Transportation and Marketing segment to the Gas and Power segment in order to better exploit business synergies.

Our fertilizer plants in Bahia and Sergipe produce ammonia and urea for the Brazilian market. In 2010, these plants sold a combined 235,739 t of ammonia and 772,059 t of urea. We are currently building a facility with the capacity to produce 200,000 m<sup>3</sup>/year of ARLA 32, an aqueous 32.5% urea solution. We are also conducting feasibility studies for up to four additional fertilizer facilities.

### *Power*

To further our goal of developing natural gas demand in Brazil, we have invested in power plants and the associated system of gas supply contracts. These plants are designed to supplement power from the hydroelectric stations that supply an average of 90% of the country's electric power needs in a given year. Gas-fired power is particularly needed during times of peak demand, high economic growth, and drought.

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We own interests in 25 thermoelectric power plants with a combined installed capacity at year-end 2010 of 5,771 MW, equivalent to 64% of Brazil's total thermoelectric capacity. Of this total, 5,372 MW was in thermoelectric plants controlled by us and 99% (5,340 MW) was gas-fired. Under Brazil's power pricing regime, we may sell only power-generating capacity that is certified by the MME. At year-end 2010, due to gas supply constraints, the MME certified 3,619 MWavg of commercial capacity, or 67% of the installed capacity controlled by us.

In 2010, the Brazilian hydroelectric system generated 48,270 MWavg of electricity, or 89% of the country's needs. The *Sistema Interligado Nacional*—SIN (National Interconnected Power System), was called upon to supplement this power with an average 5,943 MW, of which we generated an average 1,837 MW of electricity in 2010, compared to 525 MW in 2009.

We also export energy to neighboring countries. In 2010, we exported 110.2 MWavg to Argentina and Uruguay.

### *Commitments for Future Generation Capacity and Electricity Sales*

Under a 2007 agreement with the ANEEL, we are committed to increasing our ability to supply power to the grid by increasing natural gas supplies, including LNG, converting some existing power plants to dual-fuel operation and leasing backup oil-fired power plants. By 2011 we are committed to supply up to 5,609 MW of installed capacity and expect to have an average 3,669 MW certified capacity available for sale, exclusive of our own power requirements.

The table below shows the installed capacity and commercial capacity of the thermoelectric power plants controlled by us for 2010 through 2013 under our agreement with the ANEEL:

	<b>Installed Power Capacity and Utilization</b>			
	<b>2010</b>	<b>2011</b>	<b>2012(2)</b>	<b>2013</b>
Gross installed capacity (MW)	5,372	5,609	5,205	5,205
Certified commercial capacity(1) (MWavg)	3,619	3,669	3,353	3,462

(1) Weighted average of certified commercial capacity for the year.

(2) Our installed and commercial capacity will be reduced in 2012 due to the termination of our lease of the Araucaria thermoelectric power plant.

In 2010, we invested U.S.\$358.2 million (R\$630.8 million) in thermoelectric generation.

We sell our power output under long-term contracts for "standby availability" and long-term bilateral contracts, primarily with power distribution companies. Of the total 3,579 MWavg of power available for sale in 2012 (including the certified commercial capacity of our plants and 226 MWavg of power purchased from third parties), approximately 45% has already been sold

as standby availability in the 2005 and 2006 auctions, and approximately 55% has been committed under bilateral contracts. We also have the option to fulfill our contractual commitments by purchasing power from third parties.

The following table summarizes our commitments under standby availability and bilateral contracts, power purchased from third parties, and the power we expect to be available for sale.

	<b>Power Available for Sale and Power Commitments</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	<b>(MWavg)</b>				
<b>Total available for sale:</b>					
Commercial capacity (MW)					
(1)	2,811	3,619	3,669	3,353	3,462
Purchased from third parties	329	234	202	226	200
<b>Commitments:</b>					
Standby availability auctions	821	1,391	1,596	1,596	1,596
Bilateral contracts	2,103	2,442	2,214	1,983	1,587
<b>Remaining available for sale (1)(2)</b>	<b>216</b>	<b>20</b>	<b>61</b>	<b>0</b>	<b>479</b>

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(1) Projections based on existing capacity and expected supply of gas.

(2) Represents the remaining commercial capacity available for sale beginning in 2011.

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In the 2005 and 2006 auctions, we sold standby availability of 1,391 and 205 MWavg, respectively, on 15-year contracts beginning in 2008 to 2011. Under the terms of these contracts, we will be compensated a fixed amount whether or not we generate any power, and we receive an additional amount for the energy we actually generate at a price that is set on the date of the auction and revised annually based on an inflation-adjusted fuel oil basket. This represented most of our capacity that is eligible to be sold through the auction system. We have been compensated for the standby availability from the 2005 and 2006 auctions since 2008, with the capacity compensation stepping up through 2011, at which time it stabilizes. These contracts generate losses when our actual costs of generating power increase and our prices do not rise accordingly.

Our future commitments under bilateral contracts are 2,275 MWavg in 2011, 1,983 MWavg in 2012 and 2,066 MWavg in 2013. The agreements will run off gradually, with the last contract expiring in 2028. As existing bilateral contracts run-off, we will sell our remaining certified power-generation capacity under short- and medium-term bilateral contracts and auctions conducted by us and by the MME.

**Renewable Energy**

We have invested, alone and in partnership with other companies, in renewable power generation sources in Brazil including wind and small hydroelectric plants. Our net interests are equivalent to 316.5 MW of hydroelectric capacity and 105.8 MW of wind capacity. We and our partners sell energy from these plants directly to the Brazilian federal government via “reserve energy” auctions.

**International****International Key Statistics**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(U.S.\$ million)</b>		
<b>International:</b>			
Net operating revenues	13,463	10,197	10,940
Income (loss) before income tax	1,076	232	(605)
Total assets at December 31	16,170	14,914	13,439
Capital expenditures	2,167	2,111	2,908

We have operations in more than 20 countries outside Brazil, encompassing all phases of the energy business. The primary focus of our international operations is to:

- Use our technical expertise in deepwater exploration and production to participate in high-potential and frontier offshore regions; and
- Integrate international downstream operations aligned with our domestic activities.



*International Upstream Activities*

Most of our international activities are in exploration and production of oil and gas. We have long been active in Latin America. In the Gulf of Mexico and West Africa, we focus on opportunities to leverage the deepwater expertise we have developed in Brazil. We have preliminary exploratory efforts underway in other regions.

In 2010, our net production outside Brazil averaged 146 mbbbl/d of crude oil and NGLs and 16 mmm<sup>3</sup>/d (566 mmcf/d) of natural gas, representing 10% of our total production on a barrels of oil equivalent basis.

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The table below shows our main exploration and production projects being developed worldwide. Additional information about certain of these projects and our exploration and production activities is provided in the text that follows.

<b>Main International Exploration and Production Assets in Development</b>					
	<b>Countries</b>	<b>Main projects in development</b>	<b>Phase</b>	<b>Operated by</b>	<b>Petrobras interest (%)</b>
<b>South America</b>					
1	Argentina(1)	Sierra Chata	Production	Petrobras	46
		Parva Negra	Exploration	Petrobras	100
		El Tordillo	Production	Partner	36
		La Tapera –	Production	Partner	36
		Puesto Quiroga	Production	Petrobras	100
		25 de Mayo – Medanito	Production	Petrobras	38
		Puesto Hernández			
2	Bolivia	San Alberto	Production	Petrobras	35(2)
		San Antonio	Production	Petrobras	35(2)
		Ingre	Exploration	Partner	100(2)
		Itaú	Exploration	Petrobras	30(2)
3	Colombia	Balay 1	Exploration	Petrobras	45
		Tayrona	Exploration	Petrobras	40
		Cebucan	Exploration	Petrobras	50
		Villarica Norte	Exploration	Petrobras	50
4	Peru	Lote 10	Production	Petrobras	100
		Lote 57	Exploration	Partner	45.16
		Lote 58	Exploration	Petrobras	100
5	Uruguay	Block 3	Exploration	Partner	40
		Block 4	Exploration		
				Petrobras	40
6	Venezuela	Oritupano-Leona	Production	Partner	40(3)
		Acema	Production	Partner	40(3)
		La Concepción	Production	Partner	40(3)
		Mata	Production	Partner	40(3)
<b>North America</b>					
7	Mexico	Cuervito	Production	Petrobras	45(4)
		Fronterizo	Production	Petrobras	45(4)
8	U.S.	Cascade	Development	Petrobras	100
		Chinook	Development	Petrobras	66.67
		Coulumb	Production	Partner	33.33
		(MC-613)	Production	Petrobras	100
		Cottonwood	Development	Partner	25
		St. Malo	Development	Partner	20
		Tiber	Development	Partner	25
		Stones	Exploration	Petrobras	50

		Big Bend	Exploration	Partner	50
		Latigo	Exploration	Partner	35
		Logan			
<b>Africa</b>					
9	Angola	Block 2	Production	Partner	28
		Block 6	Exploration	Petrobras	40
		Block15	Exploration	Partner	5
		Block 18	Exploration	Petrobras	30
		Block 26	Exploration	Petrobras	80
		Block 34	Exploration	Partner	30
10	Namibia	2714A	Exploration	Partner	50
11	Nigeria	Akpo	Production	Partner	20
		Agbami	Production	Partner	13
		Egina	Development	Partner	20
		Egina South	Exploration	Partner	20
		Preowei	Exploration	Partner	20
		OPL 315	Exploration	Petrobras	45

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<b>Main International Exploration and Production Assets in Development</b>					
	<b>Countries</b>	<b>Main projects in development</b>	<b>Phase</b>	<b>Operated by</b>	<b>Petrobras interest (%)</b>
12	Tanzania	Block 5	Exploration	Petrobras	100
		Block 6	Exploration	Petrobras	100
<b>Europe</b>					
13	Portugal	Camarão	Exploration	Petrobras	50
		Mexilhão	Exploration	Petrobras	50
<b>Asia</b>					
14	India	Cauvery	Exploration	Partner	25
<b>Oceania</b>					
15	Australia	North Carnarvon	Exploration	Partner	50
16	New Zealand	Block 52707	Exploration	Petrobras	100

(1) Most of the Argentine exploration and production projects are held through our indirect 67.2% share in PESA.

(2) Production-sharing contract, under which Petrobras' expenditures are reimbursed only if exploration results in economically viable oil discoveries.

(3) Joint venture through PESA.

(4) Non-risk service contract, under which Petrobras' expenditures are reimbursed regardless of whether exploration results in economically viable oil discoveries.

During 2010, our capital expenditures for international exploration and production totaled U.S.\$1.9 billion, representing 8.3% of our total exploration and production capital spending.

### *South America*

We are present in Argentina, Bolivia, Colombia, Ecuador, Peru, Venezuela and Uruguay. In 2010, our average net production from South America (outside of Brazil) was 180.6 mboe/d, or 75% of our international production. Reserves in the region represent 75% of our international reserves. Our most significant natural gas production operations outside of Brazil are located in Argentina and Bolivia, where we produced an average 15.2 mmm<sup>3</sup>/d (536.8 mmcf/d) of natural gas in 2010, or 95% of our international production. Argentina and Bolivia together accounted for 35% of our worldwide production of natural gas in 2010.

Our largest operating region outside Brazil is **Argentina**, where we operate primarily through our 67.2% interest in Petrobras Energia S.A. (PESA). Our main oil production is concentrated in the Medanito, El Tordillo and Puesto Hernández fields, and our main gas production is

concentrated in the Santa Cruz and Sierra Chata fields in the province of Neuquén. We also hold direct and indirect interests of 52.6% in Petrolera Entre Lomas S.A. (PELSA), whose main oil production is in Entre Lomas.

In **Bolivia**, our production comes principally from the San Alberto and San Antonio fields. Following enactment of the Bolivian government's May 1, 2006 nationalization of hydrocarbons, we entered into new production-sharing contracts under which we continue to operate the fields, but are required to make all hydrocarbon sales through YPFB with the right to recover our costs and participate in profits. On January 25, 2009, Bolivia adopted a new constitution that prohibits private ownership of the country's oil and gas resources. As a result, we were not able to include any of our Bolivian proved reserves in our proved reserves for year-end 2010. We continue to report production from our operations in Bolivia under our existing contracts in that country. In January 2011, the Bolivian government approved the agreement between Petrobras Bolivia S.A. and Total E&P Bolivie S.A., according to which we have acquired a 30% interest in the Itaú gas field and assumed control of the field's operations.

In **Colombia**, in January 2010, we negotiated a farm-out agreement in the Balay Block, where we hold a 45% interest, for 15% of our interest to Petroamerica Oil Corporation and 10% of our interest to Sorgenia E&P Colombia B.V. In March 2010, we announced discoveries in the Balay Block, where ongoing tests confirmed the presence of oil at approximately 28° API. Our portfolio also includes other onshore exploration and production contracts.

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We are present in **Venezuela** through four joint ventures with subsidiaries of Petr leos de Venezuela S.A. (PDVSA), which hold exploration and production rights and in which we hold minority interests. PDVSA is the majority holder and operator.

In **Peru**, we announced discoveries of natural gas in Lote 58, located in the Department of Cuzco, which are undergoing commercial evaluations. We are the sole operator of Lote 58. Our main assets in the country are exploration and production rights in Block 10 in Northern Peru. In 2010, the volumes booked by the Kinteroni Gas Project, in Lote 57, accounted for a 65.1 mmbob increase of the company's reserves in the country.

In 2010, we chose to discontinue operations in **Ecuador** following changes in that country's laws and regulations.

### *North America*

In the **United States** we focus on deepwater fields in the Gulf of Mexico. As of December 31, 2010, we held interests in 189 offshore blocks, 125 of which we operate. In January 2010, we acquired the remaining 50% interest in the Cascade field. In 2011, we expect to begin production in the Cascade and Chinook fields, where we will implement new technologies and become the first Gulf of Mexico operation to use a FPSO.

Our exploration activities in the United States were reduced in 2010 due to the moratorium imposed by the United States government after the Gulf oil spill.

We have held non-risk service contracts for the Cuervito and Fronterizo Blocks in the Burgos Basin of **Mexico** since 2003. Under these service contracts, we receive fees for our services, but any producing wells and production are transferred to the Mexican national oil company Petr leos Mexicanos (Pemex). We also have agreements to share deepwater expertise with Pemex.

### *Europe*

Under a joint study agreement with Petrogal (Galp) and Partex, we are acquiring and analyzing seismic data related to the Peniche Basin offshore **Portugal**.

### *Africa*

In **Angola**, we have announced deepwater discoveries in Block 15, in which we have a 5% interest. In 2010, we produced a net 1.9 mboe/d from Block 2, which we do not operate.

In **Nigeria**, our net production is 54.6 mboe/d from the Agbami and Akpo fields, and we enhanced production at those fields in 2010. The Egina field is in its development stage, while the Preowei and Egina South fields are under appraisal.

In **Namibia**, we continue to evaluate the potential of Block 2714A before deciding whether to drill an exploratory well. This block is located in offshore Southern Namibia and covers an

area of approximately 5,500 km<sup>2</sup> (1.4 million acres) in water depths from 150 to 1,500 meters (492 to 4,921 feet).

In **Tanzania**, we continue exploratory studies of the offshore deepwater blocks 5 and 6 in partnership with TPDC. Each block encompasses approximately 11,000 km<sup>2</sup> (2.7 million acres). In 2010, we carried out two 3D seismic surveys that covered a total of 2,700 km<sup>2</sup> (0.7 million acres) of the area.

### *Asia and Oceania*

In April 2010, we acquired a 50% interest in an exploratory block in the North Carnarvon Basin in **Australia** and committed to drill the first exploration well. We have made no discoveries of natural gas in our Artemis-1 well.

In **New Zealand**, we obtained permission, through public bidding, to operate exploration offshore Block 52707, in the Raukumara Basin. We have a 100% interest and plan to undertake seismic studies and drill one exploration well.

### *Other International Activities*

Our other international activities, including refining, petrochemicals, distribution and gas and power activities, are described below.

### *South America*

We have integrated operations in South America, particularly in **Argentina**, where we participate across the energy value chain. Through our interest in PESA, we own two refineries providing 81 mbb/d of net capacity, an interest in the Refinor/Campo Duran Refinery, and three petrochemical plants (two in Argentina and one in Brazil). We directly own 604 retail service stations operating under the Petrobras brand name. We also own the Pichi Picún Leufú hydroelectric plant, the Genelba gas-fired thermoelectric plant, an interest in natural gas transportation company TGS (Transportadora Gas del Sur), and interests in energy marketer Edesur, and Mega Company, a natural gas separation facility.

In 2010, PESA agreed to sell its fertilizer business for U.S.\$88 million. In 2010, PESA also agreed to sell its refinery in San Lorenzo and about 360 points of sale for approximately U.S.\$110 million. This transfer was consummated on May 2, 2011, although it remains subject to approval by the Argentine competition authority.

In **Bolivia**, we operate gas fields that supply gas to Brazil. We hold an 11% interest in GTB, owner of the Bolivian section of the Bolivia-to-Brazil (BTB) pipeline that transports natural gas we produce in Bolivia to the Brazilian market. We also hold a 44.5% interest in Transierra S.A., which owns the Yacuiba-Rio Grande gas pipeline (Gasyrg) linking the San Alberto and San Antonio fields to the BTB pipeline.

In **Chile**, our assets comprise 229 service stations, 11 airport terminals and a lubricant plant.

In **Colombia**, our assets comprise 86 service stations and a lubricant plant.

In **Paraguay**, our assets comprise 165 service stations, 1 aviation fueling installation and 1 LPG refueling plant.

In **Uruguay**, we have fuel distribution operations, with 87 service stations. We also market marine products, asphalt and aviation products and distribution.



The portfolio of our Gas and Power segment includes two gas distribution companies in Uruguay, Distribuidora de Gas Montevideo S.A (retail sales in Montevideo) and Conecta S.A. (national commercial sales). See “—Gas and Power”

### *North America*

In the **United States** we own 100% of the Pasadena Refining System (PRSI) and 100% of PRSI’s related trading company (PRSI Trading Company). On December 20, 2010, the 129th District Court of Harris County, Texas issued a ruling confirming an arbitration award issued on April 10, 2009, which found that Petrobras America, Inc. (PAI), our indirect subsidiary in the United States, and its affiliates had effectively acquired the remaining shares that led PAI to hold 100% of the interest held by our former partner Astra Oil Trading NV (Astra) and its affiliates in both PRSI and PRSI Trading Company, and set the put-option exercise price for PRSI and PRSI Trading Company at U.S.\$296 million and U.S.\$170 million, respectively. PAI does not object to the confirmation of the put option exercised by Astra and its affiliates or PAI’s ownership of 100% of PRSI and 100% of PRSI Trading Company. However, PAI is appealing the December 20, 2010 ruling in order to challenge certain other aspects related to the implementation of the arbitral award. Enforcement of the judgment is suspended pending appeal. There are other ongoing judicial proceedings related to indemnifications among the parties involved.

## Asia

In **Japan**, we own the Nansei Sekiyu Kabushiki Kaisha (NSS) refinery in Okinawa and produce and market E3 fuel, a mixture of ethanol and gasoline.

## Corporate

### Corporate Key Statistics

	2010	2009	2008
	(U.S.\$ million)		
<b>Corporate:</b>			
Income (loss) before income tax	(3,416)	(3,520)	(1,986)
Total assets at December 31	53,707	31,198	17,583
Capital expenditures	752	584	874

## Biofuels

Since 2009, our Biofuels operations have been part of the Corporate segment. They were previously included in the Gas and Power segment. Brazil is a global leader in the use of ethanol as fuel for light vehicles. Today, 90.83% of new light vehicles sold in Brazil have flexfuel capability, and service stations offer a choice of 100% ethanol and an ethanol/gasoline blend. All diesel fuel sold in Brazil since January 2010 is required to be at least 5% biodiesel.

We supply 10.8% of Brazil's biodiesel and we act as a market catalyst by securing and blending biodiesel supplies and furnishing these to smaller distributors as well as our own service stations. Our biodiesel plants, located at Candeias and Quixada in Northeastern Brazil and at Montes Claros in Southeastern Brazil, purchase vegetable oils from small farmers and industrial producers. After various operational improvements, the capacity of these three plants totals 7.5 mbb/d. During 2010, we began biodiesel production at our 50% owned Marialva plant, increasing our total capacity to 8.5 mbb/d. In an effort to decrease our dependency on third-party sources of vegetable oils, we also invested in a vegetable oil extracting company near our Candeias plant as part of our strategy to vertically integrate our operations.

We participate in the growing ethanol industry through production, transportation, distribution, wholesale and exports, and by stimulating improvements in product quality. In 2010, in order to strengthen our participation in the ethanol industry, we invested U.S.\$387 million (R\$682.5 million) to acquire a 26.5% interest in Guarani S.A., the third-largest sugarcane processor in Brazil, with plans to invest an additional U.S.\$527 million (R\$928.5 million) over five years to acquire an additional 19.2% interest, bringing our total interest in Guarani S.A. to 45.7%. We also entered into a strategic partnership with Grupo São Martinho, with investments of U.S.\$244 million (R\$422 million), in order to operate and expand the production of the Usina Boa Vista and SMBJ Agroindustrial S.A. through our 49% interest in Nova Fronteira Bioenergia S.A. As a result of these partnerships and investments, our total

annual milling capacity amounts to 24.5 mmt and our total ethanol production capacity amounts to 27.0 mmt/d.

In 2010, we exported 306,000 m<sup>3</sup> of ethanol, 16.11% of Brazil's total ethanol exports, including industrial ethanol to Asia and fuel ethanol to the United States and Europe.

## Information on PifCo

PifCo was incorporated in order to facilitate and finance the import of crude oil and oil products by us into Brazil, and has been our wholly owned subsidiary since 2000. Currently, PifCo acts as an intermediary between third-party oil suppliers and us by engaging in crude oil and oil product purchases from international suppliers, and reselling crude oil and oil products in U.S. dollars to us under terms that allow payment in up to approximately 30 days, without a premium. Prior to April 2010, we paid PifCo for shipments of crude oil and oil products on a deferred payment basis, at a price which included a premium to compensate PifCo for its financing costs. PifCo also purchases crude oil and oil products from us for sale outside Brazil. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties, mainly outside Brazil. PifCo is generally able to obtain credit to finance purchases on the same terms granted to us, and PifCo buys crude oil and oil products at the same price that suppliers would charge us directly. PifCo is gradually reducing its sales of crude oil and oil products to us and will gradually reduce its sales of crude oil and oil products to third parties, and will eventually cease these commercial operations altogether. At that time, PifCo will become a finance subsidiary functioning as a vehicle for us to raise capital for our operations outside of Brazil through the issuance of debt securities in the international capital markets, among other means.

We have provided unconditional and irrevocable guaranties of payment for all of PifCo's issuances of SEC-registered debt securities since February 2009. On March 31, 2010, we issued six additional unconditional and irrevocable guaranties of payment to replace the standby purchase agreements that previously supported PifCo's SEC-registered debt securities issued prior to February 2009. As a result, we currently provide unconditional and irrevocable guaranties of payment for all of PifCo's outstanding SEC-registered debt securities.

### *PifCo's Corporate Structure*

PifCo was established on September 24, 1997 as Brasoil Finance Company, a wholly owned subsidiary of Braspetro Oil Services Company, or Brasoil, a wholly owned subsidiary of Petrobras Internacional S.A. (Braspetro), which has since been absorbed by us. PifCo's voting shares were transferred from Brasoil to us in 2000, since which time it has been our wholly owned subsidiary. Petrobras International Finance Company is an exempted company incorporated with limited liability under the laws of the Cayman Islands. PifCo's registered office is located at Harbour Place, 103 South Church Street, 4th floor, P.O. Box 1034GT, George Town, Grand Cayman, Cayman Islands, and PifCo's telephone number is 55-21-3487-2375.

PifCo's four subsidiaries are:

- **Petrobras Europe Limited (PEL):** In May 2001, PifCo established PEL, a wholly owned subsidiary incorporated and based in the United Kingdom, to consolidate our trade activities in Europe, the Middle East, the Far East and Africa. These activities consist of advising on, and negotiating the terms and conditions for, crude oil and oil products supplied to PifCo, PIB BV, and us, as well as marketing Brazilian crude oil and crude oil products exported to the geographic areas in which PEL operates. PEL plays an advisory role in connection with these activities and

undertakes no direct or additional commercial or financial risk. PEL provides these advisory and marketing services as an independent contractor, pursuant to a services agreement between PEL and us. In exchange, we compensate PEL for all costs incurred in connection with these activities, plus a margin.

- **Petrobras Finance Limited (PFL):** In December 2001, PifCo established PFL, a wholly owned subsidiary incorporated and registered in the Cayman Islands. PFL primarily purchases fuel oil from us and sells the products in the international market in order to generate export receivables to cover its obligations to transfer these receivables to a trust under an exports prepayment program. Until June 1, 2006, PFL also purchased bunker fuel from us. The exports prepayment program helps provide PFL with the funding necessary to purchase oil products from us, as described below.

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- **Bear Insurance Company Limited (BEAR):** In January 2003, BEAR was transferred to PifCo from Brasoil. This transaction took place as part of the restructuring of our international business segment. BEAR currently serves as our captive insurance company, advising on and negotiating the terms and conditions of, certain of our insurance policies and certain insurance and reinsurance policies of our subsidiaries.
- **Petrobras Singapore Private Limited (PSPL):** In April 2006, PifCo created PSPL, a company incorporated in Singapore to trade oil and derivatives in connection with our trading activities in Asia. This company initiated operations on July 1, 2006.

*PifCo's Principal Commercial Activities*

PifCo purchases crude oil and oil products for resale to us and third parties. PifCo acquires substantially all of its crude oil and oil products either through purchases on the spot market or short-term supply contracts. PifCo also acquires a small portion of its crude oil and oil products through long-term supply contracts. PifCo's crude oil and oil product purchase obligations are, in most instances, guaranteed by us. Prior to April 2010, PifCo resold the products purchased to us at the purchase price it paid, plus a premium, determined in accordance with a formula designed to pass on PifCo's average costs of capital to us. Currently, PifCo sells crude oil and oil products to us under terms that allow payment in up to approximately 30 days, without a premium. PifCo also purchases crude oil and oil products from us for sale outside Brazil. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties, mainly outside Brazil. PifCo is gradually reducing its sales of crude oil and oil products to us and will gradually reduce its sales of crude oil and oil products to third parties, and will eventually cease these commercial operations altogether. At that time, PifCo will become a finance subsidiary functioning as a vehicle for us to raise capital for our operations outside of Brazil through the issuance of debt securities in the international capital markets, among other means.

In addition, PifCo finances its oil trading activities principally from commercial banks, including lines of credit, as well as through inter-company loans from us and the issuance of notes in the international capital markets.

*Export Prepayment Program*

In 2001, we created an export prepayment program to finance our fuel oil exports through the securitization of our fuel oil exports receivables. A Cayman Islands trust, the PF Export Receivables Master Trust (Trust), raises funds by issuing certificates to investors and providing this funding to PFL to purchase fuel oil from us. PFL purchases fuel oil from us under a Master Export Contract and a Prepayment Agreement, which establishes quarterly minimum purchase commitments. PFL assigns all receivables from the sale of such exports to the Trust, and the receivables serve as collateral for the payment obligations due under the certificates. The certificates represent senior undivided beneficial interests in the property of the Trust.

The value of receivables to be designated for sale in any quarterly period represents a portion, but not all, of the receivables expected to result from the sale of fuel oil by PFL in

such period. The balance of the receivables is the property of PFL.

Since the creation of the program, the Trust has issued a total of U.S.\$1,500 million in Senior Trust Certificates. We have prepaid or amortized a portion of the Senior Trust Certificates. Currently, there are U.S.\$264 million in Senior Certificates outstanding.

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As the support for the exports prepayment program, we sell fuel oil to utilities, refineries and traders. The following table sets forth our fuel oil export sales for the period from 2006 to 2010:

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Millions of U.S.\$	2,250.1	1,708.6	2,848.5	2,205.9	1,500.1
Millions of barrels	31.1	29.5	51.8	39.6	67.3

### Organizational Structure

Of our 37 direct subsidiaries listed below, 30 are incorporated under the laws of Brazil and seven (PifCo, Petrobras International Braspetro B.V. (PIB BV), Braspetro Oil Company (BOC), Braspetro Oil Services Company (Brasoil), Petrobras Netherlands B.V. (PNBV), Cordoba Financial Services GmbH and Cayman Cabiúnas) are incorporated abroad. See Exhibit 8.1 for a complete list of our subsidiaries, including their full names, jurisdictions of incorporation and our percentage equity interest.



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The following diagram sets forth our significant consolidated subsidiaries as of December 31, 2010:

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## **Property, Plant and Equipment**

### *Petrobras*

Our most important tangible assets are wells, platforms, refining facilities, pipelines, vessels and other transportation assets, and power plants. Most of these are located in Brazil. We own and lease our facilities and some owned facilities are subject to liens, although the value of encumbered assets is not material.

We have the right to exploit crude oil and gas reserves in Brazil under concession agreements, but the reserves themselves are the property of the government under Brazilian law. Item 4. "Information on the Company" includes a description of our reserves and sources of crude oil and natural gas, key tangible assets, and material plans to expand and improve our facilities.

### *PifCo*

PifCo does not itself own or lease any material property, plant or equipment.

## **Regulation of the Oil and Gas Industry in Brazil**

### *Concession Regime for Oil and Gas*

Under Brazilian law, the Brazilian federal government owns all crude oil and natural gas subsoil accumulations in Brazil. The Brazilian federal government holds a monopoly over the exploration, production, refining and transportation of crude oil and oil products in Brazil and its continental shelf, with the exception that companies that were engaged in refining and distribution in 1953 were permitted to continue those activities. Between 1953 and 1997, we were the Brazilian federal government's exclusive agent for exploiting its monopoly, including the importation and exportation of crude oil and oil products.

As part of a comprehensive reform of the oil and gas regulatory system, the Brazilian Congress amended the Brazilian Constitution in 1995 to authorize the Brazilian federal government to contract with any state or privately-owned company to carry out upstream, oil refining, cross-border commercialization and transportation activities in Brazil of oil, natural gas and their respective products. On August 6, 1997, Brazil enacted Law No. 9,478, which established a concession-based regulatory framework, ended our exclusive right to carry out oil and gas activities, and allowed competition in all aspects of the oil and gas industry in Brazil. Since that time, we have been operating in an increasingly deregulated and competitive environment. Law No. 9,478 also created an independent regulatory agency, the ANP, to regulate the oil, natural gas and renewable fuel industry in Brazil, and to create a competitive environment in the oil and gas sector. Effective January 2, 2002, Brazil deregulated prices for crude oil, oil products and natural gas.

Law No. 9,478 established a concession-based regulatory framework and granted us the exclusive right to exploit crude oil reserves in each of our producing fields under concession

contracts for an initial term of 27 years from the date when they were declared commercially profitable. This initial 27-year period for production can be extended at the request of the concessionaire and subject to approval from the ANP. Law No. 9,478 also established a procedural framework for us to claim exclusive exploratory rights for a period of up to three years, later extended to five years, to areas where we could demonstrate that we had made commercial discoveries or exploration investments prior to the enactment of the Law No. 9,478. In order to perfect our claim to explore and develop these areas, we had to demonstrate that we had the financial capacity to carry out these activities, either alone or through other cooperative arrangements.

### *Taxation under Concession Regime for Oil and Gas*

According to the Law No. 9,478 and under our concession agreements for exploration and production activities with ANP, we are required to pay the government the following:

- Signature bonuses paid upon the execution of the concession agreement, which are based on the amount of the winning bid, subject to the minimum signature bonuses published in the relevant bidding guidelines (*edital de licitação*);
- Annual retention bonuses for the occupation or retention of areas available for exploration and production, at a rate established by the ANP in the relevant bidding guidelines based on the size, location and geological characteristics of the concession block;
- Special participation charges at a rate ranging from 0 to 40% of the net operating revenues derived from the production of fields that reach high production volumes or profitability, according to the criteria established in the applicable legislation. In 2010, we paid this tax on 18 of our fields, including Albacora, Albacora Leste, Barracuda, Canto do Amaro, Caratinga, Carmópolis, Cherne, Espadarte, Golfinho, Jubarte, Leste do Urucu, Manati, Marlim, Marlim Sul, Marlim Leste, Miranga, Rio Urucu and Roncador. Net revenues are gross revenues less royalties paid, investments in exploration, operational costs and depreciation adjustments and applicable taxes. The Special Participation Tax uses as a reference international oil prices converted to *reais* at the current exchange rate; and
- Royalties, to be established in the concession contracts at a rate ranging between 5% and 10% of gross revenues from production, based on reference prices for crude oil or natural gas established by Decree No. 2,705 and ANP regulatory acts. In establishing royalty rates in the concession contracts, the ANP also takes into account the geological risks and expected productivity levels for each concession. Virtually all of our crude oil production is currently taxed at the maximum royalty rate.

Law No. 9,478 also requires concessionaires of onshore fields to pay to the owner of the land a participation fee that varies between 0.5% and 1.0% of the net operating revenues derived from the production of the field.

### *Hydrocarbon Sector Regulatory Reform of 2010*

Discoveries of large petroleum and natural gas reserves in the pre-salt areas of the Campos and Santos Basins prompted a proposal to change the legislation regarding oil and gas exploration and production activities. The proposed legislation, which was submitted by the President of Brazil to the Brazilian Congress on September 1, 2009, was based on studies conducted by an inter-ministerial committee created in July 2008 to consider changes in the regulation of exploration and production activities in pre-salt areas not subject to existing concessions. Petrobras' Chief Executive Officer, J.S. Gabrielli de Azevedo and the former Chair of our board of directors and current President of Brazil, Dilma Vana Rousseff, in her capacity as Chief of Staff to former President Luiz Inácio Lula da Silva, were members of this committee.

In 2010, three new laws were enacted to regulate exploration and production activities in pre-salt areas not subject to existing concessions: Law No. 12,351, Law No. 12,304, and Law

No. 12,276. The enacted legislation does not impact the existing pre-salt concession contracts, which cover approximately 28% of the pre-salt region.

### *Assignment Agreement (Cessão Onerosa) and Global Offering*

Pursuant to Law No. 12,276, enacted on June 30, 2010, we entered into an agreement with the Brazilian federal government on September 3, 2010 (Assignment Agreement), under which the government assigned to us the right to conduct activities for the exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. The initial contract price for our rights under the Assignment Agreement was R\$74,807,616,407, which was equivalent to U.S.\$42,533,327,500 as of September 1, 2010. See Item 10. “Material contracts—Petrobras—Assignment Agreement.” In order to ensure transparency, our board of directors created a special committee comprised of minority shareholders’ representatives to monitor the transfer of rights transaction.

Law No. 12,276 also authorized the Brazilian federal government to subscribe for additional shares of our capital stock in a public offering of our shares. On September 29, 2010, we issued 2,293,907,960 common shares (including common shares in the form of ADSs) and 1,788,515,136 preferred shares (including preferred shares in the form of ADSs) in a global public offering consisting of a registered offering in Brazil and an international offering that included a registered offering in the United States. On October 1, 2010, we issued an additional 75,198,838 common shares (including common shares in the form of ADSs) and 112,798,256 preferred shares (including preferred shares in the form of ADSs) pursuant to the exercise of the underwriters’ over-allotment option. We complied with all of the Brazilian Corporate Law requirements in carrying out the capitalization process, including the protection of the rights of our minority shareholders. See Item 10. “Memorandum and Articles of Incorporation of Petrobras—Preemptive Rights” for a summary of these requirements.

We applied part of the net proceeds from the global offering to pay the initial purchase price under the Assignment Agreement and to continue to develop all of our business segments in accordance with our Business Plan.

### *Production-Sharing Contract Regime for Unlicensed Pre-Salt and Potentially Strategic Areas*

Law No. 12,351, enacted on December 22, 2010, regulates production-sharing contracts for oil and gas exploration and production in pre-salt areas not under concession and in potentially strategic areas to be defined by the CNPE. It also calls for the creation of a social fund consisting of resources from the Brazilian federal government’s share in production sharing-contracts, such as subscription bonuses, royalties and revenues, which must be used by the Brazilian federal government to sponsor social development programs. Under the production-sharing regime, we will be the exclusive operator of all blocks under production-sharing contracts. The exploration and production rights for these blocks can either be granted to us on an exclusive basis or, in the case where they are not awarded to us on an exclusive basis, the remainder will be offered under public bids. If offered under public bids, we would be granted a minimum interest to be established by the CNPE that would not be less than 30%, with the additional right to participate in the bidding process allowing us to attempt to increase our interest in those areas. Under the production-sharing regime, the winner of the bid will be the company that offers the highest percentage of “profit oil,” which is

the production of a certain field after deduction of royalties and “cost oil,” which is the cost associated with oil production, to the Brazilian federal government.

Although Law No. 12,351 was enacted, former President Luiz Inácio Lula da Silva vetoed changes to the royalty distribution framework proposed by the Brazilian Congress under this bill and submitted a new proposal to the Brazilian Congress with a royalty rate of 15% applicable to the gross production of oil and natural gas under production-sharing contracts and for the distribution of these royalties among Brazilian federation members.

### *Establishment of New State-Run Non-Operating Company*

Law No. 12,304, enacted on August 2, 2010, authorizes the incorporation of a new state-run non-operating company that will represent the interests of the Brazilian federal government in the production-sharing contracts and will manage the commercialization contracts related to the Brazilian federal government's share of the "profit oil." This new company will participate in operational committees, with a casting vote and veto powers and will manage and control costs arising from production-sharing contracts. Where production-sharing contracts are concerned, this new company will exercise its specific legal activities alongside the ANP, the independent regulatory agency that regulates and oversees oil and gas activities under all exploration and production regimes, and the CNPE, the entity that sets the guidelines to be applied to the oil and gas sector, including with respect to the new regulatory model.

### *Natural Gas Law of 2009*

In March 2009, the Brazilian Congress enacted a law regulating activities in the gas industry, including transport and commercialization. The Gas Law created a concession regime for the construction and operation of new pipelines to transport natural gas, while maintaining an authorization regime for pipelines subject to international agreements. According to the Gas Law, after a certain exclusivity period, operators will be required to grant access to transport pipelines and maritime terminals, except LNG terminals, to third parties in order to maximize utilization of capacity. Authorizations previously issued by the ANP for natural gas transport will remain valid for 30 years from the date of publication of the Gas Law, and initial carriers were granted exclusivity in these pipelines for 10 years. The ANP will issue regulations governing third-party access and carrier compensation if no agreement is reached between the parties.

The Gas Law also authorized certain consumers, which can purchase natural gas on the open market or obtain their own supplies of natural gas, to construct facilities and pipelines for their own use in the event local gas distributors controlled by the states, which have monopoly over local gas distribution, do not meet their distribution needs. These consumers are required to delegate the operation and maintenance of the facilities and pipelines to local gas distributors, but they are not required to sign gas supply agreements with the local gas distributors.

### *Price Regulation*

Until the passage of the Law No. 9,478 in 1997, the Brazilian federal government had the power to regulate all aspects of the pricing of crude oil, oil products, ethanol, natural gas, electric power and other energy sources. In 2002, the government eliminated price controls for crude oil and oil products, although it retained regulation over certain natural gas sales contracts and electricity. Also in 2002, the Brazilian federal government established an excise tax on the sale and import of crude oil, oil products and natural gas products (*Contribuição de Intervenção no Domínio Econômico*, Contribution for Intervention in the Economic Sector, or CIDE). In 2009, the Gas Law authorized the ANP to regulate prices for the use of gas transport pipelines subject to the new concession regime, based on a procedure defined in the Gas Law



as a “*chamada pública*,” and to approve prices submitted by carriers, according to previously established criteria, for the use of new gas transport pipelines subject to the authorization regime.

### *Environmental Regulations*

All phases of the crude oil and natural gas business present environmental risks and hazards. Our facilities in Brazil are subject to a wide range of federal, state and local laws, regulations and permit requirements relating to the protection of human health and the environment. At the federal level, our offshore activities and those that involve more than one Brazilian state are subject to the regulatory authority of the *Conselho Nacional do Meio Ambiente* (National Council for the Environment, or CONAMA) and to the administrative authority of IBAMA, which issues operating and drilling licenses. We are required to submit reports, including safety and pollution monitoring reports (IOPP) to IBAMA in order to maintain our licenses. Onshore environmental, health and safety conditions are controlled at the state rather than federal level, and there is strict liability for environmental damage, mechanisms for enforcement of environmental standards and licensing requirements for polluting activities.

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Individuals or entities whose conduct or activities cause harm to the environment are subject to criminal and administrative sanctions. Government environmental protection agencies may also impose administrative sanctions for noncompliance with environmental laws and regulations, including:

- Fines;
- Partial or total suspension of activities;
- Requirements to fund reclamation and environmental projects;
- forfeit or restriction of tax incentives or benefits;
- Closing of establishments or operations; and
- Forfeiture or suspension of participation in credit lines with official credit establishments.

We are subject to a number of administrative proceedings and civil and criminal claims relating to environmental matters. See Item 8. “Financial Information—Legal Proceedings—Environmental Claims.”

In 2010, we invested approximately U.S.\$1,377 million in environmental projects, compared to approximately U.S.\$984 million in 2009 and U.S.\$1,075 million in 2008. These investments were primarily directed at reducing emissions and wastes resulting from industrial processes, managing water use and effluents, remediating impacted areas, implementing new environmental technologies, upgrading our pipelines and improving our ability to respond to emergency situations.

### **Health, Safety and Environmental Initiatives**

The protection of human health and the environment is one of our primary concerns, and is essential to our success as an integrated energy company.

As a result of an internal reorganization carried out in 2010, our Health, Safety and Environment (HSE) Management Committee was disbanded and its functions were assigned to a newly-created Technology, Engineering and Services Integration Committee. This committee is composed of corporate executive managers from both business and services areas and is chaired by our director of services. The following three committees gather representatives from the business and services areas as well as from subsidiary companies to deal with health, safety, environmental and energy efficiency issues: the HSE Management Committee; the Energy Efficiency, Air Emissions and Climate Change Committee; and the Environmental Licensing and Compensation Committee. We have also created an Environmental Committee composed of three members of our board of directors. This committee’s responsibilities include: (i) overseeing and managing environmental and work safety issues affecting us; (ii) establishing measurable environmental targets and ensuring compliance; and (iii) recommending changes in environmental, health and safety policy, if

necessary, to our board of directors. The Environmental Committee charter is awaiting approval by our board of directors.

Our actions to address health, safety and environmental concerns and ensure compliance with environmental regulations involved an investment of approximately U.S.\$2,591 million in 2010 and included:

- A HSE management system based on principles of sustainable development which seeks to minimize the impacts of operations and products on health, safety and the environment, reduce the use of natural resources and pollution, and prevent accidents;

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- ISO 14001 (environment) and OHSAS 18001 (health and safety) certification of our operating units. As of December 2010, Petrobras had 93% of the total number of 296 certifiable sites in Brazil and abroad certified in accordance with the standards mentioned above. The *Frota Nacional de Petroleiros* (National Fleet of Vessels) has been fully certified by the International Maritime Organization (IMO) International Management Code for Safe Operation of Ships and for Pollution Prevention (ISM Code) since December 1997;
- Regular and active engagement with the MME and IBAMA, including negotiating new environmental compensation regulations and discussing environmental issues connected with new gas pipelines, oil and gas production projects and other aspects of our operations.
- “Climate Change” and “Energy Efficiency” strategic projects, which aim to implement the highest standards in the energy industry regarding the efficient use of energy and greenhouse gas management. By reducing the environmental impact of our operations, we will contribute to our sustainability and mitigate global climate change.
- A new strategic challenge seeking to maximize energy efficiency and reduce greenhouse gases emission intensity, which was approved by our board of executive officers in November 2010 along with a set of performance indicators with targets to monitor progress with respect to this new challenge. Our goal is to reach excellence levels in the oil and gas industry and to contribute to business sustainability.

Every project is evaluated to confirm its compliance with all HSE requirements and adoption of the best HSE practices throughout the project’s life cycle. In addition, we conduct more extensive environmental studies for new projects when required by applicable environmental legislation.

We are committed to reduce greenhouse gas emission intensity from our processes and products, as expressed in our 2020 Strategic Plan. Our strategy focuses on energy efficiency, energy production from renewable sources and research and technological development. This strategy aims both at improving business sustainability and mitigating the effects of climate change.

Our Internal Program on Energy Conservation works to improve energy efficiency in all our units. In 2010, we invested U.S.\$71.5 million in energy efficiency projects. This investment, combined with the improvement of operational procedures, resulted in a reduction of approximately 447 boe/d in energy consumption. During the last five years, we invested U.S.\$245 million in energy efficiency projects, saving 3,478 boe/d in energy consumption.

In 2010, we experienced oil spills totaling 176,388 gallons of crude oil, compared to 67,102 gallons of crude oil in 2009 and 115,179 gallons of crude oil in 2008.

We have maintained oil spill levels well below 1m<sup>3</sup> per mmbbl produced, which corresponds to a standard of excellence within the global oil and gas industry. We continue to evaluate and develop initiatives to address HSE concerns and to reduce our exposure to HSE risks.

*Environmental Remediation Plans and Procedures*

In 2000, we implemented a company-wide program for environmental management and operational safety (PEGASO) that was designed to identify risks to human life and the environment, control and monitor those risks with safety procedures that comply with best international practices, and maintain a permanent state of readiness for prompt and effective emergency response. Since 2000, under the PEGASO program, we also have focused our efforts on the prevention of oil spills and our investments in preventive measures have contributed to a 88.7% reduction of oil spills from 37,000 barrels in 2000 to 4,200 barrels in 2010. From 2000 through 2010, we have developed several projects to improve safety and environmental protection under the PEGASO program both in Brazil and abroad at our international operations, with a total budget of U.S.\$5,628 million for the period.

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As part of these efforts, we have developed detailed response and remediation contingency plans to be implemented in the event of an oil spill or leak from our offshore operations. We have more than 660 trained workers available to respond to oil spills 24 hours a day, seven days a week, and we can mobilize an additional 2,000 trained workers for shoreline cleanups on short notice. While these workers are located in Brazil, they are also available to respond to an offshore oil spill outside of Brazil. We also have stockpiles of the equipment needed to quickly and effectively contain offshore spills or leaks, including over 440 miles of containment and absorbent booms, over 55,000 gallons of oil dispersants and 318 oil pumps. Petrobras has 30 dedicated oil spill recovery vessels (OSRVs) fully equipped for oil spill control and fire fighting, as well as 130 additional support and recovery boats and barges available to fight offshore oil spills and leaks 24 hours a day, seven days a week. In addition, we have contracts with local emergency responders Clean Caribbean and Americas Cooperative in North America and Oil Spill Response Limited in Africa and Asia. We also maintain relationships with major Oil Spill Response Organizations and other oil companies.

We created ten environmental protection centers in strategic areas in which we operate throughout Brazil in order to ensure rapid and coordinated response to onshore or offshore oil spills. These regional facilities are supported by 13 local advanced bases dedicated to oil spill prevention, control and response. Our environmental protection centers and their advance bases would be mobilized in the event of a spill or leak at one of our offshore operations. Each of our local and regional response centers is self sufficient and available to respond either individually or jointly together with neighboring facilities depending on the severity and scale of the emergency.

In 2010, we carried out a large scale exercise with Clean Caribbean & Americas called International Mobilization, Preparedness & Response Exercise – Mobex in the Amazon Region of Brazil. Brazilian and international resources as well as several governmental agencies and authorities were engaged in the simulation of a large oil spill on Rio Negro, near Manaus. The main goal of the exercise was to test the effectiveness of Brazilian and international resources needed to face a Tier 3 environmental emergency. In 2010, we also conducted regional emergency drills with the Brazilian Navy, the Civil Defense, firefighters, the military police, environmental organizations, and local governmental and community entities.

## **Insurance**

Our insurance programs focus principally on the evaluation of risks and the replacement value of assets, which we believe is customary for our industry. Under our risk management policy, risks associated with our principal assets, such as refineries, tankers, our fleet and offshore production and drilling platforms, are insured for their replacement value with third-party Brazilian insurers. Although the policies are issued in Brazil, most of our policies are reinsured abroad with reinsurers rated A- or higher by Standard & Poor's rating agency or B+ or higher by A.M. Best. Part of our international operations are insured or reinsured by our Bermudian subsidiary BEAR following the same rating criteria.

Less valuable assets, including but not limited to small auxiliary boats, certain storage facilities, and some administrative installations, are self-insured. We do not maintain

coverage for business interruption, except for a minority of our international operations and a few specific assets in Brazil. We also do not maintain coverage for our wells for all of our Brazilian operations. Although we do not insure most of our pipelines, we have insurance against damage or loss to third parties resulting from specific incidents, as well as oil pollution. We also maintain coverage for risks associated with cargo, hull and machinery risk. All projects and installations under construction that have an estimated maximum loss above U.S.\$60 million are covered by a construction policy.

We maintain insurance coverage for operational third-party liability with respect to our onshore and offshore activities, including environmental risks such as oil spills, in Brazil up to an aggregate policy limit of U.S.\$250 million for a period of 12 months. We also maintain additional protection and indemnity (P&I) marine insurance against third-party liability related to our domestic offshore operations up to an aggregate policy limit of up to U.S.\$500 million for a period of 12 months. In the event of an explosion or similar event at one of our offshore rigs in Brazil, these policies can provide combined third-party liability coverage of up to U.S.\$750 million for a period of 12 months.

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We have operations in more than 20 countries outside Brazil and maintain varying levels of third-party liability insurance for our international operations based on a variety of factors, including our country risk assessments, whether we have onshore and offshore operations and legal requirements imposed by the various countries in which we operate. We also maintain separate “control-of-well” insurance policies at our international operations to cover liability arising from the uncontrolled eruption of oil, gas, water or drilling fluid with aggregate policy limits up to U.S.\$500 million for a period of 12 months depending on the country. In the U.S. Gulf of Mexico, for example, we maintain third-party liability coverage up to an aggregate policy limit of U.S.\$250 million for a period of 12 months, and control-of-well liability insurance up to U.S.\$500 million for a period of 12 months. Depending on the particular circumstances, either of these policies could apply in the event of an explosion or similar event at one of our offshore rigs in the U.S. Gulf of Mexico.

Our domestic and international operational third-party liability policies cover claims made against us by or on behalf of individuals who are not our employees in the event of personal injury or death, subject to the policy limits set forth above. As a general rule, our service providers are required to indemnify us, for a claim we pay directly to a third party as a result of a court decision holding us liable for the actions of that service provider. Our service providers may be required to compensate injured third parties directly if the lawsuit is brought against that service provider, or if we join the service provider to a judicial proceeding brought against us, according to the terms of the underlying service contract.

Our operational third-party liability policies in Brazil and outside of Brazil cover environmental damage from oil spills, including liability arising from an explosion or similar sudden and accidental event at one of our offshore rigs. These operational third-party insurance policies cover litigation, clean-up and remediation costs, but do not cover governmental fines or punitive damages. As mentioned above, we maintain “control-of-well” insurance policies for our international operations to cover claims for environmental damage from well blow-outs and similar events. We do not maintain control-of-well insurance for our domestic operations onshore and offshore Brazil.

The premium for renewing our domestic property risk insurance policy for a 12-month period commencing June 2010 was U.S.\$45.1 million. This represented a nominal decrease of 12% over the preceding 12-month period. The insured value of our assets, in the same period, increased by 13.5% to U.S.\$95 billion. Since 2001, our risk retention has increased and our deductibles may reach U.S.\$60 million in certain cases.

### **Additional Reserves and Production Information**

Production of crude oil and natural gas in Brazil is divided into onshore and offshore production, comprising 11% and 89% of total production in Brazil, respectively. The Campos Basin is one of Brazil’s main and most prolific oil and gas offshore basins, with over 59 hydrocarbon fields discovered, eight large oil fields and a total area of approximately 115,000 km<sup>2</sup> (28.4 million acres). In 2010, Campos Basin produced an average 1,676.9 mbbbl/d of oil and 13.6 mmm<sup>3</sup>/d (513.0 mmcf/d) of associated natural gas during 2010, comprising 81.5% of our total production from Brazil. We also conduct limited oil shale mining operations in São



Mateus do Sul, in the Paraná Basin of Brazil, and we use oil shale from these deposits to produce synthetic oil and gas.

On December 31, 2010, our estimated proved reserves of crude oil and natural gas in Brazil totaled 12.14 billion barrels of oil equivalent, including: 10.38 billion barrels of crude oil and natural gas liquids and 279.67 bnm<sup>3</sup> (10.55 tcf) of natural gas. As of December 31, 2010, our domestic proved developed crude oil reserves represented 67% of our total domestic proved developed and undeveloped crude oil reserves. Our domestic proved developed natural gas reserves represented 66% of our total domestic proved developed and undeveloped natural gas reserves. Total domestic proved crude oil reserves increased at an average annual rate of 4% in the last five years. Natural gas proved reserves increased at an average annual rate of 4% over the same period.

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In 2010, we added 1,372 mmboe of crude oil and natural gas to our domestic proved reserves, mainly due to discoveries in the pre-salt region of the Santos Basin (59% of the total), technical and economic revisions to previous estimates (31% of the total) and, to a lesser extent, increased recovery from existing fields and other new discoveries in exploratory blocks. After production of 797 mmboe in Brazil for the year, these additions to our reserves base in 2010 allowed us to grow our proved reserves in Brazil by 5%.

We calculate reserves based on forecasts of field production, which depend on a number of technical parameters, such as seismic interpretation, geological maps, well tests, reservoir engineering studies and economic data. All reserve estimates involve some degree of uncertainty. The uncertainty depends primarily on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of that data. Our estimates are thus made using the most reliable data at the time of the estimate, in accordance with the best practices in the oil and gas industry.

### *Internal Controls over Proved Reserves*

The reserves estimation process begins with an initial evaluation of our assets by geophysicists, geologists and engineers. Corporate Reserves Coordinators (*Coordenadores de Reservas Corporativo*, or CRCs) safeguard the integrity and objectivity of our reserves estimates by supervising and providing technical support to Regional Reserves Coordinators (*Coordenadores de Reservas Regionais*, or CRRs) who are responsible for preparing the reserves estimates. Our CRRs and CRCs have degrees in geophysics, geology, petroleum engineering and accounting and are trained internally and abroad in international reserves estimates seminars. CRCs are responsible for compliance with Securities and Exchange Commission rules and regulations, consolidating and auditing the reserves estimation process. The technical person primarily responsible for overseeing the preparation of our domestic reserves is a member of the SPE, with 21 years of experience in the field and has been with Petrobras for 27 years. The technical person primarily responsible for overseeing the preparation of our international reserves has four years of experience in the field, a doctorate in reservoir engineering and has been with Petrobras for 31 years. Our reserves estimates are presented to our senior management and submitted to the board of directors for final approval.

D&M reviewed and certified 94.9% of our domestic proved crude oil, condensate and natural gas reserve estimates as of December 31, 2010. Outside of Brazil, D&M also reviewed and certified 91.2% of our estimates of international proved oil, condensate and natural gas reserves in fields where we are the operator as of December 31, 2010. The estimates for the certification were performed in accordance with Rule 4-10 of Regulation S-X of the SEC. For further information on our proved reserves, see "Supplementary Information on Oil and Gas Exploration and Production" beginning on page F-129.

### *Changes in Proved Reserves*

We subtracted a net total of 447.9 mmboe from our company-wide (consolidated and non-consolidated entities) proved undeveloped reserves at year-end 2010 compared to

year-end 2009. Thus, we had a total of 4,354.27 mmboe of proved undeveloped reserves company-wide at December 31, 2010, compared to 4,802.1 mmboe at December 31, 2009.

Proved undeveloped reserves in Brazil decreased by 500.1 mmboe, while outside of Brazil proved undeveloped reserves increased by 52.2 mmboe, resulting in a net reduction of 447.9 mmboe company-wide. The primary factor responsible for the net reduction in our proved undeveloped reserves in Brazil in 2010 compared to 2009 was the conversion of proved undeveloped reserves to proved developed reserves. We converted a net total of 1,349.1 mmboe of our proved undeveloped reserves to proved developed reserves in Brazil in 2010, mainly through the start-up of production from the P-57, FPSO Capixaba and FPSO Cidade de Santos platforms in the Campos and Santos basins. The volumes we converted from proved undeveloped to proved developed reserves in Brazil exceeded the volumes of proved undeveloped reserves added to our domestic reserves in 2010 as a result of new discoveries in the pre-salt regions of the Santos Basin and technical revisions in the Campos Basin consisting of historical adjustments and increased production from pilot projects. The 52.2 mmboe net addition of proved undeveloped reserves outside of Brazil was mainly due to newly estimated reserves in Peru. All reserves volumes described above are "net" to the extent that they only include Petrobras' proportional participation in reserve volumes and exclude reserves attributed to our partners.

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In 2010, we invested a total of U.S.\$9.72 billion to convert proved undeveloped reserves into proved developed reserves, of which approximately 92.8% (U.S.\$9.02 billion) was invested in Brazil. We converted a total of 1,373.0 mmboe of proved undeveloped reserves to proved developed reserves in 2010, approximately 98.3% (1,349.1 mmboe) of which were Brazilian reserves. In recent years, we have developed projects and increased investments to convert our proved undeveloped reserves into proved developed reserves.

We had a total of 4,354.27 mmboe of proved undeveloped reserves at year-end 2010, approximately 7.4% (323.52 mmboe) of which have remained undeveloped for five years or more as a result of several factors affecting development and production, including the inherent complexity of ultra-deepwater developments projects, particularly in Brazil, and constraints in the capacity of our existing infrastructure. A portion of the 323.52 mmboe of our proved undeveloped reserves that have remained undeveloped for five years or more consist of heavy crude oil located in the Parque das Baleias (Whales Park) area of the Campos Basin offshore Brazil. We originally disclosed these reserves as proved undeveloped reserves between 2003 and 2004 after completing a development plan for the Parque das Baleias region. However, due to the discovery in 2007 of more valuable light crude oil in the same region, we deliberately postponed production from these proved undeveloped reserves until we could allocate the necessary ultra-deep water infrastructure and production resources to develop both our existing proved undeveloped reserves of heavy crude oil and our recently discovered pre-salt light crude oil simultaneously. We initiated an extended well test in the pre-salt reservoirs of the Parque das Baleias region in 2008, and in 2010 we started production through FPSO Capixaba. As a result, we have reclassified a portion of the proved undeveloped reserves in the Parque das Baleias region that have remained undeveloped for five years as proved developed reserves at year-end 2010. The remaining portion of our proved undeveloped reserves that have remained undeveloped for five years or more consist of reserves in shallow water fields in the Santos Basin, for which we have invested the necessary infrastructure, including platforms and wells, to be able to begin production in the first half of 2011.

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The following tables set forth our production of crude oil, natural gas, synthetic oil and synthetic gas by geographic area in 2010, 2009 and 2008:

**Hydrocarbon Production by Geographic Area**

	2010				Total (mboe/d)
	Oil	Synthetic Oil	Nat. Gas	Synthetic Gas	
	(mmbbl/d)	(mmbbl/d)	(mmcf/d)	(mmcf/d)	
	(5)	(4)	(1)	(1)(4)	
<b>Brazil:</b>					
Roncador field(2)	343.4	0.0	161.2	0.0	370.3
Other	1,657.1	3.6	805.3	1.9	1,795.2
Total Brazil	2,000.5	3.6	966.5	1.9	2,165.5
<b>International:</b>					
South America (outside of Brazil)	80.2	0.0	553.3	0.0	172.4
North America	1.3	0.0	8.9	0.0	2.8
Africa	56.5	0.0	0.0	0.0	56.5
Total International	138.0	0.0	562.2	0.0	231.7
Total consolidated production	<b>2,138.5</b>	<b>3.6</b>	<b>1,528.7</b>	<b>1.9</b>	<b>2,397.2</b>
<b>Equity and non-consolidated affiliates:(3)</b>					
South America (outside of Brazil)	7.5	0.0	4.2	0.0	8.2
<b>Worldwide production</b>	<b>2,146.0</b>	<b>3.6</b>	<b>1,532.9</b>	<b>1.9</b>	<b>2,405.4</b>

	2009				Total (mboe/d)
	Oil	Synthetic Oil	Nat. Gas	Synthetic Gas	
	(mmbbl/d)	(mmbbl/d)	(mmcf/d)	(mmcf/d)	
	(4)	(1)	(1)(4)		
<b>Brazil:</b>					
Roncador field(2)	368.9	0.0	163.7	0.0	396.2
Other	1,598.1	3.8	615.0	4.4	1,705.2
Total Brazil	1,967.0	3.8	778.7	4.4	2,101.4
<b>International:</b>					
South America (outside of Brazil)	85.6	0.0	569.3	0.0	180.4
North America	1.5	0.0	10.6	0.0	3.3
Africa	44.3	0.0	0.0	0.0	44.3
Total International	131.4	0.0	579.9	0.0	228.0
Total consolidated production	<b>2,098.4</b>	<b>3.8</b>	<b>1,358.6</b>	<b>4.4</b>	<b>2,329.4</b>
<b>Equity and non-consolidated affiliates:(3)</b>					
South America (outside of Brazil)	9.3	0.0	5.6	0.0	10.2
<b>Worldwide production</b>	<b>2,107.7</b>	<b>3.8</b>	<b>1,364.2</b>	<b>4.4</b>	<b>2,339.6</b>

	2008				Total (mboe/d)
	Oil (mmbbl/d)	Synthetic Oil (mmbbl/d)	Nat. Gas (mmcf/d)	Synthetic Gas (mmcf/d)	

		(mmbbl/d)	(1)	(mmcf/d)	
		(4)		(1)(4)	
<b>Brazil:</b>					
Roncador field(2)	267.6	0.0	119.4	0.0	287.5
Other	1,583.9	3.2	876.2	3.8	1,733.8
Total Brazil	1,851.5	3.2	995.6	3.8	2,021.3
<b>International:</b>					
South America (outside of Brazil)	97.3	0.0	571.2	0.0	192.5
North America	1.7	0.0	13.3	0.0	3.9
Africa	7.9	0.0	0.0	0.0	7.9
Total International	106.9	<b>0.0</b>	584.5	<b>0.0</b>	204.3
Total consolidated production	<b>1,958.4</b>	<b>3.2</b>	<b>1,580.1</b>	<b>3.8</b>	<b>2,225.6</b>
<b>Equity and non-consolidated affiliates:(3)</b>					
South America (outside of Brazil)	13.0	0.0	21.5	0.0	16.6
<b>Worldwide production</b>	<b>1,971.4</b>	<b>3.2</b>	<b>1,601.6</b>	<b>3.8</b>	<b>2,242.2</b>

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(1) Natural gas production figures are the production volumes of natural gas available for sale, excluding flared and reinjected gas and gas consumed in operations.

(2) Roncador field is separately included as it contains more than 15% of our total proved reserves.

(3) Companies in which Petrobras has a minority interest.

(4) We produce synthetic oil and synthetic gas from oil shale deposits in São Mateus do Sul, in the Paraná Basin of Brazil.

(5) Oil production includes LNG and production from extended well tests.

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The following table sets forth our estimated net proved developed and undeveloped reserves of crude oil and natural gas by region as of December 31, 2010.

Category	Estimated Net Proved Developed and Undeveloped Reserves					
	Oil	Natural gas	Total oil and natural gas	Synthetic oil	Synthetic gas	Total synthetic oil and gas
	(mmbbl)	(bn cf)	(mmboe)	(mmbbl)(1)	(bn cf)(1)	(mmboe)
<b>Developed:</b>						
	6,931.5	6,975.2	8,094.0	7.4	12.0	
International (outside of Brazil)	118.7	489.2	200.2	0.0	0.0	
Domestic	4.6	30.3	9.7	0.0	0.0	
International	59.6	40.4	66.3	0.0	0.0	
Domestic	182.9	559.9	276.2	0.0	0.0	
Estimated proved reserves	<b>7,114.4</b>	<b>7,535.1</b>	<b>8,370.2</b>	<b>7.4</b>	<b>12.0</b>	
<b>Non-consolidated affiliates</b>						
International (outside of Brazil)	18.7	25.1	22.9	–	–	
<b>undeveloped reserves</b>	<b>7,133.1</b>	<b>7,560.2</b>	<b>8,393.1</b>	<b>7.4</b>	<b>12.0</b>	
<b>Undeveloped:</b>						
	3,447.5	3,578.9	4,044.0	0.0	0.0	
International (outside of Brazil)	91.1	746.4	215.5	0.0	0.0	
Domestic	5.5	21.5	9.1	0.0	0.0	
International	65.3	–	65.3	0.0	0.0	
Domestic	161.9	767.9	289.9	0.0	0.0	
Estimated proved reserves	3,609.4	4,346.8	4,333.9	0.0	0.0	
<b>Non-consolidated affiliates</b>						
International (outside of Brazil)	14.7	34.6	20.5	0.0	0.0	
<b>undeveloped reserves</b>	<b>3,624.1</b>	<b>4,381.4</b>	<b>4,354.4</b>	<b>0.0</b>	<b>0.0</b>	
<b>reserves (developed and undeveloped)</b>	<b>10,757.2</b>	<b>11,941.6</b>	<b>12,747.5</b>	<b>7.4</b>	<b>12.0</b>	

(1) Volumes of synthetic oil and synthetic gas from oil shale deposits in the Paraná Basin in Brazil have been included in our proved reserves in accordance with the SEC rules for estimating and disclosing reserve quantities.





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The table below summarizes information about the changes in total proved reserves of our consolidated entities for 2010, 2009 and 2008:

**Total Proved Developed and Undeveloped Reserves (consolidated entities only)**

	<b>Oil</b>	<b>Natural gas</b>	<b>Total oil and natural gas</b>	<b>Synthetic oil</b>	<b>Synthetic gas</b>
	<b>(mmbbl)</b>	<b>(bn cf)</b>	<b>(mmboe)</b>	<b>(mmbbl)</b>	<b>(bn cf)</b>
<b>Information for the year ended December 31, 2010</b>					
	10,262.3	10,982.5	12,092.7	6.8	5
Estimates	375.8	330.8	431.0	1.7	8
<i>In situ</i>	29.6	15.0	32.1	0.0	0
	0.0	0.0	0.0	0.0	0
ries	804.6	1,284.6	1,018.7	0.0	0
	(742.5)	(730.1)	(864.2)	(1.2)	(1.5)
	(6.0)	(1.1)	(6.2)	0.0	0
	<b>10,723.8</b>	<b>11,881.8</b>	<b>12,704.1</b>	<b>7.3</b>	<b>12.5</b>
<b>Information for the year ended December 31, 2009</b>					
	9,105.5	12,139.4	11,128.7	0.0	0
Estimates	1,735.1	(522.0)	1,648.1	0.0	0
	21.3	1.0	21.5	0.0	0
<i>In situ</i>	99.4	110.3	117.8	0.0	0
ries	135.2	146.5	159.6	8.0	6
	(735.0)	(782.7)	(865.5)	(1.0)	(1.5)
	(99.4)	(110.3)	(117.8)	0.0	0
	<b>10,262.1</b>	<b>10,982.2</b>	<b>12,092.4</b>	<b>7.0</b>	<b>5.5</b>
<b>Information for the year ended December 31, 2008</b>					
	9,552.8	12,479.8	11,632.8	0.0	0
Estimates	130.2	195.2	162.7	0.0	0
	29.8	7.5	31.1	0.0	0
<i>In situ</i>	12.3	123.1	32.8	0.0	0
ries	76.2	152.7	101.7	0.0	0
	(685.1)	(818.9)	(821.6)	0.0	0
	(10.7)	0.0	(10.7)	0.0	0
	<b>9,105.5</b>	<b>12,139.4</b>	<b>11,128.8</b>	<b>0.0</b>	<b>0.0</b>

Natural gas production volumes used in the calculation of this table are the net volumes withdrawn from Petrobras' proved reserves, including flared and reinjected gas volumes and gas consumed in operations. As a result, the natural gas production volumes in this table are different from those shown in the production table above, which shows the production volumes of natural gas available for sale.

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The following tables show the number of gross and net productive oil and natural gas wells and total gross and net developed and undeveloped oil and natural gas acreage in which Petrobras had interests as of December 31, 2010.

**Gross and Net Productive Wells and Gross and Net Developed and Undeveloped Acreage  
As of December 31, 2010**

	Oil		Natural gas		Synthetic oil		Synthetic
	Gross	Net	Gross	Net	Gross	Net	gas
<b>Gross and net productive wells:(1)</b>							
<b>Consolidated subsidiaries</b>							
<b>Brazil</b>	8,196	8,192	267	262	0	0	0
<b>International</b>							
South America (outside of Brazil)	5,120	3,856	920	829	0	0	0
North America	10	5	8	4	0	0	0
Africa	37	7	0	0	0	0	0
<b>Total international</b>	5,167	3,868	928	833	0	0	0
<b>Total consolidated</b>	13,363	12,060	1,195	1,095	0	0	0
<b>Equity and non-consolidated affiliates:</b>							
South America (outside of Brazil)	391	103	31	11	0	0	0
<b>Total gross and net productive wells</b>	13,754	12,163	1,226	1,106	0	0	0

**As of December 31, 2010**

	Oil		Natural gas (in acres)		Synthetic oil		Synthetic
	Gross	Net	Gross	Net	Gross	Net	gas
<b>Gross and net developed acreage:</b>							
<b>Brazil</b>	3,919,314	3,696,159	144,719	120,901	34,595	34,595	0
<b>International</b>							
South America (outside of Brazil)	898,236	593,463	1,602,877	989,453	0	0	0
North America	10,535	6,033	18,997	7,197	0	0	0
Africa	343,003	53,554	0	0	0	0	0
<b>Total international</b>	1,251,774	653,050	1,621,874	996,650	0	0	0
<b>Total consolidated</b>	5,171,088	4,349,209	1,766,593	1,117,551	34,595	34,595	0
<b>Equity and non-consolidated affiliates:</b>							
South America (outside of Brazil)	262,624	64,095	12,067	3,898	0	0	0
<b>Total gross and net developed acreage</b>	5,433,712	4,413,304	1,778,660	1,121,449	34,595	34,595	0

**As of December 31, 2010**

	Oil		Natural gas (in acres)		Synthetic oil		Synthetic
	Gross	Net	Gross	Net	Gross	Net	gas
<b>Gross and net undeveloped acreage:</b>							

<b>Brazil</b>	930,046	752,708	528,864	519,899	0	0	0
<b>International</b>							
South America (outside of Brazil)	759,489	639,742	2,744,955	1,775,942	0	0	0
North America	2,799	2,744	2,551	2,048	0	0	0
Africa	301,571	51,903	0	0	0	0	0
<b>Total international</b>	1,063,859	694,389	2,747,506	1,777,990	0	0	0
<b>Total consolidated</b>	1,993,905	1,447,097	3,276,370	2,297,889	0	0	0
<b>Equity and non-consolidated affiliates:</b>							
South America (outside of Brazil)	180,595	46,211	29,830	9,883	0	0	0
<b>Total gross and net undeveloped acreage</b>	2,174,500	1,493,308	3,306,200	2,307,772	0	0	0

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(1) A "gross" well or acre is one in which a whole or fractional working interest is owned, while the number of "net" wells or acres is the sum of the whole or fractional working interests in gross wells or acres.

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The following table sets forth the number of net productive and dry exploratory and development wells drilled for the last three years.

<b>Net Productive and Dry Exploratory and Development Wells</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Net productive exploratory wells drilled:</b>			
<b>Consolidated subsidiaries:</b>			
Brazil	60.1	35.7	50.3
South America (outside of Brazil)	3.7	1.2	2.2
North America	0.0	0.2	0.8
Africa	0.2	0.5	0.1
Other	0.7	0.0	1.3
Total consolidated subsidiaries	64.7	37.6	54.7
<b>Equity and non-consolidated affiliates:</b>			
South America (outside of Brazil)	0.0	0.0	0.0
<b>Total productive exploratory wells drilled</b>	<b>64.7</b>	<b>37.6</b>	<b>54.7</b>
<b>Net dry exploratory wells drilled:</b>			
<b>Consolidated subsidiaries:</b>			
Brazil	39.5	55.7	71.2
South America (outside of Brazil)	2.6	2.0	6.6
North America	0.0	1.0	0.3
Africa	1.7	1.1	0.0
Other	0.0	0.0	0.0
Total consolidated subsidiaries	43.8	59.8	78.1
<b>Equity and non-consolidated affiliates:</b>			
Venezuela	0.0	0.0	0.00
<b>Total dry exploratory wells drilled</b>	<b>43.8</b>	<b>59.8</b>	<b>78.1</b>
<b>Total number of net wells drilled</b>	<b>108.5</b>	<b>97.4</b>	<b>132.8</b>
<b>Net productive development wells drilled:</b>			
<b>Consolidated subsidiaries:</b>			
Brazil	555.3	546.2	369.0
South America (outside of Brazil)	179.6	57.0	163.2
North America	1.1	0.0	0.0
Africa	1.3	1.7	2.2
Other	0.0	0.0	0.0
Total consolidated subsidiaries	737.3	604.9	534.4
<b>Equity and non-consolidated affiliates:</b>			
Venezuela	4.0	6.0	6.0
<b>Total productive development wells drilled</b>	<b>741.3</b>	<b>610.9</b>	<b>540.4</b>
<b>Net dry development wells drilled:</b>			
<b>Consolidated subsidiaries:</b>			

Brazil	3.0	9.8	4.0
South America (outside of Brazil)	0.0	0.0	0.0
North America	0.0	0.0	0.0
Africa	0.0	0.0	0.0
Other	0.0	0.0	0.0
Total consolidated subsidiaries	3.0	9.8	4.0
<b>Equity and non-consolidated affiliates:</b>			
Venezuela	0.0	0.0	1.0
<b>Total dry development wells drilled</b>	3.0	9.8	5.0
<b>Total number of net wells drilled</b>	744.3	620.7	545.4

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The following table summarizes the number of wells in the process of being drilled as of December 31, 2010. For more information about our on-going exploration and production activities in Brazil, see “—Exploration and Production.” Our present exploration and production activities outside of Brazil are described in “—International.”

	<b>Number of Wells Being Drilled as of December 31, 2010</b>	
	<b>Year-end 2010</b>	
	<b>Gross</b>	<b>Net</b>
<b>Wells Drilling</b>		
<b>Consolidated Subsidiaries:</b>		
<b>Brazil</b>	32.0	24.9
<b>International:</b>		
South America (outside of Brazil)	227.0	186.1
North America	2.0	1.1
Africa	16.0	3.3
Others	2.0	0.7
Total International	247.0	191.2
Total consolidated production	279.0	216.1
<b>Equity and non-consolidated affiliates:</b>		
Venezuela	14.0	4.0
<b>Total wells drilling</b>	<b>293.0</b>	<b>220.1</b>

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The following table sets forth our average production prices and average production costs by geographic area and by product type for the last three years.

	South America (outside Brazil)	North America	Africa	Total	Equity and non-consolidated affiliates(2)	
	(U.S.\$)					
<b>During 2010</b>						
Average production prices						
Oil, per barrel	74.66	57.17	74.53	79.44	74.12	75.54
Natural gas, per thousand cubic feet(1)	2.60	2.55	4.56	-	2.49	-
Synthetic oil, per barrel	66.78	-	-	-	66.78	-
Synthetic gas, per thousand cubic feet	7.06	-	-	-	7.06	-
Average production costs, per barrel – total	13.17	8.10	23.15	4.37	12.54	6.26
<b>During 2009</b>						
Average production prices						
Oil, per barrel	54.22	46.00	62.23	68.09	54.18	64.64
Natural gas, per thousand cubic feet(1)	3.76	2.06	3.87	-	2.87	-
Synthetic oil, per barrel	50.88	-	-	-	50.88	-
Synthetic gas, per thousand cubic feet	2.97	-	-	-	2.97	-
Average production costs, per barrel – total	9.91	7.06	22.64	9.15	9.69	17.12
<b>During 2008</b>						
Average production prices						
Oil, per barrel	81.55	61.96	108.05	67.65	80.54	87.96
Natural gas, per thousand cubic feet(1)	6.69	2.58	9.94	-	5.07	-
Synthetic oil, per barrel	-	-	-	-	-	-
Synthetic gas, per thousand cubic feet	-	-	-	-	-	-
Average production costs, per barrel – total	12.34	6.40	17.49	7.28	11.82	20.98

(1) The volumes of natural gas used in the calculation of this table are the production volumes of natural gas available for sale and are also shown in the production table above.

(2) Operations in Venezuela.



## **Item 4A. Unresolved Staff Comments**

Not applicable.

## **Item 5. Operating and Financial Review and Prospects**

### **Management's Discussion and Analysis of Petrobras' Financial Condition and Results of Operations**

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements and the accompanying notes beginning on page F-2 of this annual report.

#### **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.

## **Sales Volumes and Prices**

The profitability of our operations in any particular accounting period is related to the sales volume of, and prices for, the crude oil, oil products and natural gas that we sell. Our consolidated net sales in 2010 totaled approximately 1,343,167 thousand barrels of crude oil equivalent, representing U.S.\$120,052 million in net operating revenues, compared to 1,215,087 thousand barrels of crude oil equivalent, representing U.S.\$91,869 million in net operating revenues in 2009, and approximately 1,227,106 thousand barrels of crude oil equivalent, representing U.S.\$118,257 million in net operating revenues in 2008.

As a vertically integrated company, we process most of our crude oil production in our refineries and sell the refined oil products primarily in the Brazilian domestic market. Therefore, it is oil product prices, rather than crude oil prices, that most directly affect our financial results. Nonetheless, as crude oil production increases, and as exports increase, crude oil production will have a greater relative importance.

Oil product prices vary over time as the result of many factors, including the price of crude oil. Over the long term, we intend to sell our products in Brazil at parity with international product prices, however we do not adjust our prices for gasoline, diesel and LPG to reflect short-term volatility in the international markets. As a result, material rapid or sustained increases or decreases in the international price of crude oil and oil products may result in downstream margins for us that are materially different than those of other integrated international oil companies, within a given financial reporting period.

The average prices of Brent crude, an international benchmark oil, were approximately U.S.\$79.47 per barrel in 2010, U.S.\$61.51 per barrel in 2009 and U.S.\$96.99 per barrel in 2008. For December 2010, Brent crude oil prices averaged U.S.\$91.80 per barrel. Brent crude oil prices averaged U.S.\$104.97 per barrel in the first quarter of 2011. We announced price decreases of 4.5% for gasoline and 15% for diesel in the domestic market in June 2009 to reflect international oil product prices. The increase in the CIDE by the Brazilian federal government fully offset the reduction in gasoline prices and partially offset the reduction in diesel prices. Since June 2009, there have been no changes in diesel and gasoline prices.

During 2010, approximately 68.2% of our net operating revenues were derived from sales of crude oil and oil products in Brazil, compared to 72.3% in 2009 and 60.9% in 2008. As export revenues of crude oil and oil products have decreased, domestic sales as a percentage of net operating revenues have increased.

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Our revenues are principally derived from sales in Brazil. The following table sets forth our domestic sales by volume of oil products, natural gas and ethanol for each of 2010, 2009 and 2008:

	For the Year Ended December 31,							
	2010 Net Average Volume (mbbl, except as otherwise noted)	2010 Net Average Price (U.S.\$) (1)	Net Operating Revenues (U.S.\$ million)	2009 Volume (mbbl, except as otherwise noted)	2009 Net Average Price (U.S.\$) (1)	Net Operating Revenues (U.S.\$ million)	2009 Volume (mbbl, except as otherwise noted)	2008 Net Average Price (U.S.\$) (1)
Energy products:								
Automotive gasoline	143,947	81.59	11,744	123,412	73.55	9,077	114,544	9
Diesel	295,297	97.51	28,793	270,099	93.71	25,312	273,877	10
Ethanol	155	70.97	11	294	71.43	21	34	5
Fuel oil (including bunker fuel)	36,481	68.61	2,503	37,235	48.23	1,796	35,541	8
Liquefied petroleum gas	79,695	47.27	3,767	76,759	41.00	3,148	77,796	4
Total energy products	<b>555,575</b>		<b>46,818</b>	<b>507,799</b>		<b>39,354</b>	<b>501,792</b>	
Non-energy products:								
Petrochemical naphtha	61,111	64.33	3,931	59,832	44.07	2,637	55,135	8
Others	140,648	91.75	12,904	133,836	65.11	8,714	112,198	10
Total non-energy products	201,759		16,835	193,668		11,351	167,333	
Natural gas (boe)	116,271	40.44	4,702	87,468	39.55	3,459	114,100	4
Sub-total	873,605	78.24	68,355	788,934	68.65	54,164	783,225	8
Distribution net sales	277,822	135.14	37,545	227,320	131.12	29,807	254,971	12
Intercompany net sales	(285,172)	84.04	(23,967)	(265,697)	66.11	(17,564)	(247,738)	10
<b>Total domestic market</b>	<b>866,255</b>	<b>94.58</b>	<b>81,933</b>	<b>750,558</b>	<b>88.48</b>	<b>66,407</b>	<b>790,458</b>	<b>91</b>

Export net sales	253,063	74.75	18,916	244,974	55.32	13,551	235,349	8
International net sales	53,183	145.01	7,712	103,056	57.03	5,877	59,713	10
Others	170,666	54.50	9,301	116,499	42.76	4,982	141,586	12
Sub-total	476,912	75.34	35,929	464,529	52.55	24,410	436,648	10
Services	—	—	2,190	—	—	1,052	—	
<b>Consolidated net sales</b>	<b>1,343,167</b>		<b>120,052</b>	<b>1,215,087</b>		<b>91,869</b>	<b>1,227,106</b>	

(1) Net average price calculated by dividing net sales by the volume for the year.

### Effect of Taxes on Our Income

In addition to taxes paid on behalf of consumers to federal, state and municipal governments, such as the *Imposto sobre Circulação de Mercadorias e Serviços*, or ICMS, we are required to pay three principal charges on our oil production activities in Brazil: royalties, special participation and retention bonuses. See Item 4. “Information on the Company—Regulation of the Oil and Gas Industry in Brazil—Exploration and Development Regulation” and Item 3. “Key Information—Risk Factors—Risks Relating to Brazil.”

These charges imposed by the Brazilian federal government are included in our cost of goods sold. In addition, we are subject to tax on our income at an effective rate of 25% and a social contribution tax at an effective rate of 9%, the standard corporate tax rate in Brazil. See Note 3 to our audited consolidated financial statements for the year ended December 31, 2010.

### Inflation and Exchange Rate Variation

#### *Inflation*

Since the introduction of the *real* as the Brazilian currency in July 1994, inflation in Brazil has remained relatively stable. Inflation was 5.90% in 2010, 4.31% in 2009 and 5.90% in 2008, as measured by IPCA, the National Consumer Price Index. Inflation has had, and may continue to have, effects on our financial condition and results of operations.

### Exchange Rate Variation

Since we adopted the *real* as our functional currency in 1998, fluctuations in the value of the *real* against the U.S. dollar have had multiple effects on our results of operations.

Our reporting currency for all periods is the U.S. dollar. We maintain our financial records in *reais*, and translate our statements of operations into U.S. dollars at the average rate for the period. Although a substantial portion of our revenues is in *reais*, our revenues have been, and continue to be, linked to U.S. dollar-based international prices, since virtually all of our sales are of crude oil or oil products. When the *real* strengthens relative to the U.S. dollar as it did from 2003 through the first half of 2008, the effect is to generally increase both revenues and expenses when expressed in U.S. dollars. When the *real* weakens, prices for our products when expressed in *reais* may remain constant, while in dollar terms they increase.

In 2010, the *real* appreciated 13.5% against the U.S. dollar, compared to a depreciation of 8.1% in 2009 and an appreciation of 5.7% in 2008. When the *real* weakens relative to the U.S. dollar, our prices when expressed in dollars decline, unless we raise prices.

Foreign currency translation adjustments have a significant impact on the balance sheet of a company such as ours, whose assets are primarily denominated in *reais*, but whose liabilities are primarily denominated in foreign currencies. Asset values decrease in U.S. dollars when the *real* depreciates. The changes in our asset values are charged to shareholders' equity, but do not necessarily affect our cash flows, since our revenues and cash earnings are to a large degree linked to the U.S. dollar, and a portion of our operating expenses are linked to the *real*. See Note 2 of our audited consolidated financial statements for the year ended December 31, 2010, for more information about the translation of Brazilian *real* amounts into U.S. dollars.

Exchange rate variation also affects the amount of retained earnings available for distribution by us when measured in U.S. dollars. Amounts reported as available for distribution in our statutory accounting records are calculated in *reais* and prepared in accordance with Brazilian accounting principles increase or decrease when measured in U.S. dollars as the *real* appreciates or depreciates against the U.S. dollar. In addition, the exchange rate variation creates foreign exchange gains and losses that are included in our results of operations determined in accordance with Brazilian accounting principles and that affect the amount of our unretained earnings available for distribution.

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**Results of Operations**

The differences in our operating results from year to year occur as a result of a combination of factors, including primarily: the volume of crude oil, oil products and natural gas we produce and sell, the price at which we sell our crude oil, oil products and natural gas and the differential between the Brazilian inflation rate and the depreciation or appreciation of the *real* against the U.S. dollar.

The table below shows the amount by which each of these variables has changed during the last three years:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Crude oil and NGL production (mmbbl/d):			
Brazil	2,004	1,971	1,855
International	144	132	111
Non-consolidated international production(1)	8	10	13
Total crude oil and NGL production	<b>2,156</b>	<b>2,113</b>	<b>1,979</b>
Change in crude oil and NGL production	2.0%	6.8%	3.2%
Average sales price for crude (U.S.\$/barrel):			
Brazil	74.66	54.22	81.55
International	66.42	53.58	63.16
Natural gas production (mmcf/d):			
Brazil	2,004	1,902	1,926
International	558	576	594
Non-consolidated international production(1)	—	—	6
Total natural gas production	<b>2,562</b>	<b>2,478</b>	<b>2,526</b>
Change in natural gas production (sold only)	3.4%	(1.9%)	9.9%
Average sales price for natural gas (U.S.\$/mcf):			
Brazil	2.60	3.76	6.69
International	2.36	2.11	2.84
Year-end exchange rate ( <i>Reais</i> /U.S.\$)	1.66	1.74	2.34
Appreciation (depreciation) during the year(2)	4.3%	25.5%	(31.9%)
Average exchange rate for the year ( <i>Reais</i> /U.S.\$)	1.76	2.00	1.84
Appreciation (depreciation) during the year(3)	13.5%	(8.1%)	5.7%
Inflation rate (IPCA)	5.9%	4.3%	5.9%



- (1) Non-consolidated companies in Venezuela.
- (2) Based on year-end exchange rate.
- (3) Based on average exchange rate for the year.

### **Results of Operations—2010 compared to 2009**

Virtually all of our revenues and expenses for our Brazilian activities are denominated and payable in *reais*. When the *real* appreciates relative to the U.S. dollar, as it did in 2010 (an appreciation of 13.5%) 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. As a consequence, the following comparison between our results of operations in 2010 and in 2009 is impacted by the increase in the value of the *real* against the U.S. dollar during that period. See Note 2 of our audited consolidated financial statements for the year ended December 31, 2010, for more information about the translation of Brazilian *real* amounts into U.S. dollars.

Certain prior year amounts have been reclassified to conform to current year presentation standards. These reclassifications had no impact on our net income.

## Revenues

Consolidated sales of products and services increased 30.2% to U.S.\$150,852 million for 2010 compared to U.S.\$115,892 million for 2009. This increase was primarily a result of:

- higher prices for our exports of oil and oil products, and higher prices for products sold in Brazil that are regularly adjusted to reflect international prices. In addition, for all products sold in Brazil, the 13.5% average appreciation of the *real* against the U.S. dollar increased sales revenues when expressed in U.S. dollars;
- a 12.9% increase in sales volumes in the domestic market as a result of strong economic growth in Brazil, resulting in a 10.7% increase in demand for oil products and a 32.9% increase in demand for natural gas;
- an increase in revenues of U.S.\$2,543 million as a result of offshore operations conducted by PifCo for our international trading activities, which increase was largely offset by a U.S.\$2,772 million increase in costs of goods sold; and
- a 2.3% increase in total domestic and international oil and natural gas production.

Included in sales of products and services are the following amounts that we collected on behalf of federal or state governments:

- *Imposto sobre Circulação de Mercadorias e Serviços* (Domestic State Tax, or ICMS), *Programa de Formação do Patrimônio do Servidor Público* (Civil Servant Savings Programs, or PASEP), *Contribuição para o Financiamento da Seguridade Social* (Contribution for the Financing of Social Security, or COFINS) and other taxes on sales of products and services and social security contributions. These taxes increased 26.5% to U.S.\$26,459 million for 2010 compared to U.S.\$20,909 million for 2009, primarily due to higher production volumes, higher prices and higher domestic sales volumes; and
- *Contribuição de Intervenção no Domínio Econômico* (Contribution for Intervention in the Economic Sector, or CIDE), the excise tax applied to the sale and import of crude oil, oil products and natural gas products due to the Brazilian federal government, which increased 39.4% to U.S.\$4,341 million for 2010 compared to U.S.\$3,114 million for 2009, primarily due to higher production volumes and higher domestic sales volumes.

Net operating revenues increased 30.7% to U.S.\$120,052 million for 2010 compared to U.S.\$91,869 million for 2009 due to the increases mentioned above.

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

Cost of sales for 2010 increased 43.5% to U.S.\$70,694 million compared to U.S.\$49,251 million for 2009. This increase was principally a result of:

- a 52.4% (U.S.\$7,596 million) increase in the cost of imports, primarily due to the growing demand for oil products in Brazil, mainly of diesel and jet fuel. The growth in Brazilian demand was met by higher volumes of imports, purchased at prevailing international prices, which increased during the year; and
- a 40.5% (U.S.\$3,116 million) increase in production taxes and charges in 2010 compared to 2009, reflecting higher international oil benchmark prices upon which such taxes and charges are based. The taxes and charges are as follows:
  - Royalties, which increased from U.S.\$3,558 million in 2009 to U.S.\$5,340 million in 2010, an increase of 50.1% in 2010 as compared to 2009;

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- Special participation charge (a charge payable in the event of high production or profitability from our fields), which increased from U.S.\$4,094 million in 2009 to U.S. \$5,395 million in 2010, an increase of 31.8% in 2010 as compared to 2009; and
- and costs associated with rental fees of areas, which increased from U.S.\$46 million in 2009 to U.S.\$80 million in 2010, an increase of 73.2% in 2010 as compared to 2009.

The increase in production taxes and charges in 2010 was due to a 29.3% increase in the reference price for domestic oil, which averaged U.S.\$70.34 for 2010 compared to U.S.\$54.40 for 2009, reflecting the increase in average prices for crude oil on the international 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 18.4% to U.S.\$8,507 million for 2010 compared to U.S.\$7,188 million for 2009, due to higher capital expenditures and increased oil and gas production.

### *Exploration, including Exploratory Dry Holes*

Exploration costs, including costs for exploratory dry holes, increased 16.4% to U.S.\$1,981 million for 2010 compared to U.S.\$1,702 million for 2009. Excluding the impact of the appreciation of the *real*, exploration, including exploratory dry holes, remained relatively constant during 2010 compared to 2009.

### *Impairment of Oil and Gas Properties*

In 2010, we recorded an impairment charge of U.S.\$402 million compared to U.S.\$319 million for 2009. This higher impairment charge was primarily attributable to producing properties in Brazil with high maturity levels and insufficient oil and gas production to cover production costs (U.S.\$346 million), as well as the impairment of assets held for sale, particularly in the refining and distribution segments in Argentina (U.S.\$56 million).

By comparison, the impairment charge in 2009 was primarily attributable to producing properties in Brazil with high maturity levels and insufficient oil and gas production to cover production costs, in particular Petrobras' Agua Grande field.

See Notes 9(c) and 20(b) to our consolidated financial statements for the year ended December 31, 2010.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased 27.9% to U.S.\$8,977 million for 2010 compared to U.S.\$7,020 million for 2009.

- Selling expenses increased 33.7% to U.S.\$4,514 million for 2010 compared to U.S.\$3,375 million for 2009. This increase was primarily attributable to the impact of the appreciation of the *real* as well as higher expenses associated with the costs related to the 12.9% increase in domestic sales volumes. The higher sales volumes led to higher freight expenses, an increase in the use and cost of third-party services, and higher expenses related to NGL reconverter ships.
- General and administrative expenses increased 22.4% to U.S.\$4,463 million for 2010 compared to U.S.\$3,645 million for 2009. This increase in general and administrative expenses was primarily attributable to the impact of the appreciation of the *real* as well as higher personnel expenses due to an increased workforce and pay raises.

### *Research and Development Expenses*

Research and development expenses increased 45.8% to U.S.\$993 million for 2010 compared to U.S.\$681 million for 2009. This higher expense was primarily due to increased average sales prices of oil, which is the basis for a fixed 0.5% provision for expenses on research and development investment in Brazilian universities and institutions as required by our Brazilian oil and gas concession agreements.

### *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 increased 4.6% (U.S.\$752 million for 2010 compared to U.S.\$719 million for 2009) remaining relatively constant during the year.

### *Other Operating Expenses*

Other operating expenses increased 15.0% to U.S.\$3,588 million for 2010 compared to U.S.\$3,120 million for 2009.

The most significant changes between 2010 and 2009 are as follows:

- a U.S.\$412 million loss due to the exchange of equity method investments resulting from the integration of petrochemical investments in Braskem. See Note 17(c) of our audited consolidated financial statements for the year ended December 31, 2010, for more information;
- a 27.5% (U.S.\$152 million) increase in expense for institutional relations and cultural projects, to U.S.\$705 million for 2010 compared to U.S.\$553 million for 2009;
- a 24.8% (U.S.\$69 million) increase in expenses related to collective bargaining agreements, to U.S.\$347 million for 2010 compared to U.S.\$278 million for 2009;
- a 15.4% (U.S.\$28 million) increase in expense for health, safety and environment (HSE), to U.S.\$210 million for 2010 compared to U.S.\$182 million for 2009; and
- a 8.1% (U.S.\$25 million) increase in expense for marking inventory to market value, to U.S.\$333 million for 2010 compared to U.S.\$308 million for 2009.

These increases were partially offset by:

- a 22.5% (U.S.\$304 million) decrease in expense for losses and contingencies related to legal proceedings, to U.S.\$1,045 million for 2010 compared to U.S.\$1,349 million for 2009;
- a 44.5% (U.S.\$186 million) decrease in expense for unscheduled stoppages of plant and equipment, to U.S.\$232 million for 2010 compared to U.S.\$418 million for 2009; and

- a 44.8% (U.S.\$138 million) decrease in operating expenses at thermoelectric power plants, to U.S.\$170 million for 2010 compared to U.S.\$308 million for 2009.

*Equity in Results of Non-Consolidated Companies*

Equity in results of non-consolidated companies increased 163.1% to a gain of U.S.\$413 million for 2010 compared to a gain of U.S.\$157 million for 2009, primarily due to better results generated by gas distribution companies and companies operating outside of Brazil.

### *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 federal government securities, including securities indexed to the U.S. dollar. We also hold U.S. dollar deposits.

Financial income increased 38.5% to U.S.\$2,630 million for 2010 compared to U.S.\$1,899 million for 2009. This increase was primarily attributable to higher income related to increased marketable securities due to the Assignment Agreement (a U.S.\$309 million increase) and income related to financial investments (a U.S.\$273 million increase). A breakdown of financial income is set forth in Note 13 of our consolidated financial statements for the year ended December 31, 2010.

### *Financial Expenses*

Financial expenses increased 26.9% to U.S.\$1,643 million for 2010 compared to U.S.\$1,295 million for 2009. This increase was primarily attributable to increased financial expenses related to our debt (a U.S.\$1,722 million increase), partially offset by higher capitalized interest income (which resulted in a U.S.\$1,129 million decrease in financial expenses for 2010 as compared to 2009) and by reduced losses on derivative instruments (a U.S.\$254 million decrease). A breakdown of financial expense is set forth in Note 13 of our consolidated financial statements for the year ended December 31, 2010.

### *Monetary and Exchange Variation*

Monetary and exchange variation increased to a gain of U.S.\$714 million for 2010 compared to a loss of U.S.\$175 million for 2009. The gain in 2010 compared to the loss in 2009 was primarily due to lower foreign exchange losses on net monetary assets denominated in U.S. dollars.

### *Other Taxes*

Other taxes, consisting of various taxes on financial transactions, increased 57.1% to U.S.\$523 million for 2010 compared to U.S.\$333 million for 2009. This increase was primarily attributable to the impact of the appreciation of the *real* and also to losses on the recoverable amounts of tax credits.

### *Other Expenses, Net*

Other expenses, net are primarily composed of gains and losses recorded on sales of fixed assets and certain other non-recurring charges. Other expenses, net amounted to a gain of U.S.\$82 million for 2010 compared to a loss of U.S.\$61 million for 2009, primarily due to the U.S.\$147 million provision for losses for the Pasadena Refinery in the United States made in the first quarter of 2009.



*Income Tax (Expense) Benefit*

Income before income taxes and non-controlling interest increased 17.1% to U.S.\$25,831 million for 2010 compared to U.S.\$22,061 million for 2009. Income tax expense increased 21.3% to U.S.\$6,356 million for 2010, compared to U.S.\$5,238 million for 2009, primarily due to the increase of taxable income. 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, 2010.

### *Net Income by Business Segment*

We measure performance at the segment level on the basis of net income. Following is a discussion of the net income of our six business segments at December 31, 2010, compared to December 31, 2009.

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>Percentage Change</b>
	<b>(U.S.\$ million)</b>		<b>(%)</b>
Exploration and Production	16,351	9,683	68.9
Refining, Transportation and Marketing	1,539	6,563	(76.6)
Distribution	727	634	14.7
Gas and Power	734	340	115.9
International	799	(154)	(618.8)
Corporate	(453)	(1,116)	(59.4)
Eliminations	(513)	(446)	15.0
Net income	<b>19,184</b>	<b>15,504</b>	<b>23.7</b>

### *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 Power segment and sales of oil products produced at natural gas processing plants.

The consolidated net income from our Exploration and Production segment increased from U.S.\$16,351 million in 2010 compared to U.S.\$9,683 million in 2009 as a result of the following:

- An increase in the price of crude oil, from U.S.\$54.22 per barrel in 2009 to U.S.\$74.66 per barrel in 2010, as a result of higher international prices. The higher price also reflected a reduction in the spread between the average price of domestic oil sold/transferred and the average Brent price, from U.S.\$ 7.29/bbl in 2009 to U.S.\$ 4.81/bbl in 2010, primarily due to the higher demand for heavy oil as compared to light oil;
- A 1.6% increase in oil and LNG production; and
- Reduced losses and contingencies related to legal proceedings, particularly a charge of U.S.\$1,034 million related to a special participation in the Marlim field that was charged to operations in 2009.

These effects were partially offset by:

- Higher production taxes, which increased from U.S.\$20.51 per barrel to U.S.\$24.64 per barrel due to higher oil prices;
- An increase in lifting costs from U.S.\$ 8.78 per barrel in 2009 to U.S.\$ 10.03 in 2010, primarily as a result of the revaluation of the *real* and increased maintenance costs in our fields; and
- Non-recurring expenses of U.S.\$275 million related to project financings in the Barracuda and Caratinga fields.

See Item 4. “Information on the Company—Overview of the Group—Changes in Proved Reserves” for information on changes in proved reserves.

### *Refining, Transportation and Marketing*

Our Refining, Transportation and Marketing segment (RTM) comprises refining, logistics, transportation, export and the purchase of crude oil, as well as the purchase and sale of oil products and ethanol. Additionally, this segment includes the petrochemical division, which comprises investments in domestic petrochemical companies. RTM purchases crude oil from E&P and imports oil to blend with our domestic oil. Additionally, RTM purchases oil products in the international markets to meet excess product demand in the domestic market. RTM acquires crude oil and oil products at the international price, either from E&P or from international markets, and sells products in Brazil at a price that we expect will equal international prices in the long run. For gasoline, diesel and residential LPG, however, the product prices in Brazil can lag the international markets. Depending on the impact of this lag effect, RTM's earnings may differ from international refining margins. In 2009, falling acquisition costs and a stable price for some of our products led to higher margins relative to international levels, while in 2010, this effect was reversed.

The lower net income for RTM in 2010, at U.S.\$1,539 million compared to U.S.\$6,563 million in 2009, was largely due to the higher oil acquisition/transfer costs and higher oil product import costs from both E&P and from international markets during 2010, which were not fully offset by the higher sales prices of diesel, gasoline and residential LPG.

These effects were partially offset by higher domestic oil product sales volumes (mainly for gasoline, diesel and jet fuel) and an increase in domestic prices for oil products, which are indexed to international prices.

An increase in refinery costs, from U.S.\$3.21 to U.S.\$4.33 per barrel, as a result of the strengthening of the *real*, increased refinery maintenance, and higher personnel and third party service costs also contributed to the reduced income.

### *Distribution*

Our Distribution segment comprises the oil product and ethanol distribution activities conducted by our 100% owned subsidiary, Petrobras Distribuidora S.A. – BR, in Brazil.

The increase in net income from our Distribution segment in 2010 compared to 2009 was primarily due to higher sales margins and an 8% increase in sales volumes. These effects were partially offset by higher third-party service and personnel expenses and by a provision for tax contingencies.

The Distribution segment accounted for 38.8% of the national fuel distribution market in 2010, compared to 38.6% in 2009.

### *Gas and Power*

Our Gas and Power 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 local gas companies, , thermoelectric power generation and our two domestic fertilizer plants.

The improved result for our Gas and Power segment for 2010 compared to 2009 was due to:

- Higher natural gas sales, led by growth in the industrial sector and thermo-electric demand;
- Increased demand for power generation, which led to higher income from thermoelectric generation;
- Increased fixed revenue from energy auctions;
- Lower acquisition/transfer costs of domestic natural gas reflecting international prices; and

Appreciation of the *real* against the dollar.

These effects were partially offset by:

- Increasing LNG import costs and imports of gas from Bolivia; and
- Higher selling expenses related to NGL reconverter ships.

### *International*

Our International segment comprises our activities in countries other than Brazil, which include exploration and production, refining, transportation and marketing, distribution and gas and power.

The improved result in our International segment in 2010 compared to 2009 was due to higher commodities prices in 2010 as well as higher sales volumes of crude oil resulting largely from the start-up of production in Akpo, Nigeria in March 2009.

### **Results of Operations—2009 compared to 2008**

Virtually all of our revenues and expenses for our Brazilian activities are denominated and payable in *reais*. When the *real* weakens relative to the U.S. dollar as it did in 2009 (a depreciation of 8.1%), the effect is to generally decrease both revenues and expenses when expressed in U.S. dollars. However, the depreciation 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 2009 and 2008 is impacted by the decrease in the value of the *real* against the U.S. dollar during that period. See Note 2 of our audited consolidated financial statements for the year ended December 31, 2009, for more information about the translation of Brazilian *real* amounts into U.S. dollars.

Certain prior year amounts have been reclassified to conform to current year presentation standards. These reclassifications had no impact on our net income.

### *Revenues*

Net operating revenues decreased 22.3% to U.S.\$91,869 million for 2009 compared to U.S.\$118,257 million for 2008. This decrease was primarily attributable to a reduction in average sales prices of crude oil and natural gas in domestic and international markets and a 1.9% reduction in sales volumes in the domestic market.

Consolidated sales of products and services decreased 20.9% to U.S.\$115,892 million for 2009 compared to U.S.\$146,529 million for 2008 due to the reductions mentioned above.

Included in sales of products and services are the following amounts that we collected on behalf of federal or state governments:

- *Imposto sobre Circulação de Mercadorias e Serviços* (Domestic State Tax, or ICMS), *Programa de Formação do Patrimônio do Servidor Público* (Civil Servant Savings Programs, or PASEP), *Contribuição para o Financiamento da Seguridade Social* (Contribution for the Financing of Social Security, or COFINS) and other taxes on sales of products and services and social security contributions. These taxes decreased 16.5% to U.S.\$20,909 million for 2009 compared to U.S.\$25,046 million for 2008, primarily due to lower prices and lower domestic sales volumes; and
- *Contribuição de Intervenção no Domínio Econômico* (Contribution for Intervention in the Economic Sector, or CIDE), the excise tax applied to the sale and import of crude oil, oil products and natural gas products due to the Brazilian federal government, which decreased 3.5% to U.S.\$3,114 million for 2009 compared to U.S.\$3,226 million for 2008, primarily due to lower domestic sales volumes.

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

Cost of sales for 2009 decreased 32.4% to U.S.\$49,251 million compared to U.S.\$72,865 million for 2008. This decrease was principally a result of:

- a 46.5% (U.S.\$12,516 million) decrease in the cost of imports due to lower volumes and prices;
- a 38.5% (U.S.\$3,531 million) decrease in costs for our international trading activities due to decreased offshore operations conducted by PifCo;
- a 36.5% (U.S.\$4,465 million) decrease in production taxes and charges that include royalties, which decreased 35.7% (U.S.\$1,988 million) in 2009 compared to 2008; special participation charge, which decreased 37.4% (U.S.\$2,464 million) in 2009 compared to 2008; and rental fees for concession areas, which decreased 22.3% (U.S.\$13 million) in 2009 compared to 2008. The decrease in production taxes and charges in 2009 was due to a 32.2% reduction in the reference price used to calculate royalties for our domestic production, which averaged U.S.\$54.40 for 2009 compared to U.S.\$80.25 for 2008, reflecting the average Brent price on the international market; and
- a 60.6% (U.S.\$1,165 million) decrease in costs related to the generation and purchase of electricity for sale.

### *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 21.3% to U.S.\$7,188 million for 2009 compared to U.S.\$5,928 million for 2008, due to higher capital expenditures and increased oil and gas production.

### *Exploration, including Exploratory Dry Holes*

Exploration costs, including costs for exploratory dry holes, decreased 4.1% to U.S.\$1,702 million for 2009 compared to U.S.\$1,775 million for 2008. Excluding the impact of the depreciation of the *real*, exploration, including exploratory dry holes, remained relatively constant during 2009 compared to 2008.

### *Impairment of Oil and Gas Properties*

For 2009, we recorded an impairment charge of U.S.\$319 million compared to U.S.\$519 million for 2008. This lower charge was primarily due to the higher impairment on exploration and production assets recorded in 2008 as a result of the decrease of the estimated future oil prices. 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



2009 was primarily attributable to producing properties in Brazil and principal amounts were related to Petrobras' Agua Grande field. In 2009 the petroleum and natural gas fields that presented losses already had high maturity levels and, consequently, produced insufficient petroleum and gas to cover production costs. This factor had a reducing effect on the economic analysis that led to the recording of a provision for loss through devaluation in some fields. See Notes 9(b) and 18(a) to our consolidated financial statements for the year ended December 31, 2009.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased 5.5% to U.S.\$7,020 million for 2009 compared to U.S.\$7,429 million for 2008.

Selling expenses decreased 4.0% to U.S.\$3,375 million for 2009 compared to U.S.\$3,517 million for 2008. Excluding the impact of the depreciation of the *real*, selling expenses remained relatively constant during 2009 compared to 2008.

General and administrative expenses decreased 6.8% to U.S.\$3,645 million for 2009 compared to U.S.\$3,912 million for 2008. Excluding the impact of the depreciation of the *real*, general and administrative expenses remained relatively constant during 2009 compared to 2008.

### *Research and Development Expenses*

Research and development expenses decreased 27.6% to U.S.\$681 million for 2009 from U.S.\$941 million for 2008. This lower expense was primarily due to decreased oil prices, which is the basis for a fixed 0.5% provision for expenses on research and development investment in Brazilian universities and institutions as required by our Brazilian oil and gas concession agreements (U.S.\$267 million).

### *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 14.5% to U.S.\$719 million for 2009 compared to U.S.\$841 million for 2008. Excluding the impact of the depreciation of the *real*, the employee benefit expense for non-active participants remained relatively constant during 2009 compared to 2008.

### *Other Operating Expenses*

Other operating expenses increased 17.1% to U.S.\$3,120 million for 2009 from U.S.\$2,665 million for 2008.

The most significant changes between 2009 and 2008 are described below:

- a 378.7% (U.S.\$1,034 million) increase in expense due to special participation taxes from the Marlim field in September 2009, pursuant to an agreement between Petrobras and the ANP; and
- a 283.5% (U.S.\$309 million) increase in expense for unscheduled stoppages of plant and equipment, to U.S.\$418 million for 2009 compared to U.S.\$109 million for 2008. In 2009, 75% of the unscheduled stoppages occurred in our Exploration and Production segment, 21% in Refining, Transportation and Marketing, and 3% in International;

These increases were partially offset by:

- a 43.5% (U.S.\$237 million) decrease in expense for marking inventory to market value, to U.S.\$308 million for 2009 compared to U.S.\$545 million for 2008;
- a 90.3% (U.S.\$214 million) decrease in expense for contractual fines, to U.S.\$23 million for 2009 compared to U.S.\$237 million for 2008;

- a 18.1% (U.S.\$122 million) decrease in expense for institutional relations and cultural projects, to U.S.\$553 million for 2009 compared to U.S.\$675 million for 2008;
- a 13.7% (U.S.\$44 million) decrease in expenses related to collective bargaining agreements, to U.S.\$278 million for 2009 compared to U.S.\$322 million for 2008;
- a 10.7% (U.S.\$37 million) decrease in operating expense at thermoelectric power plants, to U.S.\$308 million for 2009 compared to U.S.\$345 million for 2008; and

15.0% (U.S.\$32 million) decrease in expense for health, safety, and environment (HSE), to U.S.\$182 million for 2009 compared to U.S.\$214 million for 2008.

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

Equity in results of non-consolidated companies increased to a gain of U.S.\$157 million for 2009 compared to a loss of U.S.\$21 million for 2008, primarily as a result of a U.S.\$216 million increase in gains in investments in affiliated companies in the petrochemical sector, compared to losses in 2008 due to foreign exchange variation on U.S. dollar denominated 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 federal government securities, including securities indexed to the U.S. dollar. We also hold U.S. dollar deposits.

Financial income increased 15.7% to U.S.\$1,899 million for 2009 compared to U.S.\$1,641 million for 2008. This increase was primarily attributable to increased financial investments and other investments (U.S.\$445 million increase) and to higher income on marketable securities (U.S.\$209 million increase), partially offset by lower gains on derivative instruments (U.S.\$390 million decrease). A breakdown of financial income is set forth in Note 13 of our consolidated financial statements for the year ended December 31, 2009.

### *Financial Expenses*

Financial expenses increased 52.7% to U.S.\$1,295 million for 2009 compared to U.S.\$848 million for 2008. This increase was primarily attributable to increased financial expenses related to our corporate debt and project financings (U.S.\$771 million increase). These increases were partially offset by a 45.4% (U.S.\$659 million) increase in capitalized interest. A breakdown of financial expenses is set forth in Note 13 of our consolidated financial statements for the year ended December 31, 2009.

### *Monetary and Exchange Variation*

Monetary and exchange variation decreased to a loss of U.S.\$175 million for 2009 compared to a gain of U.S.\$1,584 million for 2008. The loss in 2009 relates to the foreign exchange losses on net foreign assets denominated in U.S. dollars that were almost entirely offset by the foreign exchange gains on net debt and by the monetary variation on Banco Nacional de Desenvolvimento Econômico e Social—BNDES (Brazilian Development Bank) financing.

### *Other Taxes*

Other taxes, consisting of various taxes on financial transactions, decreased 23.1% to U.S.\$333 million for 2009 compared to U.S.\$433 million for 2008, due to lower income tax withholdings on the 2009 distribution of dividends from foreign subsidiaries (U.S.\$40 million of the total decrease), and also to lower PIS and COFINS taxes on non-core business activities and to the reduction of the IOF tax, a tax payable on financial transactions (U.S.\$26 million decrease).

*Other Expenses, Net*

Other expenses, net are primarily composed of gains and losses recorded on sales of fixed assets and certain other non-recurring charges. Other expenses, net decreased 72.9% to a loss of U.S.\$61 million for 2009 compared to a loss of U.S.\$225 million for 2008, which included a U.S.\$97 million write-off of Block 31 in Ecuador in the fourth quarter. Other expenses, net in 2009 was primarily attributable to a U.S.\$147 million loss from the purchase of the remaining shares of the Pasadena Refinery in the first quarter of 2009, partially offset by a U.S.\$83 million gain related to donations and subsidies in the third quarter of 2009.

Table of Contents*Income Tax (Expense) Benefit*

Income before income taxes and non-controlling interest decreased 18.3% to U.S.\$22,061 million for 2009 compared to U.S.\$26,992 million for 2008. Income tax expense decreased 43.4% to U.S.\$5,238 million for 2009, compared to U.S.\$9,259 million for 2008, due primarily to: the reduction of taxable income; the increase of foreign income subject to different tax rates (U.S.\$531 million increase); to the decrease of change in valuation allowance tax expense (U.S.\$906 million decrease) and to the increase of certain tax benefits related to the provisioning of interest on shareholders' equity (U.S.\$336 million increase). 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, 2009.

*Net Income by Business Segment*

We measure performance at the segment level on the basis of net income. Following is a discussion of the net income of our six business segments at December 31, 2009, compared to December 31, 2008.

The segments "Refining, Transportation and Marketing" and "Gas and Power" were previously reported as "Supply" and "Gas and Energy", respectively, without representing changes in the factors used to identify the included activities, and in the amounts previously reported.

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>Percentage Change</b>
	<b>(U.S.\$ million)</b>		<b>(%)</b>
Exploration and Production	9,683	21,031	(54.0)
Refining, Transportation and Marketing	6,563	(2,036)	(422.3)
Distribution	634	839	(24.4)
Gas and Power	340	(183)	(285.8)
International	(154)	(808)	(80.9)
Corporate	(1,116)	(57)	(1,857.9)
Eliminations	(446)	93	(579.6)
Net income	<b>15,504</b>	<b>18,879</b>	<b>(17.9)</b>

*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 Power segment and sales of oil products produced at natural gas processing plants.

The 54.0% reduction in consolidated net income for our Exploration and Production segment in 2009 compared to 2008 reflects the decline in international prices, and the non-recurring expense of U.S.\$1,034 million related to the settlement of a dispute with the National Petroleum, Natural Gas and Biofuels Agency (“ANP”) regarding the calculation of special participation in the Marlin field.

These effects were partially offset by a 6.3% increase in oil and NGL production and lower production taxes.

The spread between the average domestic oil sale/transfer price and the average Brent price narrowed from U.S.\$15.44/bbl in 2008 to U.S.\$7.29/bbl in 2009 and reflects the recovery in the international market of heavy oil in relation to light oil since our production consists mainly of heavy oil.

See Item 4. “Information on the Company—Overview of the Group—Changes in Proved Reserves” for information on changes in proved reserves.

### *Refining, Transportation and Marketing*

Our Refining, Transportation and Marketing segment includes refining, logistics, transportation, export and the purchase of crude oil, as well as the purchase and sale of oil products and fuel ethanol. Additionally, this segment includes the petrochemical division, which includes investments in domestic petrochemical companies.

The improved result from our Refining, Transportation and Marketing segment in 2009 compared to 2008 was largely due to our domestic pricing policy for diesel, gasoline and LPG, which allowed us to avoid transferring the short-term volatility for these products in the international market to the Brazilian market. In 2009, international prices and, consequently, oil acquisition/transfer costs and oil product import costs for our refining segment, declined much more rapidly than the prices at which we sold our principal products domestically. As a result, our refining margins improved substantially. In 2008, the opposite occurred, as we did not raise prices at the same pace as the international market, and our downstream margins were reduced by higher oil acquisition/transfer costs.

These effects were partially offset by a reduction in the average realization price due to lower export prices and lower domestic sales prices adjusted to international price levels.

### *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.

The decrease in net income from Distribution in 2009 compared to 2008 was primarily due to a reduction in the average realization price and the impact of depreciation of the *real*. This effect was partially offset by a 13.3% upturn in sales volume, reflecting the consolidation of Alvo Distribuidora.

This segment accounted for 38.6% of the total Brazilian fuel distribution market in 2009 compared to 34.9% in 2008.

### *Gas and Power*

Our Gas and Power 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.

The improved result from our Gas and Power segment was due to lower costs for purchasing electricity from third parties to fulfill our contractual commitments, lower import/transfer costs of natural gas reflecting international prices, increased fixed income from electricity sales and exports and a reduction in fines paid for failure to deliver contracted amounts of electricity



attributable to improvements in our natural gas infrastructure in 2008.

These effects were partially offset by reduced thermoelectric output as a result of abundant rainfall supplying Brazil's hydroelectric power plants, and a decline in natural gas sales volumes.

### *International*

The International segment comprises our activities in countries other than Brazil, which include exploration and production, refining, transportation and marketing, distribution and gas and power.

The improved results from the International segment in 2009 compared to 2008 were due to better gross margins in refinery operations in the United States and Japan, higher sales volumes, a reduction of losses with inventory devaluation, impairment expenses and losses such as those related to the write-off of Block 31 in Ecuador which was recorded in 2008. These effects were offset by declining margins as a result of lower international oil prices.

**Additional Business Segment Information**

Set forth below is additional selected financial data by business segment for 2010, 2009 and 2008:

	<b>For the Year Ended December</b>		
	<b>2010</b>	<b>31, 2009</b>	<b>2008</b>
	<b>(U.S.\$ million)</b>		
<b>Exploration and Production</b>			
Net revenues to third parties(1)(2)	242	476	973
Intersegment net revenues	54,042	38,301	58,051
Total net operating revenues (2)	54,284	38,777	59,024
Depreciation, depletion and amortization	(5,757)	(4,344)	(3,544)
Net income (3)	16,351	9,683	21,031
Capital expenditures	22,222	16,488	14,293
Property, plant and equipment, net	129,913	70,098	45,836
<b>Refining, Transportation and Marketing</b>			
Net revenues to third parties(1)(2)(4)	64,991	48,768	68,787
Intersegment net revenues(4)	32,549	25,539	26,872
Total net operating revenues(2)(4)	97,540	74,307	95,659
Depreciation, depletion and amortization(4)	(946)	(1,213)	(1,109)
Net income (loss) (3)(4)	1,539	6,563	(2,036)
Capital expenditures	15,356	10,466	7,234
Property, plant and equipment, net(4)	46,844	31,508	15,567
<b>Distribution</b>			
Net revenues to third parties(1)	36,613	29,071	30,315
Intersegment net revenues	695	601	577
Total net operating revenues	37,308	29,672	30,892
Depreciation, depletion and amortization	(203)	(176)	(165)
Net income(3)	727	634	839
Capital expenditures	482	369	309
Property, plant and equipment, net	2,730	2,342	1,621
<b>Gas and Power</b>			
Net revenues to third parties(1)(4)	7,482	5,085	8,158
Intersegment net revenues(4)	1,025	881	1,187
Total net operating revenues(4)	8,507	5,966	9,345
Depreciation, depletion and amortization(4)	(477)	(398)	(367)
Net income (loss) (3)(4)	734	340	(183)
Capital expenditures	4,099	5,116	4,256
Property, plant and equipment, net(4)	24,725	20,196	10,958
<b>International</b>			
Net revenues to third parties(1)	10,724	8,469	10,024
Intersegment net revenues	2,739	1,728	916

Total net operating revenues	13,463	10,197	10,940
Depreciation, depletion and amortization	(861)	(870)	(564)
Net income (loss) (3)	799	(154)	(808)
Capital expenditures	2,167	2,111	2,908
Property, plant and equipment, net	9,519	9,375	9,341

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(1) As a vertically integrated company, not all of our segments have significant third-party revenues. For example, our Exploration and Production segment accounts for a large part of our economic activity and capital expenditures, but has little third party revenues.

(2) Revenues from commercialization of oil to third parties are classified in accordance with the points of sale, which could be either the Exploration and Production or Refining, Transportation and Marketing segments.

(3) In order to align the financial statements of each business segment with the best practices of companies in the oil and gas sector and to improve our management's understanding, since the first quarter of 2006 we have switched to allocating all financial results and items of a financial nature to the corporate level, including prior years.

(4) The financial data for 2010, 2009 and 2008 was prepared in light of changes in business segments due to the transfer of the fertilizer business from the "Refining, Transportation and Marketing" segment to the "Gas and Power" segment.

## **Management's Discussion and Analysis of PifCo's Financial Condition and Results of Operations**

### **Overview**

PifCo is our wholly owned subsidiary. Accordingly, PifCo's financial position and results of operations are significantly affected by our decisions. PifCo's ability to meet its outstanding debt obligations depends on a number of factors, including:

- our financial condition and results of operations;
- our willingness to continue to make loans to PifCo and provide PifCo with other types of financial support;
- PifCo's ability to access financing sources, including the international capital markets and third-party credit facilities; and
- PifCo's ability to transfer our financing costs to us.

PifCo earns income from:

- sales of crude oil and oil products to us;
- sales of crude oil and oil products to third parties and affiliates; and
- the financing of sales to us, inter-company loans to us and investments in marketable securities and other financial instruments.

PifCo's operating expenses include:

- cost of sales, which is comprised mainly of purchases of crude oil and oil products;
- selling, general and administrative expenses; and
- financial expense, mainly from interest on its lines of credit and capital markets indebtedness, sales of future receivables and inter-company loans from us.

As discussed below under "Purchases and Sales of Crude Oil and Oil Products," PifCo is gradually reducing its sales of crude oil and oil products to us and will gradually reduce its sales of crude oil and oil products to third parties, and will eventually cease these commercial operations altogether in order to become our finance subsidiary. As a result, both its income and its operating expenses from oil sales and trading activities will gradually decrease to zero while its income and expenses from financing operations will likely increase. PifCo's ability to meet its outstanding debt obligations has historically been and will continue to be dependent on our financial conditions, results of operation and our willingness to provide PifCo with

various types of financial support, among the other factors discussed above.

## **Purchases and Sales of Crude Oil and Oil Products**

PifCo purchases crude oil and oil products from us to hold in inventory and for sale outside Brazil. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties, mainly outside Brazil. In April 2010, PifCo began selling crude oil and oil products to us under terms that allow payment in up to approximately 30 days, without a premium. Prior to April 2010, however, we paid for shipments of crude oil and oil products that PifCo sold to us over a period of up to 330 days, which allowed us sufficient time to assemble the necessary documentation under Brazilian law to commence the payment process for our shipments. During this period, PifCo typically financed the purchase of crude oil and oil products through either funds previously provided by us or third-party trade finance arrangements. Under such arrangements, the premium resulting from the difference between the amount PifCo paid for crude oil and oil products and the amount we paid for that same crude oil and oil products was deferred and recognized as part of PifCo's financial income on a straight-line basis over the period in which our payments to PifCo came due. Since shipments to us with payment terms over a period of up to 330 days have been discontinued, the corresponding working capital is no longer required. PifCo's commercial operations, including those with us, are carried out under normal market conditions and at commercial prices.

PifCo will gradually reduce both its sales of crude oil and oil products to us and its sales of crude oil and oil products to third parties, and will eventually cease these commercial operations altogether. At that time, PifCo will become a finance subsidiary functioning as a vehicle for us to raise capital for our operations outside of Brazil through the issuance of debt securities in the international capital markets, among other means. Our support of PifCo's debt obligations has been and will continue to be made through unconditional and irrevocable guaranties of payment.

## **Results of Operations—2010 compared to 2009**

### *Net (Loss) Income*

PifCo had a loss of U.S.\$262 million in 2010 compared to a net income of U.S.\$487 million in 2009.

### *Sales of Crude Oil and Oil Products and Services*

PifCo's sales of crude oil and oil products and services increased 20.5% to U.S.\$34,759 million in 2010 compared to U.S.\$28,850 million in 2009. This increase was primarily due to higher sales prices resulting from a 29.2% increase in the average prices of Brent crude oil, to U.S.\$79.47 per barrel in 2010 compared to U.S.\$61.51 per barrel in 2009.

### *Cost of Sales*

Cost of sales increased 23.0% to U.S.\$34,230 million in 2010 compared to U.S.\$27,825 million in 2009. This increase was proportional to the increase in sales of crude oil and oil products and services and was primarily due to the same reasons, in addition to higher average inventory price formation for oil and oil products acquired during periods of higher international prices.

*Selling, General and Administrative Expenses*

PifCo's selling, general and administrative expenses consist primarily of shipping costs and fees for services, including accounting, legal and rating services. These expenses increased 15.3% to U.S.\$482 million in 2010 compared to U.S.\$418 million in 2009. Shipping costs increased 15.0% to U.S.\$338 million in 2010 compared to U.S.\$294 million in 2009, primarily due to changes in international market trends and shipping routes.

### *Other Operating Expenses*

PifCo's other operating expenses consist primarily of inventory impairment adjustments for its inventory of crude oil and oil products. These expenses increased 65.5% to U.S.\$48 million in 2010 compared to U.S.\$29 million in 2009.

### *Financial Income*

PifCo's financial income consists of the financing of sales to us, inter-company loans to us, investments in marketable securities and other financial instruments. PifCo's financial income decreased 52.7% to U.S.\$944 million in 2010 compared to U.S.\$1,997 million in 2009. This decrease was primarily due to reduced income from the financing of sales to us and decreased marketable securities income.

### *Financial Expenses*

PifCo's financial expenses consist of interest paid and accrued on PifCo's outstanding indebtedness, other fees associated with PifCo's issuance of debt and other financial instruments. PifCo's financial expenses decreased 42.5% to U.S.\$1,202 million in 2010 compared to U.S.\$2,090 million in 2009. This decrease was primarily due to the extinguishment of PifCo's inter-company loans from us.

## **Results of Operations—2009 compared to 2008**

### *Net Income (loss)*

PifCo had net income of U.S.\$487 million in 2009 compared to a loss of U.S.\$772 million in 2008.

### *Sales of Crude Oil and Oil Products and Services*

PifCo's sales of crude oil and oil products and services decreased 32.0% to U.S.\$28,850 million in 2009 compared to U.S.\$42,443 million in 2008. This decrease was primarily due to lower sales prices resulting from a 37% decrease in the average prices of Brent crude oil, to U.S.\$62 per barrel in 2009 compared to U.S.\$97 per barrel in 2008. This decrease was partially offset by a 11% increase in PifCo's sales volume, primarily due to increase sales of crude oil and oil products purchased from third parties and affiliates and subsequently sold to Petrobras.

### *Cost of Sales*

Cost of sales decreased 34.1% to U.S.\$27,825 million in 2009 compared to U.S.\$42,231 million in 2008. This decrease was proportional to the decrease in sales of crude oil and oil products and services and was primarily due to the same reasons, in addition to lower



average inventory price formation for oil and oil products acquired during periods of low international prices.

### *Selling, General and Administrative Expenses*

PifCo's selling, general and administrative expenses consist primarily of shipping costs and fees for services, including accounting, legal and rating services. These expenses decreased 25.6% to U.S.\$418 million in 2009 compared to U.S.\$562 million in 2008. Shipping costs decreased 36.1% to U.S.\$289 million in 2009 compared to U.S.\$452 million in 2008, primarily due to lower international freight prices.

### *Other Operating Expenses*

PifCo's other operating expenses consist primarily of inventory impairment adjustments for its inventory of crude oil and oil products. These expenses decreased 95.0% to U.S.\$29 million in 2009 compared to U.S.\$577 million in 2008, due to a reduction in the value of its inventory resulting from lower international oil prices.

### *Financial Income*

PifCo's financial income consists of the financing of sales to us, inter-company loans to us, investments in marketable securities and other financial instruments. PifCo's financial income decreased 14.1% to U.S.\$1,997 million in 2009 compared to U.S.\$2,325 million in 2008. This decrease was primarily due to decreased derivative income for exchange traded contracts resulting from volatility in average international oil prices. This decrease was partially offset by an increase in marketable securities income.

### *Financial Expenses*

PifCo's financial expense consists of interest paid and accrued on PifCo's outstanding indebtedness, other fees associated with PifCo's issuance of debt and other financial instruments. PifCo's financial expenses decreased 3.7% to U.S.\$2,090 million in 2009 compared to U.S.\$2,170 million in 2008. This decrease was primarily due to decreased inter-company loans from Petrobras and was partially offset by an increase in interest expenses relating to issuances of Global Notes and lines of credit in 2009.

## **Liquidity and Capital Resources**

### **Petrobras**

#### *Overview*

Our principal uses of funds are for capital expenditures, dividend payments and repayment of debt. In 2008, 2009 and 2010, we met these requirements with internally generated funds, short-term debt, long-term debt and cash generated by capital increases. For 2011 and beyond, we believe internally generated funds and increases in debt, together with our strong position of cash and cash equivalents, will continue to allow us to meet our current capital requirements. In 2011, our major cash needs are for our budgeted capital expenditures of U.S.\$54 billion, the remaining part of announced dividends, interest on shareholders' equity of U.S.\$2,231 million and principal payments of U.S.\$2,988 million on our long-term debt, leasing and project financing obligations.

#### *Financing Strategy*

The objective of our financing strategy is to help us achieve the targets set forth in our 2010-2014 Business Plan released on June 18, 2010, which provides for capital expenditures of U.S.\$224 billion from 2010 through 2014. Our 2010-2014 Business Plan forecasts that we will supplement internally generated cash flow with proceeds from the capital increase that we completed on October 1, 2010, and increases in our net debt, which should allow us to maintain a sound capital structure that stays within our targeted financial leverage ratios. We will raise debt 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. We will continue our policy of extending the term of our debt maturity profile.

For 2011, we intend to fund our financial needs through a combination of drawing down our year-end cash balances and existing credit facilities, as well as contracting new debt from a broad range of traditional funding sources, including global debt capital markets, export credit agencies, non-Brazilian government development banks, the BNDES, and Brazilian and international commercial banks. As of May 10, 2011, we have financed part of our needs for 2011 through a U.S.\$6,000 million offering of Global Notes in the international capital markets and U.S.\$620.5 million from lines of credit and export credit agencies.

Our business plan for 2011 through 2015 is currently under review by our board of executive officers and will be announced as soon as the board completes its review.

### *Government Regulation*

We are required to submit our annual capital expenditures budget (*Plano de Dispêndio Global*, or PDG) to the Brazilian Ministry of Planning, Budget and Management, and the Ministry of Mines and Energy. Following review by these agencies, the Brazilian Congress must approve the budget. Although the total level of our annual capital expenditures is regulated, the specific application of funds is left to our discretion. Since mid-1991, we have obtained substantial amounts of our financing from the international capital markets, mainly through the issuance of commercial paper and short, medium and long-term notes, and have increasingly been able to raise long-term funds for large capital expenditure items such as rigs and platforms.

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. 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, 2010, we had cash and cash equivalents of U.S.\$17,633 million compared to U.S.\$16,169 million at December 31, 2009.

Operating activities provided net cash flows of U.S.\$28,495 million for 2010 compared to U.S.\$24,920 million for 2009. Cash generated by operating activities was mainly impacted by net operating revenues, which increased U.S.\$28,183 million during 2010 compared to 2009 as a result of higher production volumes and higher prices for our products, reflecting price recovery in the international markets.

Net cash provided by financing activities amounted to U.S.\$35,386 million for 2010 compared to net cash provided by financing activities of U.S.\$16,935 million for 2009. This increase was primarily due to the capital increase of U.S.\$30,563 million generated by the global offering. Net cash from financing activities was reduced by the payment of dividends of U.S.\$5,299 million compared to U.S.\$7,712 million in 2009. We typically pay all dividends in the year following the announcement of the corresponding results. In 2010, we paid dividends related

to 2009 earnings as well as a large portion of interest on shareholders' equity related to 2010 earnings in advance of the close of our 2010 fiscal year.

Our net debt decreased to U.S.\$36,701 million as of December 31, 2010 compared to U.S.\$41,733 million as of December 31, 2009, primarily due to the increase of cash raised by the global offering.

### *Short-Term Debt*

Our outstanding short-term debt serves mainly to support our working capital and our imports of crude oil and oil products, and is provided almost entirely by international banks. On December 31, 2010, our total short-term debt amounted to U.S.\$8,960 million compared to U.S.\$8,431 million on December 31, 2009.

### *Long-Term Debt*

Our outstanding long-term debt consists primarily of securities issued in the international capital markets, debentures issued in the domestic capital markets, amounts outstanding under facilities guaranteed by export credit agencies and multilateral agencies, loans from the BNDES and other financial institutions and project financings. Our total long-term debt amounted to U.S.\$60,471 million on December 31, 2010 compared to U.S.\$49,041 million on December 31, 2009. This increase was primarily due to international borrowings, mainly in the form of drawings on financing obtained from the China Development Bank, as well as proceeds in the form of Export Credit Notes obtained from the Banco do Brasil and the Caixa Econômica Federal. These financial resources will be used primarily for the development of projects related to oil and gas production, for the construction of ships and pipelines, as well as for the expansion of industrial units. See Note 12 to our consolidated financial statements for the year ended December 31, 2010, for more information.

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Included in these figures at December 31, 2010 are the following international debt issues:

<b>Notes</b>	<b>Principal Amount (U.S.\$ million)</b>
PESA's 9.38% Notes due 2013	200
PifCo's 3.748% Senior Trust Certificates due 2013(1)	200
PifCo's 9.125% Global Notes due 2013	750
PifCo's 7.75% Global Notes due 2014	600
PifCo's 6.436% Senior Trust Certificates due 2015(1)	550
PifCo's 2.15% Japanese Yen Bonds due 2016(2)	430
PifCo's 6.125% Global Notes due 2016	899
PESA's 5.88% Notes due 2017	300
PifCo's 8.375% Global Notes due 2018	750
PifCo's 5.875% Global Notes due 2018	1,750
PifCo's 7.875% Global Notes due 2019	2,750
PifCo's 5.75% Global Notes due 2020	2,500
PifCo's 6.875% Global Notes due 2040	1,500

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Unless otherwise noted, all debt issued by PifCo is issued with support from us through a guaranty.

- (1) Issued in connection with our export prepayment program.
- (2) Issued by PifCo on September 27, 2006 in the amount of ¥ 35 billion, with support from us through a standby purchase agreement.

In addition, on January 27, 2011, PifCo issued U.S.\$6,000 million aggregate principal amount in a multi-tranche offering of Global Notes, due between 2016 and 2041 that bear interest at rates from 3.875% to 6.750% per year.

### *Off Balance Sheet Arrangements*

As of December 31, 2010, neither we nor PifCo had 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.

### *Uses of Funds*

### *Capital Expenditures*

We invested a total of U.S.\$45,078 million in 2010, a 28.3% increase compared to our investments of U.S.\$35,134 million in 2009. Our investments in 2010 were primarily directed toward increasing production, modernizing our refineries and expanding our pipeline transportation and distribution systems. Of the total capital expenditures in 2010, U.S.\$22,222 million was invested in exploration and development projects, including investments financed through project financing.

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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 2010, 2009 and 2008:

	<b>For the Year Ended December 31</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(U.S.\$ million)</b>		
Exploration and Production	22,222	16,488	14,293
Refining, Transportation and Marketing	15,356	10,466	7,234
Distribution	482	369	309
Gas and Power	4,099	5,116	4,256
International			
Exploration and Production	2,012	1,912	2,734
Refining, Transportation and Marketing	90	110	102
Distribution	52	31	20
Gas and Power	13	58	52
Corporate	752	584	874
Total	<b>45,078</b>	<b>35,134</b>	<b>29,874</b>

On June 18, 2010, we announced our 2010-2014 Business Plan, which contemplates total budgeted capital expenditures of U.S.\$224 billion from 2010 to 2014, approximately U.S.\$212.3 billion of which will be directed towards our activities in Brazil, while U.S.\$11.7 billion will be directed to our activities abroad. We expect that the majority of our capital expenditures from 2010 to 2014, approximately U.S.\$118.8 billion, will be directed towards exploration and production, of which U.S.\$108.2 billion is slated for our activities in Brazil (U.S.\$33 billion of which is dedicated to the pre-salt reservoirs).

Our 2010-2014 Business Plan contemplates greater domestic capital expenditures for our oil and gas activities in Brazil. We estimate that of the U.S.\$212.3 billion in domestic capital expenditures through 2014, at least U.S.\$142.2 billion (67%) will be utilized to pay for equipment and services provided by Brazilian contractors, suppliers and other service providers.

Our capital expenditure budget for 2011, including our project financings, is U.S.\$54 billion, allocated as follows:

- Exploration and Production segment: 46%;
- Refining, Transportation and Marketing segment: 40%;
- Distribution segment: 1%;



- Gas and Power segment: 5%;
- International segment: 6%;
- Corporate segment: 1%; and
- Our subsidiary Petrobras Biocombustível: 1%.

We plan to meet our budgeted capital expenditures primarily through internally generated cash, issuances in the international capital markets, project finance loans, commercial bank loans and other sources of capital. Our actual capital expenditures may vary substantially from the projected numbers set forth above as a result of market conditions and the cost and availability of the necessary funds.

## Dividends

Our shareholders approved a total dividend distribution of R\$11,728 million (U.S.\$6,780 million) for 2010 earnings at the Ordinary General Meeting held on April 28, 2011, which includes interest on shareholders' equity already approved by our board of directors. We paid U.S.\$5,857 million of this amount to shareholders in the form of interest on shareholders' equity in May, August, November and December of 2010 and March of 2011, in advance of the close of our 2010 fiscal year. The remaining U.S.\$923 million in dividends and interest on shareholders' equity relating to our 2010 earnings will be paid by June 27, 2011, restated according to the SELIC rate from December 31, 2010 to the date of payment. The total amount of 2010 dividends approved by our shareholders is equivalent to R\$1.19 (U.S.\$0.69) per common and preferred share (R\$2.38 (U.S.\$1.38) per common and preferred ADS).

The dividends we pay to shareholders depend on our earnings and other factors. Under our bylaws and the Brazilian Corporate Law applicable to a company with a class of non-voting shares, such as ours, our shareholders are entitled to a mandatory minimum dividend of at least 25% of our adjusted net profit for the fiscal year. In 2010 and 2009, we paid the mandatory minimum dividend of 25% to our shareholders.

For more information on our dividend policy, including a description of the minimum preferred dividend to which our preferred shareholders are entitled under our bylaws, see "Mandatory Distribution" and "Payment of Dividends and Interest on Shareholders' Equity" in Item 10. "Additional Information—Memorandum and Articles of Incorporation of Petrobras."

## PifCo

### *Overview*

PifCo finances its oil trading activities principally through commercial banks, including lines of credit, as well as through inter-company loans from us and the issuance of notes in the international capital markets. As an offshore non-Brazilian company, PifCo is not legally obligated to receive prior approval from the Brazilian National Treasury before incurring debt or registering debt with the Central Bank. As a matter of policy, however, the issuance of any debt follows the recommendation by any of our Chief Financial Officer, executive board or board of directors, depending on the aggregate principal amount and the tenor of the debt to be issued.

### *Sources of Funds*

*PifCo's Cash Flow*

At December 31, 2010, PifCo had cash and cash equivalents of U.S.\$1,197 million compared to U.S.\$953 million at December 31, 2009.

PifCo's operating activities provided net cash of U.S.\$10,245 million in 2010 compared to provided net cash of U.S.\$9,397 million in 2009, primarily due to an increase in cash received from related parties in 2010 as a result of the reduction of the period for payment for sales of crude oil and oil products to us from 330 days to 30 days as of April 2010.

PifCo's investing activities used net cash of U.S.\$1,655 million in 2010 compared to using net cash of U.S.\$486 million in 2009, primarily as a result of an increase in the amount of loans to related parties.

PifCo's financing activities used net cash of U.S.\$8,345 million in 2010 compared to using net cash of U.S.\$8,245 million in 2009, primarily due to payments of loans to us.

### *PifCo's Accounts Receivable*

Accounts receivable from related parties decreased 63.1% to U.S.\$5,891 million at December 31, 2010, from U.S.\$15,986 million at December 31, 2009, primarily due to an increase in cash received from related parties in 2010 as a result of the reduction of the period for payment for sales of crude oil and oil products to us from 330 days to 30 days as of April 2010.

### *PifCo's Short-Term Borrowings*

PifCo's short-term borrowings are denominated in U.S. dollars and consist of short-term lines of credit, loans from financing institutions and the short-term portion of long-term lines of credit loans from financing institutions, sale of right to future receivables and senior notes. At December 31, 2010, PifCo had borrowed U.S.\$2,303 million under lines of credit and loans from financing institutions, including the current portion of long-term lines of credit and senior loans, compared to U.S.\$1,892 million borrowed at December 31, 2009. The weighted average annual interest rate on these short-term borrowings was 2.73% at December 31, 2010, compared to 2.33% at December 31, 2009. At December 31, 2010, PifCo had fully utilized all of its available lines of credit.

PifCo's notes payable to related parties consisted of notes payable to us. At December 31, 2009, PifCo had loans in a total amount of U.S.\$7,862 million. PifCo has no outstanding balance with us at December 31, 2010.

### *PifCo's Long-Term Borrowings*

At December 31, 2010, PifCo had long-term borrowings outstanding in financing institutions of:

- U.S.\$880 million (U.S.\$2,010 million in current portion) in long-term lines of credit due between 2012 and 2017 compared to U.S.\$1,396 million at December 31, 2009. At December 31, 2010, PifCo had utilized all available funds from lines of credit; and
- U.S.\$215 million (U.S.\$72 million in current portion) under the loan agreement with Malha Gas Investment Co. Ltd. (M-GIC), which acts as a Facility Agent for the Japan Bank for International Cooperation (JBIC). This loan bears interest at Libor plus 0.8% per year, payable semi-annually. The principal amount has been paid semi-annually starting on December 15, 2009 and will mature on through December 15, 2014.
- At December 31, 2010, PifCo also had outstanding:
- U.S.\$194 million (U.S.\$69 million current portion) in connection with Petrobras' export prepayment program, consisting of Senior Trust Certificates due 2015 that bear interest at the rate of 6.436% and Senior Trust Certificates due 2013 that bear interest at the rate of 3.748%;

- U.S.\$10,712 million in Global Notes, due between 2013 and 2040 that bear interest at rates from 5.75% to 9.125% per year. Interest on these notes is paid semi-annually and the proceeds were used for general corporate purposes, including the financing of the purchase of oil product imports, the repayment of existing trade-related debt and inter-company loans and the repayment of bridge loans incurred at the beginning of 2009; and
- U.S.\$430 million (¥35 billion) in Japanese Yen Bonds issued in September 2006 and due September 2016. The issue was a private placement in the Japanese market with a partial guaranty from the Japan Bank for International Cooperation (JBIC). The bonds bear interest at the rate of 2.15% per year, payable semi-annually. On the same date, PifCo entered into a swap agreement with Citibank, swapping the total amount of this debt to a U.S. dollar denominated debt.

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PifCo's outstanding position at December 31, 2010 in irrevocable letters of credit was U.S.\$94 million compared to U.S.\$556 million at December 31, 2009, supporting crude oil and oil products imports and services. At December 31, 2010, PifCo had standby committed facilities available in the amount of U.S.\$721 million, which are not committed to any specific use. PifCo has not drawn down amounts under these facilities, and, as of the date of this filing, PifCo has not scheduled a date for the drawdown.

The following table sets forth the sources of PifCo's current and long-term debt at December 31, 2010 and 2009:

	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Current</b>	<b>Long-term</b>	<b>Current</b>	<b>Long-term</b>
	<b>(U.S.\$ million)</b>			
Financing Institutions	2,063	1,095	1,892	1,682
Senior Notes	247	—	11	235
Sale of right to future receivables	71	344	70	414
Assets related to export prepayment to be offset against sales of rights to future receivables	—	(150)	—	(150)
Global Notes	250	10,712	182	10,710
Japanese Yen Bonds	2	430	2	378
<b>Total debt</b>	<b>2,633</b>	<b>12,431</b>	<b>2,157</b>	<b>13,269</b>

### *Long-Term Indebtedness Incurred After December 31, 2010*

On January 27, 2011, PifCo issued U.S.\$6,000 million aggregate principal amount in a multi-tranche offering of Global Notes in the international capital markets. The terms of the Global Notes are as follows:

- U.S.\$2,500 million, due January 27, 2016. The Global Notes bear interest at the rate of 3.875% per year, payable semiannually beginning on July 27, 2011;
- U.S.\$2,500 million, due January 27, 2021. The Global Notes bear interest at the rate of 5.375% per year, payable semiannually beginning on July 27, 2011;
- U.S.\$1,000 million, due January 27, 2041. The Global Notes bear interest at the rate of 6.75% per year, payable semiannually beginning on July 27, 2011.

PifCo will use the proceeds from the offering for general corporate purposes and to finance Petrobras' planned capital expenditure under its 2010-2014 Business Plan while maintaining an adequate capital structure and staying within Petrobras' targeted financial leverage ratios in accordance with its 2010-2014 Business Plan.

The offering had an issue cost of approximately U.S.\$18 million, a discount of U.S.\$21 million and yields to investors of 3.95%, 5.401% and 6.806% per year, respectively. The Global Notes constitute general senior unsecured and unsubordinated obligations of PifCo and are unconditionally and irrevocably guaranteed by Petrobras.

**Contractual Obligations****Petrobras**

The following table summarizes our outstanding contractual obligations and commitments at December 31, 2010:

	<b>Total</b>	<b>Payments Due by Period</b>			<b>&gt; 5 years</b>
		<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	
		<b>(U.S.\$ million)</b>			
<b>Contractual obligations</b>					
<b>Balance sheet items:(1)</b>					
Long-term debt obligations	69,431	8,960	6,640	8,828	45,003
Capital (finance) lease obligations	222	59	60	36	67
Total balance sheet items	69,653	9,019	6,700	8,864	45,070
<b>Other long-term contractual commitments</b>					
Natural gas ship-or-pay	5,943	635	1,288	1,332	2,688
Service contracts	105,575	50,690	32,392	8,394	14,099
Natural gas supply agreements	13,033	1,419	2,899	3,080	5,635
Operating leases	48,079	10,645	17,134	9,713	10,587
Purchase commitments	18,372	6,878	4,439	1,426	5,629
International purchase commitments	31,261	4,399	8,436	1,110	17,316
Total other long-term commitments	222,263	74,666	66,588	25,055	55,954
<b>Total</b>	<b>291,916</b>	<b>83,685</b>	<b>73,288</b>	<b>33,919</b>	<b>101,024</b>

(1) Excludes the amount of U.S.\$33,594 million related to our pension fund obligations that are guaranteed by U.S.\$27,340 million in plan assets. Information on employees' postretirement benefit plans is set forth in Note 15 of our consolidated financial statements for the year ended December 31, 2010.

**PifCo**

The following table sets forth PifCo's contractual obligations as of December 31, 2010, and the period in which the contractual obligations come due:

	<b>Total</b>	<b>Payments Due by Period</b>			<b>&gt; 5 years</b>
		<b>&lt; 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	



**(U.S.\$ million)****Contractual obligations**

Long-term debt	12,817	386	1,298	626	10,507
Purchase obligations—long-term	3,851	2,351	606	379	515
Operating leases	9	1	3	3	2
<b>Total</b>	<b>16,677</b>	<b>2,738</b>	<b>1,907</b>	<b>1,008</b>	<b>11,024</b>

**Critical Accounting Policies and Estimates**

The following discussion describes those areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts require us to make assumptions about matters that are highly uncertain. In each case, if we had made other estimates, or if changes in the estimates occur from period to period, our financial condition and results of operations could be materially affected.

The discussion addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation.

### *Oil and Gas Reserves*

Evaluations of oil and gas reserves are important for the effective management of exploration and production assets. They are used to make investment decisions about oil and gas properties. Oil and gas reserve quantities are also used as the basis for calculation of unit-of-production rates for depreciation and evaluation for impairment. Oil and gas reserves are divided between proved and unproved reserves. Proved reserves are estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty are economically producible in future years from known reservoirs under existing economic and operating conditions and government regulations, i.e., prices and costs as of the date the estimate is made. Unproved reserves are those with less than reasonable certainty of recoverability and are classified as either probable or possible. Probable reserves are reserves that are more likely to be recovered than not. Possible reserves are less likely to be recovered than probable reserves.

The estimation of proved reserves is an ongoing process that takes into account engineering and geological information such as well logs, pressure data and fluid sample core data. Proved reserves can also be divided in two categories: developed and undeveloped. Developed proved reserves are expected to be recovered from existing wells including line pack or when the costs necessary to put them in production are relatively low, or through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well. For undeveloped proved reserves, significant investments are necessary, including drilling new wells and installing production or transportation facilities.

We use the “successful efforts” method to account for our exploration and production activities. Under this method, costs are accumulated on a field-by-field basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred. Exploratory wells that find oil and gas in an area requiring major capital expenditure before production can begin are evaluated annually to ensure that commercial quantities of reserves have been found or that additional exploration work is under way or planned in a timeframe reasonable for the Petrobras development cycle and with consideration to ANP timing requirements. Exploratory well costs not meeting either of these criteria are charged to expense. Costs of productive wells and development dry holes are capitalized and amortized on the unit-of-production method because it provides a more timely accounting of the success or failure of our exploration and production activities.

### *Impact of Oil and Gas Reserves on Depreciation and Depletion*

The calculation of unit-of-production depreciation and depletion is a critical accounting estimate that measures the depreciation and depletion of exploration and production assets. It is the ratio of (i) actual volumes produced to (ii) total proved developed reserves (those proved reserves recoverable through existing wells with existing equipment and operating methods) applied to (iii) asset cost. Proved undeveloped reserves are considered in the

amortization of leasehold acquisition costs. The volumes produced and asset cost are known and while proved developed reserves have a high probability of recoverability they are based on estimates that are subject to some variability. This variability may result in net upward or downward revisions of proved reserves in existing fields, as more information becomes available through research and production. As a result of these revisions, we increased our proved reserves by 435.4 mmboe in 2010, 1,646.1 mmboe in 2009 and 162.7 mmboe in 2008.

### *Impact of Oil and Gas Reserves and Prices on Testing for Impairment*

At December 31, 2010, our property, plant, and equipment, net of accumulated depletion, amounted to U.S.\$219 billion. A substantial part of this amount consisted of oil and gas producing properties. These properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We estimate the future and discounted cash flows of the affected properties to judge the recoverability of carrying amounts. In general, analyses are based on proved reserves, except in circumstances where it is probable that additional non-proved reserves will be developed and contribute to cash flows in the future; the percentage of probable reserves that we include in cash flows does not exceed our past success ratios in developing probable reserves.

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We perform asset valuation analyses on an ongoing basis as a part of our management program. These analyses monitor the performance of assets against corporate objectives. They also assist us in reviewing whether the carrying amounts of any of our assets may not be recoverable. In addition to estimating oil and gas reserve volumes in conducting these analyses, it is also necessary to estimate future oil and gas prices.

In general, we do not view temporarily low oil prices as a trigger event for conducting impairment tests. The markets for crude oil and natural gas have a history of significant price volatility. Although prices will occasionally drop precipitously, industry prices over the long term will continue to be driven by market supply and demand fundamentals. Accordingly, any impairment tests that we perform make use of our long-term price assumptions for the crude oil and natural gas markets. These are the same price assumptions that are used in our planning and budgeting processes and our capital investment decisions, and they are considered to be reasonable, conservative estimates given market indicators and past experience. Significantly lower future oil and gas prices could lead to impairments in the future, if such decreases were considered to be indicative of long-term trends. In addition, significant changes in production curve expectation, discount and/or required production and lifting costs, could affect impairment analysis. While such uncertainties are inherent to this estimation process, the amount of impairment charges in past years has been small relative to the total value of oil and gas producing properties: U.S.\$402 million in 2010, U.S.\$319 million in 2009 and U.S.\$519 million in 2008. Based on our experience, we believe that future variability in estimates will have a small impact on both assets and expense.

### *Pension and Other Post-Retirement Benefits*

The determination of the expense and liability relating to our pension and other post-retirement benefits involves the use of judgment in the determination of actuarial assumptions. These include estimates of future mortality, withdrawal, changes in compensation and discount rate to reflect the time value of money as well as the rate of return on plan assets. These assumptions are reviewed at least annually and may differ materially from actual results due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates or longer or shorter life spans of participants.

We account for our Employees' Post-Retirement Benefits and Other Benefits, in accordance with the procedure established by Codification Topic 715. These standards require that we recognize the over-funded or under-funded status of each of our defined benefit pension and other post-retirement benefit plans as an asset or liability and to reflect changes in the funded status through "Accumulated other comprehensive income," as a separate component of stockholder's equity.

According to the requirements of Codification Topic 715, the discount rate should be based on present value for settling the pension obligation. The use of the precepts of Codification Topic 715 in Brazil, which has been subject to inflation from time to time, creates certain issues to

the extent that the ability for a company to settle a pension obligation at a future point in time may not exist because long-term financial instruments of suitable grade may not exist locally.

Although the Brazilian market has been demonstrating signs of stabilization as reflected in market interest rates, interest rates may be unstable.

We adopt a mortality table relating to actuarial assumptions of our pension and healthcare plans in Brazil, which reflects changes with respect to the profile of employees, retirees and pensioners, based on longevity, age of invalidity and invalid mortality tables.

The progressive increase in longevity has direct impact on the plan's estimated and provisioned volume of commitments and obligations and in our liabilities under the line "Employees' post-retirement benefits obligation- Pension" and our shareholders' equity under the line "Post-retirement benefit reserves adjustments net of tax—pension cost."

"Post-retirement benefit reserves adjustments net of tax—pension cost" are values calculated as the difference between the forecasted restatement of the net value of the obligations according to the actuarial assumptions and the variations effectively occurring over time. These amounts are to be amortized and posted to the results of subsequent fiscal years over the average life expectancy of the pension plan's members. See Note 15 to our audited consolidated financial statements for the year ended December 31, 2010.

### *Litigation, Tax Assessments and Other Contingencies*

Claims for substantial amounts have been made against us arising in the normal course of business. We are sometimes held liable for spills and releases of oil products and chemicals from our operating assets. In accordance with the guidance provided by U.S. GAAP, we accrued for these costs when it is probable that a liability has been incurred and reasonable estimates of the liability can be made. At December 31, 2010, we had accrued U.S.\$760 million for litigation contingencies. Significant management judgment is required to comply with this guidance and it includes management's discussion with our attorneys, taking into account all of the relevant facts and circumstances. We believe that payments required to settle the amounts related to these claims, in case of loss, will not vary significantly from our estimated costs, and thus will not have a material adverse effect on our operations or cash flows. In past periods, the difference between the actual payout and the amount of the provision liability, with respect to contingency estimation, has been insignificant, with no material income statement impact in the period of the payout. In the last five years, our annual cash payouts for contingencies relating to claims against us, the parent company, reached an average of U.S.\$386 million per year.

### *Asset Retirement Obligations and Environmental Remediation*

Under various contracts, permits and regulations, we have material legal obligations to remove equipment and restore the land or seabed at the end of operations at production sites. Our most significant asset removal obligations involve removal and disposal of offshore oil and gas production facilities worldwide. We accrue the estimated discounted costs of dismantling and removing these facilities at the time of installation of the assets. We also estimate costs for future environmental clean-up and remediation activities based on current information on costs and expected plans for remediation. The aggregate amount of estimated costs on a discounted basis for asset retirement and environmental remediation provision at December 31, 2010 was U.S.\$3,194 million. Estimating asset retirement, removal and environmental remediation costs requires performing complex calculations that necessarily involve significant judgment because our obligations are many years in the future, the contracts and regulation have vague descriptions of what removal and remediation practices and criteria will have to be met when the removal and remediation events actually occur and asset removal technologies and costs are constantly changing, along with political, environmental, safety and public relations considerations. Consequently, the timing and amounts of future cash flows are subject to significant uncertainty. However, given the significant amount of time to the ultimate retirement date, any modifications in technological specifications, legal requirement, or other matters, would not have a materially adverse effect on any one reporting period.

In 2010, we reviewed and revised our estimated costs associated with well abandonment and the demobilization of oil and gas production areas, considering new information about date of expected abandonment and revised cost estimates to abandon. The changes to estimated asset retirement obligation were principally related to declaration of new fields as

economically viable, certain changes in revised cost estimates to abandon provided by non-operated joint-ventures. A summary of the annual changes in the abandonment provisions is presented in Note 9(b) to our audited consolidated financial statements, as of December 31, 2010.

### *Derivative Transactions*

Codification Topic 815 requires that we recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Accounting for derivative transactions requires us to employ judgment to arrive at assumptions to compute fair market values, which are used as the basis for recognition of the derivative instruments in the financial statements. Such measurement may depend on the use of estimates such as estimated future prices, long-term interest rates and inflation indices, and becomes increasingly complex when the instrument being valued does not have counterparts with similar characteristics traded in an active market.

In the course of our business we have entered into contracts that meet the definition of derivatives under Codification Topic 815, certain of which have not qualified to receive hedge accounting. For the majority of these contracts, the estimates involved in the calculations for the fair value of such derivative instruments have not been considered likely to have a material impact in our financial position had we used different estimates, due to the majority of our derivative instruments being traditional over the counter instruments with short term maturities.

## **Impact of New Accounting Standards**

### *Brazilian GAAP Is in the Process of Adopting IFRS Principles*

Enacted in 2007, Law No. 11,638/07 amended the Brazilian Corporate Law to permit Brazilian GAAP to converge with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. The adoption of IFRS in Brazil is mandatory for the year ended December 31, 2010, and it is tax neutral in accordance with current income tax legislation. We chose to present our financial statements in Brazil for the first time in accordance with IFRS in the first quarter of 2010. Our financial statements prepared in accordance with U.S. GAAP were not affected by the adoption of IFRS other than with respect to dividends payable and profit sharing payable to our employees, which are based on net income as calculated under IFRS. We are currently evaluating the possibility of discontinuing U.S. GAAP reporting and adopting IFRS as issued by the IASB as the basis for the audited consolidated financial statements contained in our annual report on Form 20-F for the year ended December 31, 2011.

In 2008, Provisional Measure No. 449/08 was enacted to create a transitional tax regime that allowed the changes to Brazilian GAAP brought by Law No. 11,638/07 to be tax neutral until further legislation regulating the tax effects of the new accounting principles becomes effective. The adoption of the transitional tax regime was optional for the fiscal year ended December 31, 2009 and mandatory as from fiscal year ended December 31, 2010. The temporary tax effects caused by the adoption of this transitional tax regime are reported in our financial statements as deferred income taxes.

### *ASU 2009-16*

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-16 in December 2009. This standard removes the concept of a Qualifying Special Purpose Entity ("QSPE") and the exception for QSPE consolidation and clarifies the requirements for financial asset transfers eligible for sale accounting. ASU 2009-16 was adopted on January 1, 2010, and did not impact our results of operations, financial position or liquidity.

### *ASU 2009-17*



The FASB issued ASU 2009-17 in December 2009. This standard became effective for us on January 1, 2010. ASU 2009-17 requires the enterprise to qualitatively assess if it is the primary beneficiary of a variable-interest entity (“VIE”), and, if so, the VIE must be consolidated. Additionally, this Statement requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE. ASU 2009-17 was adopted on January 1, 2010, and did not impact our results of operations, financial position or liquidity.

#### *ASU 2010-20*

The FASB issued ASU 2010-20 in July 2010. ASU 2010-20 enhances the disclosures required for financing receivables and allowances for credit losses under FASB Accounting Standards Codification 310, Receivables. Most of the existing disclosures have been amended to require information on a more disaggregated basis. ASU 2010-20 was adopted in December 2010. Our consolidated financial statements will be impacted only by additional disclosures.

### ASU 2010-25

The FASB issued ASU 2010-25 in September 2010. The ASU 2010-25 requires participant loans to be classified as notes receivables from participants and measured at their unpaid principal balance, plus any accrued but unpaid interest. ASU 2010-25 was adopted in December 2010, and did not impact our results of operations, financial position or liquidity, other than additional disclosures.

### Research and Development

We are deeply committed to research and development as a means to extend our reach to new production frontiers and achieve continuous improvement in operations. We have a history of successfully developing and implementing innovative technologies, including the means to drill, complete and produce wells in increasingly deep water. We are one of the largest investors in research and development among the world's major oil companies, and we spend a large percentage of revenues in research and development. In 2010, we spent U.S.\$993 million on research and development, equivalent to 0.8% of our net operating revenues. In 2009, we spent U.S.\$681 million on research and development, equivalent to 0.7% of our net operating revenues. In 2008, we spent U.S.\$941 million on research and development, equivalent to 0.8% of our net operating revenues. Our Brazilian oil and gas concession agreements require us to spend at least 1% of our gross revenues originating from high productivity oil fields on research and development, of which up to half is invested in our research facilities in Brazil and the remainder is invested in research and development in Brazilian universities and institutions registered with the ANP for this purpose.

Our research and development activities focus on three main goals:

- expansion of our current businesses through the following: (a) discovery of new exploratory frontiers; (b) enhancement of oil and gas final recovery; (c) understanding and development of complex reservoirs, including pre-salt rocks; (d) development of new or enhanced subsea production systems and equipment for deep and ultra deep waters; (e) optimization of our drilling, production and logistics solutions for the pre-salt reservoirs; (f) development of new alternatives for offshore natural gas transportation; (g) optimization and reliability improvement of our industrial facilities; and (h) development and implementation of technologies in our refineries to enhance the flexibility to produce middle distillates, kerosene or gasoline, according to changing market demand;
- providing a mix of products compatible with the energy demands of the future through the following: (a) development of new fuel, lubricants and special product formulations; (b) development of new technologies for our petrochemical and gaschemical activities; (c) adaptation of our refining processes to utilize vegetable oils as feedstock; (d) development of second generation biofuel production processes, which use residual biomass as feedstock; and (e) research and development of renewable energy technologies; and
- ensuring that our activities are environmentally sustainable. We aim throughout our entire business to: (a) reduce our water consumption and the volume and toxicity of our wastewater discharges; (b) reduce our emissions of air pollutants, CO<sub>2</sub> and other greenhouse gases; and (c) increase the energy efficiency of our processes and products.

In the three-year period ended December 31, 2010, our research and development operations were awarded 42 patents in Brazil and 120 overseas. Our portfolio of patents covers all of our areas of activities.

We have operated a dedicated research and development facility in Rio de Janeiro, Brazil since 1966. In 2010, we concluded its expansion, doubling its laboratory capacity and placing it as the largest research complex in the southern hemisphere, with laboratories especially dedicated to pre-salt technologies.

We have also conducted research and development through joint research projects with more than 100 universities and other research centers in Brazil and abroad and participated in technology exchange and assistance partnerships with other oil and gas and oilfield services companies. In 2010, we entered into agreements with several key suppliers so as to assist them in establishing technology centers in Brazil in order to develop technological solutions applicable to our business segments.

PifCo does not itself conduct research and development.

## **Trends**

We plan to expand all segments of operations in our target markets in accordance with our 2010-2014 Business Plan. In support of this goal we plan total capital expenditures of U.S.\$224 billion over 2010-2014. Of this total, 53% is in the exploration and production segment, where constant investment in exploration and development is needed to exploit newly discovered resources and offset natural declines in production from existing fields as they mature. Based on our slate of development projects, we have set a target of increasing production by 9.4% annually over the period 2010 to 2014 while replacing our reserves through organic growth. Our business plan for 2011 through 2015 is currently under review by our board of executive officers.

The price we realize for the oil we produce is determined by international oil prices, although we generally sell our oil at a discount to the Brent and West Texas Intermediate (WTI) benchmark prices because it is heavier and thus more expensive to refine. In 2010, international oil prices remained mostly stable between U.S.\$75/bbl and U.S.\$85/bbl, being largely driven by news affecting the overall expectations regarding the pace of economic recovery and the supply-demand balance in the near term. Towards the end of 2010, oil prices gradually increased, breaking out of the U.S.\$75/bbl to U.S.\$85/bbl trading range. This movement was driven by a severe winter and positive news concerning the pace of economic recovery in the United States and China. The economic outlook will remain the key determinant of oil price movements in the near term. A fast-paced recovery coupled with slow supply-side response can result in higher prices in the medium term. On the other hand, if the expectations are not met, especially those regarding non-OECD economies, oil prices may drop below the current trading range. In addition, recent geopolitical concerns may persist, affecting the global oil supply and sending oil prices higher in the near term.

For the 2010 to 2014 period, we plan to continue to focus on increasing our refining throughput and our capacity to refine heavier crudes. During 2010, downstream gross margins varied between 4 and 11 percent reflecting the fluctuation in international prices. Future refining margins will depend on capacity utilization in the global and Brazilian refining industries and the relative prices and volumes of light and heavy crudes that are produced and can be processed.

Under our 2010-2014 Business Plan, our net-debt-to-equity ratio is targeted to remain in the range of 25-35% through 2014, based on an estimated average exchange rate of R\$1.78 per U.S.\$1.00. In accordance with the guidance provided by our board of directors on March 19, 2010, our net-debt-to-equity ratio for the 2010-2014 period is limited to 35% and our net-debt-to-EBITDA ratio to 2.5:1.

## **Item 6. Directors, Senior Management and Employees**

### **Directors and Senior Management**

#### *Directors of Petrobras*

Our board of directors is composed of a minimum of five and a maximum of nine members and is responsible for, among other things, establishing our general business policies. The members of the board of directors are elected at the annual general meeting of shareholders.

Under Brazilian Corporate Law, shareholders representing at least 10% of the company's voting capital have the right to demand that a cumulative voting procedure be adopted to entitle each common share to as many votes as there are board members and to give each common share the right to vote cumulatively for only one candidate or to distribute its votes among several candidates.

Furthermore, our bylaws enable (i) minority preferred shareholders that together hold at least 10% of the total capital stock (excluding the controlling shareholders) to elect and remove one member to our board of directors; and (ii) minority common shareholders to elect one member to our board of directors, if a greater number of directors is not elected by such minority shareholders by means of the cumulative voting procedure. Our bylaws provide that, regardless of the rights above granted to minority shareholders, the Brazilian federal government always has the right to elect the majority of our directors, independently of their number. In addition, under Law 10,683, dated May 28, 2003, one of the board members elected by the Brazilian federal government must be indicated by the Minister of Planning, Budget and Management. The maximum term for a director is one year, but re-election is permitted. In accordance with the Brazilian Corporate Law, the shareholders may remove any director from office at any time with or without cause at an extraordinary meeting of shareholders. Following an election of board members under the cumulative vote procedure, the removal of any board member by an extraordinary meeting of shareholders will result in the removal of all the other members, after which new elections must be held.

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We currently have nine directors. The following table sets forth certain information with respect to these directors:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Current Term Expires</b>	<b>Business Address</b>
Guido Mantega(1)	April 7, 1949	Chair	April 2012	Esplanada dos Ministérios – Bloco P  5º andar  Brasília – DF
J.S. Gabrielli de Azevedo(1)	October 3, 1949	Director	April 2012	Cep 70.048-900 Avenida República do Chile, no. 65  23º andar  Rio de Janeiro – RJ
Antonio Palocci Filho(1)	October 4, 1960	Director	April 2012	Cep 20.031-912 Palácio do Planalto – Praça dos Três Poderes – 4º andar – Sala 426  Brasília – DF
Francisco Roberto de Albuquerque(1)	May 17, 1937	Director	April 2012	Cep 70150-900 Alameda Carolina, no. 594  Itú—SP
Fabio Colletti Barbosa(2)	October 3, 1954	Director	April 2012	Cep 13.306-410 Av. Juscelino Kubitschek, no. 2.235  28º andar  Vila Olímpia  São Paulo – SP

Jorge Gerdau Johannpeter(3)	December 8, 1936	Director	April 2012	Cep 04543-011 Av. Farrapos, no. 1.811  Porto Alegre – RS
Luciano Galvão Coutinho(1)	September 29, 1946	Director	April 2012	Cep 90.220-005 Av. República do Chile, no. 100  22º andar  Rio de Janeiro – RJ
Sergio Franklin Quintella(1)	February 21, 1935	Director	April 2012	Cep 20.031-917 Praia de Botafogo, no. 190  12º andar  Rio de Janeiro– RJ
Márcio Pereira Zimmermann(1)	July 1, 1956	Director	April 2012	Cep 22.250-900 Esplanada dos Ministérios – Bloco U  Sala 705  Brasília – DF  Cep 70.065-900

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- (1) Appointed by the controlling shareholder.
- (2) Appointed by the minority common shareholders.
- (3) Appointed by the minority preferred shareholders.

*Guido Mantega*—Mr. Mantega has been our Chairman of the board of directors since March 19, 2010 after being a member of this board since April 3, 2006. He is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. Mr. Mantega was appointed a member of the Remuneration and Succession Committee of our board of directors on October 15, 2007. Mr. Mantega has been Brazil’s Minister of Finance since March 28, 2006, and he served as chairperson of the Group of 20 Finance Ministers and Central Bank Governors (G-20) in 2008. He is a member of the Conselho de Desenvolvimento Econômico e Social—CDES (Economic and Social Development Council), an advisory body to the Brazilian federal government. Mr. Mantega has also held the posts of Brazil’s Minister of Planning, Budget and Management and of president of the Banco Nacional de Desenvolvimento Econômico e Social—BNDES (Brazilian Development Bank). He received a bachelor’s degree in economics



from the Escola de Economia, Administração e Contabilidade—FEA (School of Economy, Administration and Accounting) at the Universidade de São Paulo—USP (University of São Paulo) in 1971, and a Ph.D. in development sociology from the Faculdade de Filosofia, Letras e Ciências Humanas—FFLCH (School of Philosophy, Literature and Human Sciences) at USP, and completed specialized studies at the Institute of Development Studies—IDS at the University of Sussex, England in 1977.

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*J.S. Gabrielli de Azevedo*—Mr. Gabrielli has been a member of our board of directors since July 22, 2005, and is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He is the Chairman of the boards of directors of Petrobras Transporte S.A.—Transpetro, Petrobras Química S.A.—Petroquisa and Petrobras Gás S.A.—Gaspetro. He is also a member of the board of directors of Petrobras Biocombustível S.A.—PBIO. Mr. Gabrielli served as Chief Financial Officer and Chief Investor Relations Officer of Petrobras from February 2003 to July 2005. Mr. Gabrielli is a full-time professor of macroeconomics on leave from the Universidade Federal da Bahia—UFBA (Federal University of Bahia). He holds a PhD in economics from Boston University.

*Antonio Palocci Filho*—Mr. Palocci has been a member of our board of directors since April 28, 2011. He has a medical degree with a specialization in public health from the Universidade de São Paulo (São Paulo University—USP). In 2010, Mr. Palocci was one of the coordinators of Dilma Rousseff’s presidential campaign and since January 2011, he is the Chief of Staff to the Brazilian presidency. Mr. Palocci previously served as Brazilian Finance Minister from 2003 to 2006, as mayor of Ribeirão Preto, a municipality of the State of São Paulo, and as a member of federal and state legislatures. He is also the founder of the Partido dos Trabalhadores (Brazilian Workers’ Party) and was an active participant in Luiz Inácio Lula da Silva’s presidential election in 2002.

*Francisco Roberto de Albuquerque*—Mr. de Albuquerque has been a member of our board of directors since April 2, 2007, and he is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He has been a member of the Audit Committee and the Remuneration and Succession Committee of our board of directors since April 13, 2007, and October 15, 2007, respectively. He earned a bachelor’s degree in military sciences from the Academia Militar das Agulhas Negras—AMAN (Agulhas Negras Military Academy) in Resende, in the State of Rio de Janeiro, in 1958 and in economics from the Faculdade de Ciências Econômicas de São Paulo (São Paulo College of Economic Sciences) at Fundação Álvares Penteado (Álvares Penteado Foundation) in 1968, a master’s degree in military sciences from the Escola de Aperfeiçoamento de Oficiais—EsAO (Advanced Military School) in 1969, and a Ph.D. in military sciences from the Escola de Comando e Estado-Maior do Exército—ECEME (Military Officer Training School) in Rio de Janeiro in 1977.

*Fabio Colletti Barbosa*—Mr. Barbosa has been a member of our board of directors since January 3, 2003, and is also a director of Petrobras Distribuidora S.A.—BR. He has also been the President of the Audit Committee of our board of directors since June 17, 2005. He has been the Chairman of the board of Santander Brasil since February 2011. In March 2011, Mr. Barbosa became the Chairman of the Federação Brasileira de Bancos—FEBRABAN (Brazilian Federation of Banks), after having held a position as president for four years. Mr. Barbosa graduated in business administration from the Fundação Getúlio Vargas—São Paulo (Getulio Vargas Foundation—São Paulo) and holds an MBA from the Institute for Management and Development (IMD) in Lausanne, Switzerland.

*Jorge Gerdau Johannpeter*—Mr. Johannpeter has been a member of our board of directors since October 19, 2001, and is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He was appointed a member of the Remuneration and Succession Committee of our board of directors on October 15, 2007. Mr. Johannpeter is the President of the board of directors of Gerdau, a member of the board of directors of the Instituto Aço Brasil—IABr (Brazilian Steel Institute), a member of the Conselho de Desenvolvimento Econômico e Social—CDES (Economic and Social Development Council) and a member of the board of directors of the World Steel Association. Mr. Johannpeter also actively participates in efforts to improve the efficiency and quality of management within the public and private sectors, is a member of the deliberative council of Parceiros Voluntários (Volunteer Partners) and member of Ação Empresarial (Business Action). He received a bachelor's degree in law and social sciences from the Universidade Federal do Rio Grande do Sul—UFRGS (Federal University of Rio Grande do Sul), Porto Alegre, in 1961.

*Luciano Coutinho*—Mr. Coutinho has been a member of our board of directors since April 4, 2008, and is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He has been the President of the Banco Nacional de Desenvolvimento Econômico e Social—BNDES (Brazilian Development Bank) since April 27, 2007. In addition, Mr. Coutinho is a member of the board of directors of Vale S.A., a member of the Curator Committee for the Fundação Nacional da Qualidade—FNQ (Brazilian Quality Foundation), and the BNDES representative at the Fundo Nacional de Desenvolvimento Científico e Tecnológico—FNDCT (Brazilian Fund for Scientific and Technological Development). Mr. Coutinho has a Ph.D. in economics from Cornell University, a master's degree in economics from the Fundação Instituto de Pesquisas Econômicas—Fipe (Institute of Economic Research) at the Universidade de São Paulo—USP (University of São Paulo), and a bachelor's degree in economics from USP.

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*Sergio Franklin Quintella*—Mr. Quintella has been a member of our board of directors since April 8, 2009, and is also a member of the board of directors of Petrobras Distribuidora S.A.—BR. He has been a member of the Audit Committee of our board of directors since November 13, 2009. He is vice president of Fundação Getúlio Vargas—FGV. He was member of the board of directors of the Banco Nacional de Desenvolvimento Econômico e Social—BNDES (Brazilian Development Bank) from 1975 to 1980, member of the CMN from 1985 to 1990, and president of the Tribunal de Contas (Court of Auditors) of the State of Rio de Janeiro from 1993 to 2005. Mr. Quintella holds a degree in civil engineering from the Pontifícia Universidade Católica do Rio de Janeiro—PUC-Rio (Pontifical Catholic University of Rio de Janeiro) in economic engineering from the Escola Nacional de Engenharia (National Engineering School) and in economics from the Faculdade de Economia do Rio de Janeiro (College of Economics of Rio de Janeiro). He also holds a master’s degree in business from IPSOA Institute, in Turin, Italy and graduated from the Advanced Management Program at Harvard Business School. Mr. Quintella is currently a member of the council of PUC-Rio.

*Márcio Pereira Zimmermann*—Mr. Zimmermann has been a member of our board of directors since March 22, 2010 and is also a member of the board of directors of Petrobras Distribuidora S.A. – BR. He has been the President of the Remuneration and Succession Committee of our board of directors since April 29, 2010. Mr. Zimmermann is currently the Executive Secretary (Deputy Minister) of the MME, where he previously served as Minister, Executive Secretary and Secretary for Energy Planning and Development. Mr. Zimmermann is also the Chairman of the board of directors of Centrais Elétricas Brasileiras—Eletrobrás, where he previously served as the Engineering Executive Officer, and the Chairman of the board of directors of Furnas Centrais Elétricas S.A. He has been a member of the CNPE since February 2009. He was also the Energy Production and Commercialization Executive Officer and Technical Executive Officer of Eletrosul Centrais Elétricas S.A., and the Research and Development Executive Officer of Centro de Pesquisas de Energia Elétrica—CEPEL (Electrical Energy Research Center). Mr. Zimmermann holds a bachelor’s degree in electric engineering from the Pontifícia Universidade Católica do Rio Grande do Sul – PUC-RS (Pontifical Catholic University of Rio Grande do Sul), a post-graduate degree in power systems engineering from the Universidade Federal de Itajubá – UNIFEI (Federal University of Itajubá), and a master’s degree in electrical engineering from the Pontifícia Universidade Católica do Rio de Janeiro – PUC-Rio (Pontifical Catholic University of Rio de Janeiro).

*Directors of PifCo*

PifCo is managed by a board of directors, consisting of three members, and by its executive officers. The board of directors is responsible for preparing PifCo's year-end accounts, convening the shareholder's meetings and reviewing and monitoring its financial performance and strategy. Although not required by PifCo's memorandum and articles of association, it is PifCo's policy that the Chairman and all of its executive officers be Petrobras employees.

PifCo's directors serve indefinite terms and can be removed with or without cause. The following table sets forth certain information about PifCo's board of directors:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Year of Appointment</b>
Daniel Lima de Oliveira	December 29, 1951	Chairman	2005
Marcos Antonio Silva Menezes	March 24, 1952	Director	2003
José Raimundo Brandão Pereira	October 27, 1956	Director	2008

*Daniel Lima de Oliveira*—Mr. Lima de Oliveira has been PifCo's Chairman and Chief Executive Officer and Petrobras' Executive Manager of Corporate Finance since September 1, 2005. From January 2003 to September 2005, Mr. Lima was a director of Petrobras International Braspetro BV (PIB BV) and Braspetro Oil Services Company—Brasoil, and from September 2005 to April 2006, he was a member of the board of directors of REFAP S.A. Mr. Lima de Oliveira graduated in mechanical engineering from the Escola de Engenharia Industrial (São José dos Campos Industrial Engineering School) in 1975.

*Marcos Antonio Silva Menezes*—Mr. Menezes has been a director of PifCo since 2003, and has served as Chief Accountant Officer of Petrobras since 1998. He was the chairman of the fiscal council and the audit committee of Braskem S.A. in 2010. He has been a member of the fiscal council of Instituto Brasileiro de Petróleo, Gás e Biocombustíveis—IBP (Brazilian Institute of Petroleum, Gas and Biofuels) and of the fiscal council of Organização Nacional das Indústrias de Petróleo—ONIP (National Organization of the Petroleum Industry). He is also a member of Associação Nacional de Executivos de Finanças, Administração e Contabilidade—ANEFAC and of the Associação Brasileira de Companhias Abertas—ABRASCA and its Auditing and Accounting Rules Commission—CANC. Mr. Menezes holds a bachelor's degree in accounting and business management from Faculdade Moraes Júnior in Rio de Janeiro (Moraes Júnior University), a post-graduate degree in financial management from the Fundação Getúlio Vargas (Getulio Vargas Foundation), and has completed an advanced management program (PGA) at the Fundação Dom Cabral/INSEAD—France (Dom Cabral Foundation/European Institute of Business Administration).

*José Raimundo Brandão Pereira*—Mr. Pereira has been a PifCo director, and has served as PifCo's Executive Manager of Marketing and Trading since June 2008. Mr. Pereira has also

been a director of Petrobras International Braspetro B.V. (PIB BV) since September 2008 and a member of the board of directors of PESA (Petrobras Argentina S.A.) since March 2009. Mr. Pereira graduated in civil engineering from the Universidade Estadual de Maranhão (State University of Maranhão) in 1979.

*Executive Officers of Petrobras*

Our board of executive officers, composed of one Chief Executive Officer and six executive officers, is responsible for our day-to-day management. Under our bylaws, the board of directors elects the executive officers, including the Chief Executive Officer. The Chief Executive Officer is chosen from among the members of the board of directors. All of the executive officers are Brazilian nationals and reside in Brazil. According to our bylaws, in electing executive officers our board of directors must consider their personal qualification, knowledge and specialization in their respective areas. The maximum term for executive officers is three years, but re-election is permitted. The board of directors may remove any executive officer from office at any time with or without cause. Six of the current executive officers are experienced Petrobras career managers, engineers or technicians.

The following table sets forth certain information with respect to our executive officers:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Current Term</b>
J.S. Gabrielli de Azevedo	October 3, 1949	Chief Executive Officer	April 2014
Almir Guilherme Barbassa	May 19, 1947	Chief Financial Officer and Chief Investor Relations Officer	April 2014
Renato de Souza Duque	September 29, 1955	Chief Services Officer	April 2014
Guilherme de Oliveira Estrella	April 18, 1942	Chief Exploration and Production Officer	April 2014
Paulo Roberto Costa	January 1, 1954	Chief Downstream Officer	April 2014
Maria das Graças Silva Foster	August 26, 1953	Chief Gas and Power Officer	April 2014
Jorge Luiz Zelada	January 20, 1957	Chief International Officer	April 2014

*J. S. Gabrielli de Azevedo*—Mr. Gabrielli has been our Chief Executive Officer and a member of our board of directors since July 22, 2005. For biographical information regarding Mr. Gabrielli, see “—Directors of Petrobras.”

*Almir Guilherme Barbassa*—Mr. Barbassa has been our Chief Financial Officer and Chief Investor Relations Officer since July 22, 2005. Mr. Barbassa joined Petrobras in 1974 and has worked in several financial and planning capacities, both in Brazil and abroad. Mr. Barbassa has served as Petrobras’ corporate finance and treasury manager, and he has also served at various times as financial manager and chairman of Petrobras subsidiaries that carry out international financial activities. Mr. Barbassa is also a member of the board of directors of Braskem S.A. In addition, he was an economics professor at Universidade Católica de Petrópolis (Petrópolis Catholic University) and Faculdades Integradas Bennett (Bennett University) from 1973 to 1979. Mr. Barbassa holds a master’s degree in economics from the Fundação Getúlio Vargas (Getulio Vargas Foundation).

*Renato de Souza Duque*—Mr. Duque has been our Chief Services Officer since January 31, 2003. Currently, Mr. Duque is a member of the board of directors of Petrobras Gás S.A.—Gaspetro and Chief Executive Officer of Petrobras Negócios Eletrônicos S.A. Mr. Duque holds a degree in electrical engineering from the Universidade Federal Fluminense (Fluminense Federal University) and an MBA from the Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro).

*Guilherme de Oliveira Estrella*—Mr. Guilherme Estrella has been our Chief Exploration and Production Officer since 2003. He has been Chairman of the board of the Instituto Brasileiro de Petróleo, Gás e Biocombustíveis (Brazilian Petroleum, Gas and Biofuels Institute) since 2003. Mr. Estrella graduated in 1964 from the School of Geology of the Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro).

*Paulo Roberto Costa*—Mr. Paulo Roberto Costa has been our Chief Downstream Officer since May 14, 2004. Mr. Paulo Roberto graduated in mechanical engineering from the Universidade Federal do Paraná (Federal University of Paraná) in 1976. Mr. Costa joined Petrobras in 1977 and worked for a long period in our exploration and production activities. Mr. Costa is also a member of the board of directors of Braskem S.A.



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*Maria das Graças Silva Foster*—Ms. Maria das Graças Silva Foster has been our Chief Gas and Power Officer since September 21, 2007. Ms. Maria das Graças Foster is also Chief Executive Officer of Petrobras Gás S.A.—Gaspetro, Chairwoman of the board of directors of Transportadora Brasileira Gasoduto Bolívia-Brasil S.A.—TBG and Transportadora Associada de Gás S.A.—TAG and member of the boards of directors of Petrobras Transporte S.A.—Transpetro, Petrobras Biocombustível S.A.—PBIO, Braskem S.A. and the Instituto Brasileiro de Petróleo, Gás e Biocombustíveis (Brazilian Petroleum, Gas and Biofuels Institute). She holds a degree in chemical engineering from the Universidade Federal Fluminense (Fluminense Federal University), a master’s degree in nuclear and chemical engineering from the Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro) and an MBA in economics from the Fundação Getúlio Vargas (Getulio Vargas Foundation).

*Jorge Luiz Zelada*—Mr. Zelada has been our Chief International Officer since March 3, 2008. Mr. Zelada received a degree in electrical engineering from the Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro) in 1979 and an MBA from IBMEC/Rio de Janeiro (Brazilian Institute of Capital Markets/Rio de Janeiro) in 2000.

*Executive Officers of PifCo*

All of the current executive officers are experienced managers from Petrobras, some of whom have served on the boards of directors of Petrobras subsidiaries and in representative offices abroad. The executive officers work as a board and are responsible for PifCo’s day-to-day management. PifCo’s executive officers serve indefinite terms and can be removed with or without cause.

The following table sets forth certain information about PifCo’s executive officers:

<b>Name</b>	<b>Date of Birth</b>	<b>Position</b>	<b>Year of Appointment</b>
Daniel Lima de Oliveira	December 29, 1951	Chief Executive Officer	2009
Guilherme Pontes Galvão França	January 18, 1959	Chief Commercial Officer	2005
Sérvio Túlio da Rosa Tinoco	June 21, 1955	Chief Financial Officer	2005
Mariângela Monteiro Tizatto(1)	August 9, 1960	Chief Accounting Officer	1998
Nilton Antonio de Almeida Maia	June 21, 1957	Chief Legal Officer	2000
Gerson Luiz Gonçalves	September 29, 1953	Chief Audit Officer	2000
Juarez Vaz Wassersten	August 26, 1954	Chief Businesses Officer	2009

(1) Mariângela Monteiro Tizatto has resigned from her position as PifCo's Chief Accounting Officer on May 16, 2011. PifCo is currently seeking a replacement.

*Daniel Lima de Oliveira*—Mr. Lima de Oliveira has been PifCo's Chairman and Chief Executive Officer and Petrobras' Executive Manager of Corporate Finance since September 1, 2005. For biographical information regarding Mr. Lima de Oliveira, see “—Directors of PifCo.”

*Guilherme Pontes Galvão França*—Mr. França has served as PifCo's Chief Commercial Officer since October 1, 2005. Mr. França graduated in chemical engineering from the Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro) in 1981.

*Sérvio Túlio da Rosa Tinoco*—Mr. Tinoco has been PifCo's Chief Financial Officer since September 1, 2005. Mr. Tinoco holds a bachelor's degree in economics from Universidade Oswaldo Cruz, São Paulo (Oswaldo Cruz University) (1978), and had an MBA from the Fundação Getúlio Vargas, São Paulo (Getulio Vargas Foundation) (1983) partially completed with one year at the Institut Supérieur des Affaires—ISA/HEC, France (Institute of Superior Affairs—ISA/HEC).

*Nilton Antonio de Almeida Maia*—Mr. Maia has served as PifCo's Chief Legal Officer since April 19, 2000. Mr. Maia also currently serves as General Counsel for Petrobras. He has completed post-graduate degrees in law, with specializations in energy and tax law, from the Universidade Cândido Mendes (Cândido Mendes University) and the Universidade Estácio de Sá (Estácio de Sá University).

*Gerson Luiz Gonçalves*—Mr. Gonçalves has been PifCo’s Chief Audit Officer since April 19, 2000 and Petrobras’ Executive Manager of Internal Auditing since December 1, 1994. Mr. Gonçalves is a member of the Brazilian Institute of Internal Auditors (AUDIBRA) and the International Institute of Internal Auditors (IIA). He received a bachelor’s degree in accounting from the Universidade de São Paulo (University of São Paulo) in 1975.

*Juarez Vaz Wassersten*—Mr. Wassersten has been PifCo’s Chief Businesses Officer since January 2009. Mr. Wassersten holds a bachelor’s degree in production engineering from Universidade Federal do Rio de Janeiro (Federal University of Rio de Janeiro) and a master’s degree in economics from Universidade Cândido Mendes (Cândido Mendes University).

## **Compensation**

### *Petrobras*

For 2010, the aggregate amount of compensation we paid to all members of the board of directors and executive officers was approximately U.S.\$5 million.

In addition, the members of the board and the executive officers receive certain additional benefits generally provided to our employees and their families, such as medical assistance, payment of educational expenses and supplementary social security benefits.

We have no service contracts with our directors providing for benefits upon termination of employment. We have a remuneration and succession committee in the form of an advisory committee. See “—Other Advisory Committees.”

### *PifCo*

PifCo’s directors and executive officers are paid by Petrobras in respect of their function as Petrobras’ employees, but they do not receive any additional compensation, pension or other benefits from PifCo or Petrobras in respect of their functions as PifCo directors or executive officers, as the case may be.

## **Share Ownership**

### *Petrobras*

As of April 29, 2011, the members of our board of directors, our executive officers, the members of our Fiscal Council, and close members of their families, as a group, beneficially held a total of 26,544 common shares and 130,072 preferred shares of our company. Accordingly, on an individual basis, and as a group, our directors, executive officers, Fiscal Council members, and close members of their families beneficially owned less than one percent of any class of our shares. The shares held by our directors, executive officers, Fiscal Council members, and close members of their families have the same voting rights as the

shares of the same type and class that are held by our other shareholders. None of our directors, executive officers, Fiscal Council members, or close members of their families holds any options to purchase common shares or preferred shares. Petrobras does not have a stock option plan for its directors, officers or employees.

*PifCo*

As of December 31, 2010, PifCo's authorized share capital was composed of 300,050,000 shares at par value of U.S.\$1.00 per share, all of which are issued and outstanding. All of PifCo's issued and outstanding shares of common stock are owned by us.

**Fiscal Council**

We have established a permanent Fiscal Council (*Conselho Fiscal*) in accordance with applicable provisions of the Brazilian Corporate Law, composed of up to five members. As required by the Brazilian Corporate Law our Fiscal Council is independent of our management and external auditors. The Fiscal Council's responsibilities include, among others: (i) monitoring management's activities and (ii) reviewing our annual report and financial statements. The members and their respective alternates are elected by the shareholders at the annual general shareholder's meeting. Holders of preferred shares without voting rights and minority common shareholders are each entitled, as a class, to elect one member and his respective alternate to the Fiscal Council. The Brazilian federal government has the right to appoint the majority of the members of the Fiscal Council and their alternates. One of these members and his respective alternate are appointed by the Minister of Finance representing the Brazilian Treasury. The members of the Fiscal Council are elected at our annual general shareholders' meeting for a one-year term and re-election is permitted.

The following table lists the current members of the Fiscal Council:

<b>Name</b>	<b>Year of First Appointment</b>
Marcus Pereira Aucélio	2005
César Acosta Rech	2008
Marisete Fátima Dadald Pereira	2011
Nelson Rocha Augusto	2003
Maria Lúcia de Oliveira Falcón	2003

The following table lists the alternate members of the Fiscal Council:

<b>Name</b>	<b>Year of First Appointment</b>
Paulo Fontoura Valle	2010
Ricardo de Paula Monteiro	2008
Edson Freitas de Oliveira	2002
Maria Auxiliadora Alves da Silva	2003
Celso Barreto Neto	2002

**Petrobras Audit Committee**

We have an Audit Committee that advises our board of directors, composed exclusively of members of our board of directors.

On June 17, 2005, our board of directors approved the appointment of our Audit Committee to satisfy the audit committee requirements of the Sarbanes-Oxley Act of 2002 and Rule 10A-3

under the Securities Exchange Act of 1934.

The Audit Committee is responsible for, among other things:

- making recommendations to our board of directors with respect to the appointment, compensation and retention of our independent auditor;
- assisting our board of directors with analysis of our financial statements and the effectiveness of our internal controls over financial reporting in consultation with internal and independent auditors;
- assisting in the resolution of conflicts between management and the independent auditor with respect to our financial statements;

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conducting an annual review of related party transactions involving interested members of our board of directors and executive officers and companies that employ any of these people, as well any other material transactions with related parties; and

- establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal control and auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

On December 16, 2005, our Audit Committee's charter was amended to meet the audit committee requirements of the Sarbanes-Oxley Act of 2002 and Rule 10A-3 under the Securities Exchange Act of 1934, including the incorporation of the powers mentioned above.

The current members of our Audit Committee are Fabio Colletti Barbosa, Francisco Roberto de Albuquerque and Sergio Franklin Quintella. All members of our Audit Committee are independent as defined in 17 CFR 240.10A-3.

### **Other Advisory Committees**

We implemented two additional advisory committees in 2007: the *Comitê de Remuneração e Sucessão* (Remuneration and Succession Committee) and the *Comitê de Meio Ambiente* (Environmental Committee). In 2010, we reviewed and revised the charter of the *Comitê de Remuneração e Sucessão*.

### **Petrobras Ombudsman**

The Petrobras General Ombudsman's Office has been an official part of our corporate structure since October 2005, when it became directly linked to the board of directors. The General Ombudsman's Office is the official channel for receiving and responding to denunciations and information regarding possible irregularities in accounting, internal controls and auditing. The General Ombudsman's Office reports directly to the Audit Committee and guarantees the anonymity of informants.

In December 2007, the board of directors approved the Policies and Directives of the Petrobras Ombudsman, which was an important step in aligning the General Ombudsman's practices with those of the other ombudsmen in the system, contributing to better corporate governance. In April 2010, the board of directors approved a two-year term, which may be renewed once, for the Ombudsman Officer so as to ensure the officer's independence in performing his duties.

### **PifCo Advisory Committees**

PifCo does not have any committees of its board of directors.

### **Employees and Labor Relations**

We attract and retain valuable employees by offering competitive compensation and benefits, merit-based promotions and a profit-sharing plan. In accordance with Brazilian law, total profit-sharing payments to employees are limited to 25% of the amount of proposed dividends for the year.

We increased our employee numbers in 2010 due to the growth of our business.



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The table below shows our employee numbers for the last three years:

	<b>As of December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Petrobras employees:</b>			
Parent company	57,498	55,802	55,199
Subsidiaries	15,101	13,150	12,266
Abroad	7,893	7,967	6,775
Total Petrobras Group	<b>80,492</b>	<b>76,919</b>	<b>74,240</b>
<b>Parent company by level:</b>			
High school	36,235	35,741	35,490
College	20,564	19,317	18,868
Maritime employees	699	744	841
Total parent company	<b>57,498</b>	<b>55,802</b>	<b>55,199</b>
<b>Parent company by region:</b>			
Southeastern Brazil	39,783	38,509	38,188
Northeastern Brazil	14,152	13,821	13,641
Other locations	3,563	3,472	3,370
Total parent company	<b>57,498</b>	<b>55,802</b>	<b>55,199</b>

The table below sets forth the main expenses related to our employees for the last three years:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(U.S.\$ million)</b>		
Salaries	6,814.0	5,115.2	4,957.8
Employee training	207.9	132.2	232.5
Profit-sharing distributions	960.7	748.7	732.2

We have had no major labor stoppages since 1995, and we consider our relations with our employees and the unions that represent our employees to be good. Forty-five percent of our employees are members of the Oil Workers' National Union and 44% of our maritime employees belong to the Maritime Employees' Union. We negotiate collective bargaining agreements annually with both unions. These agreements are composed of social clauses, which are valid for two years, and economic clauses, which are valid for one year. The latest agreements were signed in 2009 (with both economic and social clauses) and in 2010 (with only economic clauses). Under this agreement, employees received a 4.49% cost of living increase, which reflects an increase in inflation in that period, as measured by the Índice Nacional de Preços ao Consumidor Amplo (IPCA), a 9.36% increase in the minimum pay scale, and a one-time payment of 100% of monthly remuneration.

### *Pension and Health Care Plan*

We sponsor a contributory defined benefit pension plan known as Petros, which covers 96.2% of our employees. The principal objective of Petros has been to supplement the social security pension benefits of our employees. Employees that participate in the plan make mandatory monthly contributions. Our historical funding policy has been to make annual contributions to the plan in the amount determined by actuarial appraisals. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

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The table below shows the benefits paid, contributions made, and outstanding Petros liabilities for 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(U.S.\$ million)</b>		
Total benefits paid	1,054	911	932
Total contributions	460	350	286
Petros liabilities(1)	6,259	4,788	2,054

(1) The excess of the actuarial value of our obligation to provide future benefits over the fair value of the plan assets used to satisfy that obligation. The increase in these liabilities in 2010 was primarily due to the change of the discount rate from 6.6% per year in 2009 to 5.9% per year in 2010. See Note 15.6 to our audited consolidated financial statements for the year ended December 31, 2010.

On August 9, 2002, the Petros Plan stopped admitting new participants and since 2003 we have been engaged in complex negotiations with representatives of the Oil Worker's National Union to address the deficits of the plan and develop a supplementary pension plan. We have also been subject to material legal proceedings in connection with the Petros Plan. In August 2007, we approved new regulations for the Petros Plan and entered into an agreement with the Oil Worker's National Union and other parties involved which will extinguish the existing lawsuits in connection with the Petros Plan. The main changes introduced to the Petros Plan include: (i) salary increases of active employees will no longer be passed to retired employees, (ii) the benefits of participants of the plan will be adjusted according to the IPCA inflation index, and (iii) decreases in pensions provided by the government plan will not be supplemented by the Petros Plan. We agreed to pay R\$5.8 billion updated retroactively to December 31, 2006 by the consumer price index (IPCA) plus 6% per year, which will be paid in semi-annual installments with interest of 6% per year on the balance for the next 20 years, as previously agreed during the renegotiation.

On July 1, 2007, we implemented the Petros Plan 2, a variable contribution or mixed pension plan, for employees with no supplementary pension plan. A portion of this plan with defined benefits characteristics includes risk coverage for disability and death, a guaranty of a minimum benefit and a lifetime income, and the related actuarial commitments are recorded according to the projected credit unit method. The portion of the plan with defined contribution characteristics, earmarked for forming a reserve for programmed retirement, is recognized in the results for the year as the contributions are made. In 2010, the contribution of Petrobras and its subsidiaries to the defined contribution portion of this plan was U.S.\$460 million. The expenses and benefit obligations related to Petros Plan 2 were recorded according to ASC 715 Compensation – Retirement Benefits.

We maintain a health care benefit plan (AMS), which offers health benefits and covers all employees (active and inactive) together with their dependents. We manage the plan, with

the employees contributing fixed amounts to cover principal risks and a portion of the costs relating to other types of coverage in accordance with participation tables defined by certain parameters, including salary levels.

Our commitment related to future benefits to plan participants is calculated on an annual basis by an independent actuary, based on the Projected Unit Credit method. The health care plan is not funded or otherwise collateralized by assets. Instead, we make benefit payments based on annual costs incurred by plan participants.

In addition, some of our consolidated subsidiaries have their own benefit plans.

### *PifCo*

With the exception of 55 employees of PEL and 51 employees of PSPL, PifCo's personnel consist solely of our employees, and PifCo relies on us to provide all administrative functions. In May 2008, PifCo and Petrobras entered into an agreement to share costs and expenditures related to PifCo's use of Petrobras' administrative resources.

**Item 7. Major Shareholders and Related Party Transactions****Major Shareholders***Petrobras*

Our capital stock is composed of common shares and preferred shares, all without par value. On April 29, 2011, there were 7,442,454,142 outstanding common shares and 5,602,042,788 outstanding preferred shares. These totals reflect the two-for-one split of our common and preferred shares, which became effective in Brazil as of April 28, 2008.

On May 11, 2007, our shareholders approved a four-for-two reverse capital stock split. As a result of the stock split, the ratio of our common and preferred shares to ADRs changed to two shares to one ADR. The stock split and change of ADR ratio became effective as of July 2, 2007.

Under the Brazilian Corporate Law, as amended, the number of non-voting shares of our company may not exceed two-thirds of the total number of shares. The Brazilian federal government is required by law to own at least a majority of our voting stock and currently owns 63.6% of our common shares, which are our only voting shares. The Brazilian federal government does not have any special voting rights, other than the right to always elect a majority of our directors, irrespective of the rights our minority shareholders may have to elect directors, set forth in our bylaws.

The following table sets forth information concerning the ownership of our common shares and preferred shares as of April 29, 2011, by the Brazilian federal government, certain public sector entities and our officers and directors as a group. We are not aware of any other shareholder owning more than 5% of our common shares. The figures below give effect to our Global Public Offering of shares, concluded on October 1, 2010.

<b>Shareholder</b>	<b>Common Shares</b>	<b>%</b>	<b>Preferred Shares</b>	<b>%</b>	<b>Total Shares</b>	<b>%</b>
Brazilian federal government	4,128,415,722	55.47	222,998,740	3.98	4,351,414,462	33.36
BNDES	431,898,159	5.80	2,433,460	0.04	434,331,619	3.33
BNDES Participações S.A.—BNDESPar	173,400,392	2.33	1,341,348,766	23.95	1,514,749,158	11.61
Other Brazilian public sector entities	3,314,412	0.05	1,467,978	0.03	4,782,390	0.04
All directors and executive officers as a Group (15 persons)	26,544	0.00	128,344	0.00	154,888	0.00
Others	2,705,398,913	36.35	4,033,665,500	72.00	6,739,064,413	51.66

Total 7,442,454,142 100.00 5,602,042,788 100.00 13,044,496,930 100.00  
As of April 29, 2011, approximately 28.26% of our preferred shares and approximately 21.52% of our common shares were held of record in the United States directly or in the form of ADSs. As of April 29, 2011, we had approximately 791,720,153 record holders of preferred shares, or ADSs representing preferred shares, and approximately 801,010,162 record holders of common shares, or ADSs representing common shares, in the United States. The ratio of our common and preferred share ADRs is two shares to one ADR. This ratio was changed by the reverse stock split effective July 2, 2007.

### *PifCo*

PifCo's directors and executive officers are paid by Petrobras in respect of their function as Petrobras' employees, but they do not receive any additional compensation, pension or other benefits from PifCo or Petrobras in respect of their functions as PifCo directors or executive officers, as the case may be.

### *Petrobras Related Party Transactions*

#### *Board of Directors*

Direct transactions with interested members of our board of directors or our executive officers require the approval of our board of directors, and must follow the conditions of an arms-length transaction and market practices guiding transactions with third parties. None of the members of our board of directors, our executive officers or close members of their families has had any direct interest in any transaction we effected which is or was unusual in its nature or conditions or material to our business during the current or the three immediately preceding financial years or during any earlier financial year, which transaction remains in any way outstanding or unperformed. In addition, we have not entered into any transaction with related parties which is or was unusual in its nature or conditions during the current or the three immediately preceding financial years, nor is any such transaction proposed, that is or would be material to our business.

We have no outstanding loans or guaranties to the members of our board of directors, our executive officers or any close member of their families.

For a description of the shares beneficially held by the members of our board of directors and close members of their families, see Item 6. "Directors, Senior Management and Employees—Share Ownership."

#### *Brazilian Federal Government*

We have engaged, and expect to continue to engage, in numerous transactions in the ordinary course of business with our principal shareholder, the Brazilian federal government, and with other companies controlled by it, including financings from BNDES and banking, asset management and other transactions with Banco do Brasil S.A. The above-mentioned transactions with Banco do Brasil had a negative net balance of U.S.\$2,613 million as of December 31, 2010. See Note 22 to our audited consolidated financial statements as of December 31, 2010.

As of December 31, 2010, we had a receivable (the Petroleum and Alcohol Account) from the Brazilian federal government, our principal shareholder, of U.S.\$493 million secured by a U.S.\$53 million blocked deposit account. See Note 22 to our audited consolidated financial statements as of December 31, 2010.

We also have restricted deposits made by us, which serve as collateral for legal proceedings involving the Brazilian federal government. As of December 31, 2010, these deposits amounted to U.S.\$1,480 million. See Note 22 to our audited consolidated financial statements as of December 31, 2010.

In addition, according to Brazilian law, we are only permitted to invest in securities issued by the Brazilian federal government in Brazil. This restriction does not apply to investment outside of Brazil. As of December 31, 2010, the value of these marketable securities that has been directly acquired and held by us amounted to U.S.\$18,665 million. See Note 22 to our audited consolidated financial statements as of December 31, 2010.

For additional information regarding our principal transactions with related parties, see Note 22 to our audited consolidated financial statements as of December 31, 2010.



**PifCo Related Party Transactions**

As a result of being our wholly owned subsidiary, PifCo has numerous transactions with us and other affiliated companies in the ordinary course of business. Prior to April 2010, PifCo engaged in crude oil and oil product purchases from international suppliers and resold crude oil and oil products in U.S. dollars to us on a deferred payment basis, at a price which represented a premium to compensate PifCo for its financing costs. In April 2010, PifCo began selling crude oil and oil products to us under terms that allow payment in up to approximately 30 days, without a premium. PifCo also purchases crude oil and oil products from us to hold in inventory and for sale outside Brazil. Substantially all of PifCo's revenues are generated by transactions with us. Additionally, PifCo sells and purchases crude oil and oil products to and from third parties and related parties, mainly outside Brazil.

Since PifCo's inception there have been no, and there are no proposed, material transactions with any of PifCo's officers and directors. PifCo does not extend any loans to its officers and directors.

PifCo's transactions with related parties resulted in the following balances in 2010 and 2009:

	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>(U.S.\$ million)</b>			
<b>Assets</b>				
Current:				
Accounts receivable	5,891	—	15,986	—
Notes receivable(1)	2,636	—	1,213	—
Marketable securities	2,429	—	2,547	—
Exports prepayment	70	—	383	—
Others	3	—	4	—
Other non-current:				
Marketable securities	2,729	—	2,490	—
Notes receivable	431	—	422	—
Exports prepayment	194	—	264	—
<b>Liabilities</b>				
Current:				
Trade accounts payable	—	2,169	—	1,685
Notes payable(1)	—	—	—	7,862
Other	—	1	—	3
Total	14,383	2,170	23,309	9,550
Current	11,029	2,170	20,133	9,550
Long-term	3,354	—	3,176	—

(1) PifCo's notes receivable from and payable to us for the majority of the loans bear interest at LIBOR plus 3.0% per year.

PifCo's principal transactions with related parties are as follows:

	Year Ended December 31,					
	2010		2009		2008	
	Income	Expense	Income	Expense	Income	Expense
	(U.S.\$ million)					
<b>Sales of crude oil and oil products and services</b>						
Petróleo Brasileiro S.A. – Petrobras	10,784	—	10,139	—	19,040	—
Petrobras International Braspetro B.V. - PIB BV and its subsidiaries	4,529	—	3,401	—	2,023	—
Downstream Participações S.A. and its subsidiaries	1,739	—	2,080	—	2,709	—
Other	365	—	109	—	26	—
<b>Purchases</b>						
Petróleo Brasileiro S.A. - Petrobras	—	(11,144)	—	(9,176)	—	(11,660)
Petrobras International Braspetro B.V. - PIB BV and its subsidiaries	—	(2,698)	—	(2,180)	—	(2,185)
Downstream Participações S.A. and its subsidiaries	—	(328)	—	(515)	—	(586)
Other	—	(57)	—	(28)	—	—
<b>Selling, general and administrative expenses</b>						
Petróleo Brasileiro S.A. – Petrobras	—	(113)	—	(135)	—	(294)
Petrobras International Braspetro B.V. - PIB BV and its subsidiaries	—	(78)	—	(62)	—	(48)
Other	2	—	—	—	—	—
<b>Financial income</b>						
Petróleo Brasileiro S.A. – Petrobras	482	—	1,301	—	1,470	—
Petrobras International Braspetro B.V. - PIB BV and its subsidiaries	84	—	132	—	93	—
Downstream Participações S.A. and its subsidiaries	—	—	30	—	57	—
Other	4	—	6	—	37	—
<b>Financial expense</b>						
Petróleo Brasileiro S.A. – Petrobras	—	(107)	—	(937)	—	(1,319)
Petrobras International Braspetro B.V. - PIB BV and its subsidiaries	—	(5)	—	(28)	—	(31)
Other	—	—	—	—	—	(3)
<b>Total</b>	<b>17,989</b>	<b>(14,530)</b>	<b>17,198</b>	<b>(13,061)</b>	<b>25,455</b>	<b>(16,126)</b>

## Item 8. Financial Information

**Petrobras Consolidated Statements and Other Financial Information**

See Item 18. “Financial Statements” and “Index to Financial Statements.”

**PifCo Consolidated Statements and Other Financial Information**

See Item 18. “Financial Statements” and “Index to Financial Statements.”

## Legal Proceedings

### Petrobras

We are currently subject to numerous proceedings relating to civil, criminal, administrative, environmental, labor and tax claims. Several individual disputes described in further detail below account for a significant part of the total amount of claims against us. Our audited consolidated financial statements only include provisions for probable and reasonably estimable losses and expenses we may incur in connection with pending proceedings. See Note 18 to our audited consolidated financial statements. The table below sets forth our recorded financial provisions by type of claim:<sup>(1)</sup>

	<b>Provisions as of December 31, 2010                  2009 (U.S.\$ million)</b>	
Labor claims	119	71
Tax claims	361	94
Civil claims	214	272
Commercial claims and other contingencies	66	63
Total	760	500

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(1) Excludes provisions for contractual contingencies and tax assessments by the *Instituto Nacional do Seguro Social*, or INSS.

The amount accrued related to claims against Petrobras, the parent company, as of December 31, 2010, corresponded to approximately 33.5% of the total amount accrued by us related to claims against us and the amounts paid by us in respect of legal claims against Petrobras in the last five years averaged U.S.\$386 million per year. As of December 31, 2010, we estimate that the total amount of claims against us, excluding disputes involving non-monetary claims or claims not easily evaluated in the current stage of the proceedings, was approximately U.S.\$38.7 billion.

The most significant claims against us are summarized below:

### Civil Claims

On November 23, 1992, Porto Seguro Imóveis Ltda., a minority shareholder of Petroquisa, filed a lawsuit on behalf of Petroquisa (a shareholder derivative suit) against us for alleged losses suffered as a result of the sale of Petroquisa's interest in various petrochemical companies included in the National Privatization Program (*Programa Nacional de Desestatização*). The plaintiff in the lawsuit requests that we, as controlling shareholder of

Petroquisa, be compelled to reinstate the damages made to Petroquisa's equity, since we approved the minimum sales price for the privatized companies. An initial decision on January 14, 1997, held us liable to Petroquisa for damages in an amount equivalent to U.S.\$3,406 million. In addition, we were required to pay the plaintiff 5% of such amount as a premium, as well as attorney's fees of 20% of such amount. In 2006, we purchased all of the minority interests of Petroquisa, and we now own 100.0% of its share capital. We appealed and prevailed in canceling the judgment, but a subsequent appellate decision on March 30, 2004, required Petrobras to indemnify Petroquisa and Porto Seguro for U.S.\$2,359 million and U.S.\$590 million, respectively (the latter representing 5% in premium and 20% in attorney's fees). There are ongoing proceedings in the STJ and in the STF, which are scheduled to be finalized in 2011 seeking to reverse the award.

If this award is not reversed, the indemnity estimated to Petroquisa, including monetary corrections and interest, would be U.S.\$11,422 million. However, because Petrobras owns 100% of Petroquisa's share capital, a portion of the indemnity estimated at U.S.\$7,539 million will not require a disbursement by us. We will also be required to pay U.S.\$571 million to Porto Seguro and U.S.\$2,284 million in attorney's fees if the award is not reversed. For more information on this claim, see Note 18(b) to our audited consolidated financial statements as of December 31, 2010.

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In 1981, Kallium Mineração S.A. brought an action against Companhia de Pesquisa de Recursos Minerais—CPRM seeking an indemnification of approximately U.S.\$450 million for the early termination of a contract for the exploration of a very large potassium salt mine in Sergipe. CPRM terminated the contract when the Brazilian federal government, which had previously granted CPRM the right to develop an exploration project for the mine, cancelled the concession to CPRM and transferred it to Petromisa, our former subsidiary. As a result, CPRM brought us and the Brazilian federal government into the proceedings as co-defendants. In 1999, despite denying most of Kallium's claims, the court required us to indemnify Kallium for their research and exploration costs, which correspond to approximately U.S.\$1 million. We and Kallium have appealed the decision and are awaiting a judgment. The total damages amount that may be payable will be subject to monetary adjustment and to interest at 6% calculated as of the date of the filing of the lawsuit. As of December 31, 2010, Petrobras' maximum exposure in this matter, including monetary restatement, was R\$196 million (U.S.\$117 million).

Several individuals have filed a collective lawsuit (an *ação popular*) against us, Repsol-YPF and the Brazilian federal government seeking to unwind the 2001 exchange of certain of our operating assets in Brazil for some of YPF's operating assets in Argentina. The plaintiffs maintain that the assets exchanged were not properly valued and that, therefore, the transaction was not in our best interests. In 2002, the court granted an injunction to the plaintiffs, which was then suspended by the Superior Court of Justice of Brazil. The lawsuit was subsequently judged on the merits in our favor and the other parties appealed. We are awaiting a final decision on the merits.

On January 18, 2000, a pipeline connecting one of our terminals to a refinery in Guanabara Bay ruptured, causing a release of approximately 341,000 gallons of crude oil into the bay. We undertook action to control the spill in an effort to prevent the oil from threatening additional areas. As a result of this spill, several individual damage lawsuits were filed by fishermen of the State of Rio de Janeiro, in an aggregate amount of approximately R\$52 million. In addition, the Federation of Fishermen of the State of Rio de Janeiro filed a lawsuit against us claiming damages of approximately R\$537 million. In 2002, the judge hearing this matter found that damages were due, but not in the amount claimed. Both parties appealed this decision, and later in 2002, the Court of Appeals of the State of Rio de Janeiro denied the appeal filed by the plaintiff and dismissed numerous claims, including those of all fishermen who had already settled their claims against us, those who had already filed individual lawsuits against us, and certain others. Further appeals (*agravos de instrumento*) by both sides presented in 2003, to the STJ and the STF, respectively, were denied. On February 2, 2007, the judge who initially heard the case published a decision overturning the appellate court's decision and partially accepting the court expert report that defined the period over which Guanabara Bay's fish would be affected by the spill. Given that the amount of damages for each fisherman affected is the same, this decision resulted in an aggregate amount of damages equal to R\$1,102 million through December 2005 (without interest and monetary indexation after that date). We appealed this decision and our appeal was denied in July 2007. An appeal filed by the Federation of Fishermen of the State of Rio de Janeiro was

granted and, as a result, the number of fishermen entitled to damages increased from 12,000 to 20,000. We have appealed both of these decisions to the STJ. In November 2009, the STJ granted our appeal to annul the decision from the judge who initially heard the case. In November 2010, the case was returned to the *Tribunal de Justiça do Rio de Janeiro* for another judgment. For more information on this claim, see Note 18(b) to our audited consolidated financial statements as of December 31, 2010.

For information on the legal proceeding related to our interest in the Pasadena Refining System and its trading company, see Item 4. "International—Other International Activities—North America."

### *Tax Claims*

In June 2003, the State of Rio de Janeiro enacted a new tax law that imposed ICMS on our production activities. The State of Rio de Janeiro has never enforced this law, and its constitutionality is being challenged in the STF. In the event that the state government attempts to enforce this law and the courts uphold that enforcement, we estimate that the amount of ICMS that we would be required to pay to the State of Rio de Janeiro could increase by approximately R\$10.9 billion (U.S.\$6.2 billion) per year.



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In July 2005, the São Paulo state revenue service filed a tax assessment against us arguing that we should have paid ICMS tax on imports of natural gas from Bolívia. The lower administrative court upheld the tax assessment, and we filed an appeal of this administrative ruling that was rejected. We await the registration of the alleged outstanding amount of the tax assessment by the São Paulo state revenue service. We will then evaluate whether we will challenge the tax assessment in court and obtain an injunction to suspend the collection of the tax assessment until a final judicial ruling has been made. The maximum exposure for us relating to this tax assessment as of December 31, 2010, including monetary restatement, was R\$1,025 million (U.S.\$615 million). Based on the advice of our legal counsel, we have assessed the risk of loss to be possible.

In March 2009, the Rio de Janeiro revenue service filed two tax assessments against us arguing that we should have paid ICMS tax on LNG intercompany transfers. We filed appeals for both tax assessments in the administrative Taxpayers Council, and both appeals were rejected. We successfully obtained an injunction from the competent court to suspend our obligation to pay the ICMS tax assessments until a final judicial ruling has been made on the matter. The Rio de Janeiro state revenue service is now challenging our injunction. The maximum exposure for us for both tax assessments as of December 31, 2010, including monetary restatement, was R\$2,088 million (U.S.\$1,253 million). Based on the advice of our legal counsel, we have assessed the risk of loss to be possible.

In August 2009, the São Paulo revenue service filed two tax assessments against us alleging that (i) we should have not ceased to collect ICMS tax on the importation of a drilling rig, and (ii) that we did not comply with an accessory tax obligation. The lower administrative court upheld both tax assessments, and we filed an appeal on December 23, 2009. A judicial decision was rendered in our favor suspending our obligation to pay the ICMS tax component of the assessment, and we await a final administrative decision with respect to the alleged non-compliance with an accessory tax obligation. The maximum exposure for us with respect to the alleged non-compliance with an accessory tax obligation as of December 31, 2010, including monetary restatement, was R\$1,734 million (U.S.\$1,041 million). Based on the advice of our legal counsel, we have assessed the risk of loss to be possible.

On July 18, 2007, we were notified of a new ANP board resolution requiring payment of additional government participation charges retroactively to 1998. This resolution, which annulled an earlier board resolution, determined that we should make an additional payment in the amount of approximately R\$400 million (U.S.\$230 million) for special government participation charges from the Marlim field. In 2007, we filed suit to challenge the new method used by the ANP to calculate the special participation tax. The lower court decided in favor of the ANP, and this decision was upheld by a regional federal court on September 30, 2009. Petrobras subsequently appealed this decision to higher courts in Brasilia. On October 23, 2009, we, the ANP and the State of Rio de Janeiro reached an agreement to resolve the dispute out of court. The amount owed to the ANP for retroactive special participation from the Marlim field was fixed at R\$2,065 million (U.S.\$1,034 million) as of September 30, 2009, payable in eight consecutive monthly installments and adjusted by the benchmark SELIC

rate. We have paid the remaining installments related to this settlement in 2010, definitively resolving any and all legal and administrative actions relating to this matter.

In January 2004, the municipalities of Anchieta, Aracruz, Guarapari, Itapemirim, Jaguaré, Marataízes, Serra, Vila Velha and Vitória, all of which are located in the State of Espírito Santo, filed tax assessments against us with administrative courts for our alleged failure to withhold service taxes (ISS tax assessments) on services provided to our offshore platforms. We withheld and paid the ISS taxes to the municipalities where the respective service providers are headquartered, in accordance with Complementary Law 116/03. In the tax assessments, we presented various administrative defenses with the aim of annulling the tax assessments, which defenses are currently being considered by the administrative courts, and we posted an insurance-backed guarantee of payment that has been accepted by the courts. The one proceeding that has been filed at the judicial level is a tax collection proceeding by the municipality of Itapemirim, for which we also posted an insurance-backed guarantee of payment. We are contesting this proceeding on the basis that we have paid the taxes in accordance with Complementary Law 116/03. The maximum exposure for us as of December 31, 2010, including monetary restatement, in the aggregate in connection with these tax assessments was R\$1,446 million (U.S.\$868 million). Based on the advice of our legal counsel, we have assessed the risk of loss to be possible.

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We have been served with assessments by the Brazilian Revenue Service relating to a withholding tax (IRRF) that they claim should have been paid by us. The assessments relate to payments we made to purchase oil we imported and to charter payments we made with respect to movable platform vessels. On May 8, 2008, we filed suit concerning one of the tax assessments related to charter payments, and the court granted preliminary injunctive relief (*tutela antecipada*) suspending the withholding tax until a final judgment was reached. In February 2010, the court issued a final decision against the Brazilian Revenue Service, cancelling the tax assessment. The Brazilian Revenue Service is appealing the decision. On December 31, 2010, the total amount of these tax assessments corresponded to approximately R\$5,419 million (approximately U.S.\$3,252 million). We have contested the assessment related to payments we made to purchase oil we imported, which is pending appeal at the administrative level. With respect to the assessment related to charter payments, our appeal at the administrative level has been denied and we plan to bring suit at the federal judicial level.

We sold imported naphtha for the production of petrochemical raw materials, as opposed to the production of gasoline or diesel. In 2006, the Brazilian Revenue Service filed a tax assessment (*auto de infração*) against us for the payment of CIDE, an excise tax applied to the sale and import of crude oil, oil products and natural gas products, on the grounds that we did not prove that the naphtha was not used to produce gasoline or diesel. As we have provided evidence that the naphtha was used solely in petrochemical activities, we believe these imports are not taxable. The assessment is being reviewed, and we will continue to appeal at the federal administrative level and later at the federal judicial level, if necessary. As of December 31, 2010, Petrobras' maximum exposure in this matter, including monetary restatement, was R\$2,196 million (U.S.\$1,318 million).

Petrobras was obligated to sell its products to fuel distributors free of CIDE (an excise tax) due to judicial decisions obtained by the distributors against the federal government of Brazil. The judicial decisions have been revoked, and in 2007, the Brazilian federal government commenced an administrative proceeding against us to recover unpaid CIDE. We filed an appeal at the administrative level in light of the first unfavorable administrative decision. As of December 31, 2010, Petrobras' maximum exposure in this matter, including monetary restatement, was R\$1.189 million (U.S.\$714 million).

### *Environmental Claims*

In the period between 2006 to 2010, we experienced several accidents which led to the following volumes of oil spilled each year: 176,388 gallons in 2010, 67,102 gallons in 2009, 115,179 gallons in 2008, 101,970 gallons in 2007 and 77,402 gallons in 2006. In addition, in the years 2000 through 2002, we experienced accidents that resulted in several administrative, civil and criminal investigations and proceedings, some of which have not yet been concluded, and the most significant of which are specified below. We cannot predict whether additional litigation will result from those accidents or whether any such additional proceedings would have a material adverse effect on us. See Note 18(b) to our audited

consolidated financial statements.

### **January 2000 spill—Guanabara Bay**

On January 18, 2000, a pipeline connecting one of our terminals to a refinery in Guanabara Bay ruptured, causing a release of approximately 341,000 gallons of fuel oil into the bay. We undertook action to control the spill in an effort to prevent the oil from threatening additional areas. We have spent approximately R\$104 million (U.S.\$59 million) in connection with the clean-up efforts and fines imposed by the federal environmental protection agency (IBAMA) in connection with this spill, and are subject to several legal proceedings that remain pending as a result of this spill.

**July 2000 spill—Curitiba**

On July 16, 2000, the Santa-Catarina/Paraná pipeline ruptured at our President Getúlio Vargas refinery, located approximately 15 miles (24 kilometers) from Curitiba, capital of the State of Paraná. Approximately 1.06 million gallons of crude oil spilled into the surrounding area. We spent approximately R\$74 million (U.S.\$42 million) at the time on the clean-up effort and fines imposed by the State of Paraná authorities. In addition, in relation to this spill:

- IBAMA fined us R\$168 million (U.S.\$101 million), which we are contesting on the basis that we are being fined for the same infraction twice;
- three public civil actions (*ações civis públicas*) have been filed against us, the most important of which was filed on January 1, 2001, by the Federal Public Prosecutor and the Paraná State Public Prosecutor seeking damages of approximately R\$2,300 million (U.S.\$1,437million). Currently, this suit is awaiting the results of an expert examination (*prova pericial*); and
- the Federal Public Ministry instituted a criminal action against us, our former chief executive officer and the former superintendent of the REPAR refinery. This action has been dismissed with respect to our former chief executive officer and suspended, pending a decision on a petition for reconsideration filed by the Federal Public Ministry, with respect to us and the former superintendent of the REPAR refinery.

**February 2001 spill—Rivers in the State of Paraná**

On February 16, 2001, our Araucária-Paranaguá pipeline ruptured as a result of an unusual movement of the soil and spilled approximately 15,059 gallons of fuel oil into several rivers located in the State of Paraná. Within four days, we cleaned the river surfaces, recovering approximately 13,738 gallons of fuel oil. As a result of the accident:

- the *Instituto Ambiental do Paraná*, or IAP, fined us R\$150 million (U.S.\$90 million), which was subsequently reduced to R\$90 million (U.S.\$54 million), which we are contesting on the basis that the IAP has failed to respond to our proposed remedy within the three-year period specified under such proposal; and
- the Federal Public Ministry and the Paraná State Public Ministry filed class actions against us seeking approximately R\$3,100 million (U.S.\$1,937 million) in damages. In addition, the IAP filed a class action against us seeking environmental damages of approximately R\$150 million (U.S.\$90 million). These actions have been joined before the Federal Public Ministry in Paranaguá (*Vara Federal de Paranaguá*), and await a final decision.

**March 2001 gas explosion and spill—Roncador field**

On March 15, 2001, a gas explosion inside one of the columns of the P-36 production platform, located in the Roncador field (75 miles off the Brazilian coast) led to the death of 11 employees and eventual sinking of the platform. The accident also caused 396,300 gallons of diesel fuel and oil to spill into the ocean. As a result of the accident:

- the Federal Public Ministry filed a lawsuit in 2002 seeking the payment of R\$100 million as environmental damages, among other demands. We have presented our defense to these claims and are awaiting a decision; and
- IBAMA fined us approximately R\$7 million. We have challenged these fines through administrative proceedings, which fines were upheld by IBAMA. We filed suit (*ação anulatória*) to annul both administrative proceedings.

## October 2002 FPSO accident

On October 13, 2002, a power blackout in FPSO P-34, which is located in the Barracuda-Caratinga fields, affected the ship's water balance system and causing the FPSO to roll. Four days later, the stability of the ship had been restored, without casualties or spill of oil into the sea. As a result of the investigation of this accident, several measures to prevent similar accidents were incorporated into our *Programa de Excelência Operacional*, or PEO (Operational Excellence Program). In connection with the accident, we also executed a *Termo de Ajustamento de Conduta* (Agreement for Regularization of Conduct), or TAC, with IBAMA, agreeing to conduct certain actions in the Campos Basin to reduce the risk of environmental damage. The Federal Public Ministry challenged the validity of the TAC in 2003 and attempted to prevent us from obtaining new licenses from IBAMA for our platforms located in the Campos Basin. We obtained a favorable court decision, which was appealed by the Federal Public Ministry. The Court decided the appeal partially in favor of the Federal Public Ministry. In 2010, the Court upheld its decision to invalidate and strike out clause 10 of the TAC. This clause establishes that during the term of the TAC, the Federal Public Ministry cannot impose any administrative sanctions on us relating to the purpose of the TAC. The other clauses of the TAC remain valid and in full force and effect.

## Campos Basin Drilling Operations

On February 3, 2006, IBAMA imposed a fine on us for our alleged breach of the August 11, 2004 TAC with IBAMA relating to drilling operations in the Campos Basin, in an adjusted amount of R\$122.9 million (U.S.\$74 million). On December 1, 2010, we submitted a declaratory action contesting the validity of the fine imposed on us pursuant to an alleged breach of clause 3 of the TAC.

## Pollution

On January 15, 1986, the Public Ministry of the State of São Paulo and the *União dos Defensores da Terra* (Union for Defense of the Earth), filed a public civil action against us and 23 other companies in the State Court of São Paulo for alleged damages caused by pollution. The amount alleged in the initial pleading filed with the Court is equivalent to R\$4,217 (U.S.\$2,531), but it is difficult to estimate the actual damages that could be assessed by the Court. The Public Ministry of the State of São Paulo has publicly stated that the amount of U.S.\$800 million would ultimately be required to remedy the alleged environmental damage. The Court has asserted the joint liability of the defendants and the discovery phase has yet to begin.

## PifCo

There is no litigation or governmental proceeding pending or, to PifCo's knowledge, threatened against PifCo's or any of its subsidiaries that, if adversely determined, would have a significant effect on its financial position or profitability.

**Dividend Distribution***Petrobras*

The tables below describe our cash dividends for the last five fiscal years, including amounts paid in the form of interest on shareholders' equity.

	<b>For the Year Ended December 31,</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>(U.S.\$ million)</b>				
Dividends paid to shareholders	5,254	7,627	4,343	3,860	3,144
Dividends paid to minority interests	45	85	404	143	69
	<b>5,299</b>	<b>7,712</b>	<b>4,747</b>	<b>4,003</b>	<b>3,213</b>



For Brazilian Corporate Law’s minimum dividend distribution requirements, see Item 10. “Additional Information—Memorandum and Articles of Incorporation of Petrobras—Payment of Dividends and Interest on Shareholders’ Equity” and Item 10. “Additional Information—Memorandum and Articles of Incorporation of Petrobras—Mandatory Distribution.” We may change our dividend policy at any time within the limits set forth by Brazilian law.

### *PifCo*

For a description of PifCo’s dividend distribution policy, see Item 10. “Additional Information—Memorandum and Articles of Association of PifCo—Dividends.”

## **Item 9. The Offer and Listing**

### **Petrobras**

#### *Trading Markets*

Our shares and ADSs are listed or quoted on the following markets:

Common Shares	São Paulo Stock Exchange (BM&FBOVESPA)— São Paulo (ticker symbol PETR3); Mercado de Valores Latinoamericanos en Euros (Latibex)—Madrid, Spain (ticker symbol XPBR)
Preferred Shares	São Paulo Stock Exchange (BM&FBOVESPA)—São Paulo (ticker symbol PETR4); Mercado de Valores Latinoamericanos en Euros (Latibex)—Madrid, Spain (ticker symbol XPBRA)
Common ADSs	New York Stock Exchange (NYSE)—New York (ticker symbol PBR)
Preferred ADSs	New York Stock Exchange (NYSE)—New York (ticker symbol PBRA)
Common Shares	<i>Bolsa de Comercio de Buenos Aires</i> (BCBA)—Buenos Aires, Argentina (ticker symbol APBR)
Preferred Shares	<i>Bolsa de Comercio de Buenos Aires</i> (BCBA)—Buenos Aires, Argentina (ticker symbol APBRA)

Our common and preferred shares have been traded on the BM&FBOVESPA since 1968. Our ADSs representing two common shares and our ADSs representing two preferred shares have been traded on the New York Stock Exchange since 2000 and 2001, respectively. JPMorgan Chase Bank, N.A. serves as depository for both the common and preferred ADSs.

Our common and preferred shares have been traded on the LATIBEX since 2002. The LATIBEX is an electronic market created in 1999 by the Madrid Stock Exchange in order to

enable trading of Latin American equity securities in euro denominations.

Our common and preferred shares have been traded on the *Bolsa de Comercio de Buenos Aires* (Buenos Aires Stock Exchange) since April 27, 2006.

*Share Price History*

The following table sets forth trading information for our common shares and preferred shares, as reported by the BM&FBOVESPA, and for our common and preferred ADSs, as reported by the New York Stock Exchange, for the periods indicated.

	<b>Reais Per Common Share</b>		<b>Reais Per Preferred Share</b>		<b>U.S. Dollars Per Common ADS</b>		<b>U.S. Dollars Per Preferred ADS</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
<b>2006</b>	<b>27.70</b>	<b>20.33</b>	<b>24.90</b>	<b>18.25</b>	<b>26.73</b>	<b>17.55</b>	<b>23.39</b>	<b>15.78</b>
<b>2007</b>	<b>52.50</b>	<b>22.43</b>	<b>44.20</b>	<b>20.09</b>	<b>58.81</b>	<b>21.13</b>	<b>49.83</b>	<b>18.88</b>
<b>2008</b>	<b>62.30</b>	<b>20.21</b>	<b>52.51</b>	<b>16.89</b>	<b>75.19</b>	<b>14.94</b>	<b>63.51</b>	<b>12.56</b>
<b>2009</b>	<b>45.10</b>	<b>27.45</b>	<b>39.79</b>	<b>23.06</b>	<b>53.01</b>	<b>23.01</b>	<b>46.91</b>	<b>19.48</b>
<b>2010</b>	<b>41.81</b>	<b>26.68</b>	<b>37.50</b>	<b>24.16</b>	<b>48.90</b>	<b>31.90</b>	<b>43.82</b>	<b>28.63</b>
First quarter	41.81	35.80	37.50	31.52	48.91	38.20	43.83	33.76
Second quarter	40.59	30.39	36.08	26.55	46.34	32.88	41.22	28.63
Third quarter	33.90	29.10	29.43	25.45	38.68	32.81	33.61	28.95
Fourth quarter	30.60	26.68	27.53	24.16	37.84	31.90	34.17	28.63
November 2010	30.29	27.23	27.53	24.59	36.33	32.03	33.25	28.97
December 2010	30.55	27.69	27.29	25.00	37.84	33.26	34.17	30.06
<b>2011:</b>								
First quarter	33.65	29.12	29.08	26.18	41.57	35.41	35.95	31.93
January 2011	31.47	29.35	27.90	26.67	38.43	35.41	34.09	32.37
February 2011	33.01	29.12	28.71	26.18	40.38	35.95	35.30	31.93
March 2011	33.65	31.80	29.08	27.78	41.57	38.64	35.95	33.64
April 2011	33.09	28.46	28.74	25.45	36.22	32.47	41.41	36.33

*BM&FBOVESPA*

The BM&FBOVESPA is less liquid than the New York Stock Exchange. At December 31, 2010, the aggregate market capitalization of the 381 companies listed on the BM&FBOVESPA was approximately U.S.\$1,542 billion and the ten largest companies represented approximately 55.45% of the total market capitalization of all listed companies. All the outstanding shares of an exchange-listed company may trade on the BM&FBOVESPA, but in most cases, less than half of the listed shares are actually available for trading by the public. The remainder is held by small groups of controlling persons, by governmental entities or by one principal shareholder.

Trading on the BM&FBOVESPA by a holder not deemed to be a resident of Brazil for Brazilian tax and regulatory purposes (a non-Brazilian holder) is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on the BM&FBOVESPA in accordance with the requirements of Resolution No. 2,689 of the CMN. Resolution No. 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions duly authorized by the Central Bank of Brazil and the CVM. In addition, Resolution No. 2,689 requires

non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock exchanges or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through a private transaction.

### **PifCo**

PifCo's common stock is not registered and there is no trading market for it. PifCo's Senior Notes due 2011 are listed in the Luxembourg Stock Exchange. PifCo's Global Notes due 2016, 2018, 2019, 2020, 2021, 2040 and 2041 are registered on the New York Stock Exchange. PifCo's other debt securities have not been listed on any securities exchange.

**Item 10. Additional Information****Memorandum and Articles of Incorporation of Petrobras***General*

We are a publicly traded company duly registered with the CVM under identification number 951-2. Article 3 of our bylaws establishes our corporate purposes as research, prospecting, extraction, processing, trade and transportation of crude oil from wells, shale and other rocks, of its derivatives, natural gas and other fluid hydrocarbons, as well as other related or similar activities, such as activities connected with energy, including research, development, production, transportation, distribution, sale and trade of all forms of energy, as well as other related or similar activities. We may conduct outside Brazil, directly or through our subsidiaries, any of the activities within our corporate purpose.

*Qualification of Directors*

Brazilian law provides that only shareholders of a company may be appointed to its board of directors, but there is no minimum share ownership or residency requirement for qualification as a director. Members of our board of executive officers must be Brazilian nationals and reside in Brazil. In addition, Law No. 12,353, enacted on December 28, 2010, requires that public and mixed-capital companies in which the Brazilian federal government holds directly or indirectly a majority of the voting rights include as an additional director in their board of directors a representative elected by the company's employees. Our directors and executive officers are prevented from voting on any transaction involving companies in which they hold more than 10% of the total capital stock or of which they have held a management position in the period immediately prior to their taking office. Under our bylaws, shareholders set the aggregate compensation payable to directors and executive officers. The board of directors allocates the compensation among its members and the executive officers.

*Allocation of Net Income*

At each annual general shareholders' meeting, our board of directors is required to recommend how net profits for the preceding fiscal year are to be allocated. The Brazilian Corporate Law defines net profits as net income after income taxes and social contribution taxes for such fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to employees' and management's participation in our profits. In accordance with the Brazilian Corporate Law, the amounts available for dividend distribution or payment of interest on shareholders' equity equals net profits less any amounts allocated from such net profits to the legal reserve.

We are required to maintain a legal reserve, to which we must allocate 5% of net profits for each fiscal year until the amount for such reserve equals 20% of our paid-in capital. However, we are not required to make any allocations to our legal reserve in a fiscal year in which the

legal reserve, when added to our other established capital reserves, exceeds 30% of our capital. The legal reserve can only be used to offset losses or to increase our capital.

As long as we are able to make the minimum mandatory distribution described below, we must allocate an amount equivalent to 0.5% of subscribed and fully paid-in capital at year-end to a statutory reserve. The reserve is used to fund the costs of research and technological development programs. The accumulated balance of this reserve cannot exceed 5% of the subscribed and fully paid-in capital stock.

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Brazilian law also provides for three discretionary allocations of net profits that are subject to approval by the shareholders at the annual general shareholders' meeting, as follows:

- first, a percentage of net profits may be allocated to a contingency reserve for anticipated losses that are deemed probable in future years. Any amount so allocated in a prior year must be either reversed in the fiscal year in which the reasons justifying the reserve cease to exist, or written off in the event that the anticipated loss occurs;
- second, if the mandatory distributable amount exceeds the sum of realized net profits in a given year, this excess may be allocated to an unrealized revenue reserve. The Brazilian Corporate Law defines realized net profits as the amount of net profits that exceeds the sum of the net positive result of equity adjustments and profits or revenues from operations whose financial results take place after the end of the next succeeding fiscal year; and
- third, a portion of our net profits that exceeds the minimum mandatory distribution may be allocated to fund working capital needs and investment projects, as long as such allocation is based on a capital budget previously approved by our shareholders. Capital budgets for more than one year must be reviewed at each annual shareholders' meeting.

### *Mandatory Distribution*

Under Brazilian Corporate Law, the bylaws of a Brazilian corporation with a class of non-voting shares, such as ours, may specify a minimum percentage of the amounts available for distribution by such corporation for each fiscal year that must be distributed to shareholders as dividends or interest on shareholders' equity, also known as the mandatory distributable amount, which cannot be lower than 25% of the adjusted net profit for the fiscal year. Under our bylaws, the mandatory distributable amount has been fixed at an amount equal to not less than 25% of our net profits, after the allocations to the legal reserve, contingency reserve and unrealized revenue reserve. Furthermore, the net profits that are not allocated to the reserves above to fund working capital needs and investment projects as described above or to the statutory reserve must be distributed to our shareholders as dividends or interest on shareholders' equity.

The Brazilian Corporate Law, however, permits a publicly held company, such as ours, to suspend the mandatory distribution if the board of directors and the Fiscal Council report to the annual general shareholders' meeting that the distribution would be inadvisable in view of the company's financial condition. The suspension is subject to approval of holders of common shares. In this case, the board of directors must file a justification for such suspension with the CVM. Profits not distributed by virtue of the suspension mentioned above shall be allocated to a special reserve and, if not absorbed by subsequent losses, shall be distributed as soon as the financial condition of the company permits such payments.

### *Payment of Dividends and Interest on Shareholders' Equity*

We are required by the Brazilian Corporate Law and by our bylaws to hold an annual general shareholders' meeting by the fourth month after the end of each fiscal year at which, among

other things, the shareholders have to decide on the payment of an annual dividend. The payment of annual dividends is based on the financial statements prepared for the relevant fiscal year.

Law No. 9,249 of December 26, 1995, as amended, provides for distribution of interest attributed to shareholders' equity to shareholders as an alternative form of distribution. Such interest is limited to the daily *pro rata* variation of the TJLP interest rate, the Brazilian federal government's long-term interest rate.



We may treat these payments as a deductible expense for corporate income tax and social contribution purposes, but the deduction cannot exceed the greater of:

- 50% of net income (before taking into account such distribution and any deductions for income taxes and after taking into account any deductions for social contributions on net profits) for the period in respect of which the payment is made; or
- 50% of retained earnings.

Any payment of interest on shareholders' equity to holders of ADSs or common shares, whether or not they are Brazilian residents, is subject to Brazilian withholding tax at the rate of 15% or 25%. The 25% rate applies if the beneficiary is resident in a tax haven. See "—Taxation Relating to Our ADSs and Common and Preferred Shares—Brazilian Tax Considerations." The amount paid to shareholders as interest attributed to shareholders' equity, net of any withholding tax, may be included as part of any mandatory distribution of dividends. Under the Brazilian Corporate Law, we are required to distribute to shareholders an amount sufficient to ensure that the net amount received, after payment by us of applicable Brazilian withholding taxes in respect of the distribution of interest on shareholders' equity, is at least equal to the mandatory dividend.

Under the Brazilian Corporate Law and our bylaws, dividends generally are required to be paid within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which the dividend was declared. The amounts of dividends due to our shareholders are subject to financial charges at the SELIC rate from the end of each fiscal year through the date we actually pay such dividends. Shareholders have a three-year period from the dividend payment date to claim dividends or interest payments with respect to their shares, after which the amount of the unclaimed dividends reverts to us.

Pursuant to our bylaws, holders of preferred shares are entitled to minimum annual dividends equal to (i) 5% of their pro rata share of our paid-in capital, or (ii) 3% of the book value of their preferred shares, whichever is higher. Holders of preferred shares participate equally with common shareholders in corporate capital increases obtained from the incorporation of reserves and profits. To the extent that we declare dividends in any particular year in an amount that exceeds the minimum preferential dividends on preferred shares, holders of common shares and preferred shares will receive the same additional dividend amount per share. Based on our equity capital at year-end 2010, the minimum preferential dividend that would have been payable to our preferred shareholders is approximately R\$0.77 per preferred share (R\$1.54 per preferred ADS), compared to the R\$1.03 per preferred share (R\$2.06 per preferred ADS) actually paid on our 2010 earnings. Since 2000, our distributable income has always exceeded the minimum preferred dividend, so we have always distributed equal amounts to both our common and preferred shareholders during this period.

Our board of directors may distribute dividends or pay interest based on the profits reported in interim financial statements. The amount of interim dividends distributed cannot exceed the amount of our capital reserves.

### *Shareholders' Meetings*

Our shareholders have the power to decide on any matters related to our corporate purposes and to pass any resolutions they deem necessary for our protection and development, through voting at a general shareholders' meeting.

We convene our shareholders' meetings by publishing a notice in the *Diário Oficial da União* and *Jornal do Comercio*. The notice must be published no fewer than three times, beginning at least 15 calendar days prior to the scheduled meeting date. The notice must contain the meeting's agenda and, in the case of a proposed amendment to the bylaws, an indication of the subject matter. For ADS holders, we are required to provide notice to the ADS depository at least 30 calendar days prior to a shareholders' meeting.

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The board of directors or, in some specific situations set forth in the Brazilian Corporate Law, the shareholders, call our general shareholders' meetings. A shareholder may be represented at a general shareholders' meeting by an attorney-in-fact, so long as the attorney-in-fact was appointed within a year of the meeting. The attorney-in-fact must be a shareholder, a member of our management, a lawyer or a financial institution. The attorney-in-fact's power of attorney must comply with certain formalities set forth by Brazilian law.

In order for a valid action to be taken at a shareholders' meeting, shareholders representing at least one quarter of our issued and outstanding common shares must be present at the meeting. However, in the case of a general meeting to amend our bylaws, shareholders representing at least two-thirds of our issued and outstanding common shares must participate in person. If no such quorum is present, the board may call a second meeting giving at least eight calendar days notice prior to the scheduled meeting in accordance with the rules of publication described above. The quorum requirements will not apply to the second meeting, subject to the voting requirements for certain matters described below. Beginning in 2010, our shareholders may also register online to exercise their voting rights electronically in shareholders' meetings. In addition, our shareholders may also vote electronically in proxy contests (*pedido público de procuração*). Electronic participation in shareholders' meetings is not available to our ADR holders.

### *Voting Rights*

Pursuant to the Brazilian Corporate Law and our bylaws, each of our common shares carries the right to vote at a general meeting of shareholders. The Brazilian federal government is required by law to own at least a majority of our voting stock. Pursuant to our bylaws, our preferred shares generally do not confer voting rights.

Holders of common shares, voting at a general shareholders' meeting, have the exclusive power to:

- amend our bylaws;
- approve any capital increase;
- approve any capital reduction;
- elect or dismiss members of our board of directors and Fiscal Council, subject to the right of our preferred shareholders to elect or dismiss one member of our board of directors and to elect one member of our Fiscal Council;
- receive the yearly financial statements prepared by our management and accept or reject management's financial statements, including the allocation of net profits for payment of the mandatory dividend and allocation to the various reserve accounts;

- authorize the issuance of debentures, except for the issuance of non-convertible unsecured debentures, which may be approved by our board of directors;
- suspend the rights of a shareholder who has not fulfilled the obligations imposed by law or by our bylaws;
- accept or reject the valuation of assets contributed by a shareholder in consideration for issuance of capital stock;
- pass resolutions to approve corporate restructurings, such as mergers, spin-offs and transformation into another type of company;
- participate in a centralized group of companies;

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- approve the disposal of the control of our subsidiaries;
- approve the disposal of convertible debentures issued by our subsidiaries and held by us;
- establish the compensation of our senior management;
- approve the cancellation of our registration as a publicly-traded company;
- decide on our dissolution or liquidation;
- waive the right to subscribe to shares or convertible debentures issued by our subsidiaries or affiliates; and
- choose a specialized company to work out the appraisal of our shares by economic value, in cases of the canceling of our registry as a publicly-traded company or deviation from the standard rules of corporate governance defined by a stock exchange or an entity in charge of maintaining an organized over-the-counter market registered with the CVM, in order to comply with such corporate governance rules and with contracts that may be executed by us and such entities.

Except as otherwise provided by law, resolutions of a general shareholders' meeting are passed by the majority of the outstanding common shares. Abstentions are not taken into account.

The approval of holders of at least one-half of the issued and outstanding common shares is required for the following actions involving our company:

- reduction of the mandatory dividend distribution;
- merger into another company or consolidation with another company, subject to the conditions set forth in the Brazilian Corporate Law;
- participation in a group of companies subject to the conditions set forth in the Brazilian Corporate Law;
- change of our corporate purpose, which must be preceded by an amendment in our bylaws by federal law as we are controlled by the government and our corporate purpose is established by law;
- cessation of the state of liquidation;
- spin-off of a portion of our company, subject to the conditions set forth in the Brazilian Corporate Law;
- transfer of all our shares to another company or receipt of shares of another company in order to make the company whose shares are transferred a wholly owned subsidiary of such company, known as *incorporação de ações*; and
- approval of our liquidation.

Under Brazilian Corporate law, if shareholder has a conflict of interest with the company in connection with any proposed transaction, the shareholder may not vote in any decision regarding such transaction. For example, an interested shareholder may not vote to approve the valuation of assets contributed by that shareholder in exchange for capital stock or, when the shareholder is a member of senior management, to approve the management's report on the company's financial statements. Any transaction approved with the vote of a shareholder with a conflict of interest may be annulled and such shareholder may be liable for any damages caused and be required to return to the company any gain it may have obtained as a result of the transaction.

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According to the Brazilian Corporate Law, the following actions shall be submitted for approval by the outstanding adversely affected preferred shares before they are submitted for approval of at least half of the issued and outstanding common shares:

- creation of preferred shares or increase in the existing classes of preferred shares, without preserving the proportions to any other class of preferred shares, except as set forth in or authorized by the company's bylaws;
- change in the preferences, privileges or redemption or amortization conditions of any class of preferred shares; and
- creation of a new class of preferred shares entitled to more favorable conditions than the existing classes.

Decisions on our transformation into another type of company require the unanimous approval of our shareholders, including the preferred shareholders, and an amendment of our bylaws by the federal law.

Our preferred shares will acquire voting rights if we fail to pay the minimum dividend to which such shares are entitled for three consecutive fiscal years. The voting right shall continue until payment has been made. Preferred shareholders also obtain the right to vote if we enter into a liquidation process.

Under Brazilian Corporate Law, shareholders representing at least 10% of the company's voting capital have the right to demand that a cumulative voting procedure be adopted to entitle each common share to as many votes as there are board members and to give each common share the right to vote cumulatively for only one candidate or to distribute its votes among several candidates. Furthermore, minority common shareholders holding at least 10% of our voting capital also have the right to appoint or dismiss one member to or from our Fiscal Council.

Preferred shareholders holding, individually or as a group, 10% of our total capital have the right to appoint and/or dismiss one member to or from our board of directors. Preferred shareholders have the right to separately appoint one member to our Fiscal Council.

Our bylaws provide that, independently from the exercise of the rights above granted to minority shareholders, through cumulative voting process, the Brazilian federal government always has the right to appoint the majority of our directors.

### *Preemptive Rights*

Pursuant to the Brazilian Corporate Law, each of our shareholders has a general preemptive right to subscribe for shares or securities convertible into shares in any capital increase, in proportion to the number of shares held by them. In the event of a capital increase that would maintain or increase the proportion of capital represented by the preferred shares, holders of preferred shares would have preemptive rights to subscribe to newly issued

preferred shares only. In the event of a capital increase that would reduce the proportion of capital represented by the preferred shares, holders of preferred shares would have preemptive rights to subscribe to any new preferred shares in proportion to the number of shares held by them, and to common shares only to the extent necessary to prevent dilution of their interests in our total capital.

A period of at least 30 days following the publication of notice of the issuance of new shares or securities convertible into shares is allowed for exercise of the right, and the right is negotiable. According to our bylaws, our board of directors may eliminate preemptive rights or reduce the exercise period in connection with a public exchange made to acquire control of another company or in connection with a public offering of shares or securities convertible into shares.

In the event of a capital increase by means of the issuance of new shares, holders of ADSs, of common or preferred shares, would have, except under circumstances described above, preemptive rights to subscribe for any class of our newly issued shares. However, holders of ADSs may not be able to exercise the preemptive rights relating to the preferred shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. See Item 3. "Key Information—Risk Factors—Risks Relating to Our Equity and Debt Securities."



### *Redemption and Rights of Withdrawal*

Brazilian law provides that, under limited circumstances, a shareholder has the right to withdraw his or her equity interest from the company and to receive payment for the portion of shareholder's equity attributable to his or her equity interest.

This right of withdrawal may be exercised by the holders of the adversely affected common or preferred shares in the event that we decide:

- to create preferred shares or to increase the existing classes of preferred shares, without preserving the proportions to any other class of preferred shares, except as set forth in or authorized by our bylaws; or
- to change the preferences, privileges or redemption or amortization conditions of any class of preferred shares or to create a new class of preferred shares entitled to more favorable conditions than the existing classes.

Holders of our common shares may exercise their right of withdrawal in the event we decide:

- to merge into another company or to consolidate with another company, subject to the conditions set forth in the Brazilian Corporate Law; or
- to participate in a centralized group of companies as defined under the Brazilian Corporate Law and subject to the conditions set forth therein.

The right of withdrawal may also be exercised by our dissenting shareholders in the event we decide:

- to reduce the mandatory distribution of dividends;
- to change our corporate purposes;
- to spin-off a portion of our company, subject to the conditions set forth in the Brazilian Corporate Law;
- to transfer all of our shares to another company or to receive shares of another company in order to make the company whose shares are transferred a wholly owned subsidiary of our company, known as *incorporação de ações*; or
- to acquire control of another company at a price, which exceeds the limits set forth in the Brazilian Corporate Law, subject to, the conditions set forth in the Brazilian Corporate Law.

This right of withdrawal may also be exercised in the event that the entity resulting from a merger, *incorporação de ações*, as described above, or consolidation or spin-off of a listed company fails to become a listed company within 120 days of the shareholders' meeting at which such decision was taken.

Any redemption of shares arising out of the exercise of such withdrawal rights would be made based on the book value per share, determined on the basis of the last balance sheet approved by our shareholders. However, if a shareholders' meeting giving rise to redemption rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such shareholders' meeting. The right of withdrawal lapses 30 days after publication of the minutes of the shareholders' meeting that approved the corporate actions described above. We would be entitled to reconsider any action giving rise to withdrawal rights within ten days following the expiration of such rights if the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

### *Other Shareholders' Rights*

According to the Brazilian Corporate Law, neither a company's bylaws nor actions taken at a general meeting of shareholders may deprive a shareholder of some specific rights, such as:

- the right to participate in the distribution of profits;
- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;
- the right to supervise the management of the corporate business as specified in the Brazilian Corporate Law;
- the right to preemptive rights in the event of a subscription of shares, debentures convertible into shares or subscription bonuses (other than with respect to a public offering of such securities, as may be set out in the bylaws); and
- the right to withdraw from the company in the cases specified in the Brazilian Corporate Law.

### *Liquidation*

In the event of a liquidation, holders of preferred shares are entitled to receive, prior to any distribution to holders of common shares, an amount equal to the paid-in capital with respect to the preferred shares.

### *Conversion Rights*

According to our bylaws, our common shares are not convertible into preferred shares, nor are preferred shares convertible into common shares.

### *Liability of Our Shareholders for Further Capital Calls*

Neither Brazilian law nor our bylaws provide for capital calls. Our shareholders' liability for capital calls is limited to the payment of the issue price of the shares subscribed or acquired.

### *Form and Transfer*

Our shares are registered in book-entry form and we have hired Banco do Brasil to perform all the services of safe-keeping and transfer of shares. To make the transfer, Banco do Brasil makes an entry in the register, debits the share account of the transferor and credits the share account of the transferee.

Our shareholders may choose, at their individual discretion, to hold their shares through the *Companhia Brasileira de Liquidação e Custódia* or CBLC. Shares are added to the CBLC system through Brazilian institutions, which have clearing accounts with the CBLC. Our

shareholder registry indicates which shares are listed on the CBLC system. Each participating shareholder is in turn registered in a registry of beneficial shareholders maintained by the CBLC and is treated in the same manner as our registered shareholders.

### *Dispute Resolution*

Our bylaws provide for mandatory dispute resolution through arbitration, in accordance with the rules of the *Câmara de Arbitragem do Mercado* (Market Arbitration Chamber), with respect to any dispute regarding us, our shareholders, the officers, directors and Fiscal Council members and involving the provisions of the Brazilian Corporate Law, our bylaws, the rules of the CMN, the Central Bank of Brazil and the CVM or any other capital markets legislation, including the provisions of any agreement entered into by us with any stock exchange or over-the-counter entity registered with the CVM, relating to adoption of differentiated corporate governance practices.

However, decisions of the Brazilian federal government, as exercised through voting in any general shareholders' meeting, are not subject to this arbitration proceeding, in accordance with Article 238 of the Brazilian Corporate Law.

### *Self-dealing Restrictions*

Our principal shareholder, the Brazilian federal government, and the members of our board of directors, board of executive officers and Fiscal Council are required, in accordance with our bylaws, to:

- refrain from dealing with our securities either in the one-month period prior to any fiscal year-end, up to the date when our financials are published, or in the period between any corporate decision to raise or reduce our stock capital, to distribute dividends or stock, and to issue any security, up to the date when the respective public releases are published; and
- communicate to us and to the stock exchange their periodical dealing plans with respect to our securities, if any, including any change or default in these plans. If the communication is an investment or divestment plan, the frequency and planned quantities must be included.

### **Restrictions on Non-Brazilian Holders**

Non-Brazilian holders face no legal restrictions on the ownership of our common or preferred shares or of ADSs based on our common or preferred shares, and are entitled to all the rights and preferences of such common or preferred shares, as the case may be.

However, the ability to convert dividend payments and proceeds from the sale of common or preferred shares or preemptive rights into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, the registration of the relevant investment with the Central Bank of Brazil. Nonetheless, any non-Brazilian holder who registers with the CVM in accordance with Resolution No. 2,689 may buy and sell securities on the BM&FBOVESPA without obtaining a separate certificate of registration for each transaction.

In addition, Annex III to Resolution No. 1,289 of the CMN, as amended, known as Annex III Regulations, allows Brazilian companies to issue depositary receipts in foreign exchange markets. We currently have an ADR program for our common and preferred shares duly registered with the CVM and the Central Bank of Brazil. The proceeds from the sale of ADSs by holders outside Brazil are free of Brazilian foreign investment controls.

### **Transfer of Control**

According to Brazilian law and our bylaws, the Brazilian federal government is required to own at least the majority of our voting shares. Therefore, any change in our control would require a change in the applicable legislation.

## **Disclosure of Shareholder Ownership**

Brazilian regulations require that any person or group of persons representing the same interest that has directly or indirectly acquired or sold an interest corresponding to 5% of the total number of shares of any type or class must disclose its share ownership or divestment to the CVM and the BM&FBOVESPA. In addition, a statement containing the required information must be published in the newspapers. Any subsequent increase or decrease by 5% or more in ownership of shares of any type or class must be similarly disclosed.

## **Memorandum and Articles of Association of PifCo**

### *Register*

PifCo is an exempted company incorporated with limited liability in the Cayman Islands under the Companies Law, as amended, with company registration number 76600. PifCo registered and filed its Memorandum and Articles of Association with the Registrar of Companies on September 24, 1997. The company adopted an Amended and Restated Memorandum and Articles of Association by sole shareholder special resolution on May 7, 2007, and adopted a further Amended and Restated Memorandum and Articles of Association by sole shareholder special resolution on February 23, 2008. PifCo was initially incorporated with the name Brasoil Finance Company, which name was changed by special resolution of PifCo's shareholder to Petrobras International Finance Company on September 25, 1997. The last amendment to PifCo's Memorandum and Articles of Association occurred on February 23, 2008, to amend the stated objects and purposes of PifCo.

### *Objects and Purposes*

PifCo's Memorandum and Articles of Association grants PifCo full power and authority to:

- conduct marketing, sales, financing, purchase, storage and transportation of petroleum, natural gas and all other hydrocarbons and by-products thereof, including ethanol and other biofuels, as well as the businesses of purchase, sale, leasing and rental of platforms, equipment and drilling units employed in the activities of exploration and production of petroleum and gas, and any business incidental thereto;
- to conduct and carry on in any and all parts of the world, any of the objects noted above, through or by means of creating or subscribing for or otherwise acquiring securities in companies, associations, partnerships or trust estates engaged in or carrying on or conducting any one or more of the businesses set out above and to exercise all voting and other rights arising in respect of such securities (including without limitation to effect the liquidation or dissolution of such entities) and to dispose of such securities;
- to acquire, hold and dispose of securities for hedging, investment or speculative purposes and to exercise all voting and other rights arising in respect of such securities; and

- to borrow or raise money for any of the above referenced purposes of PifCo and, from time to time, to do or make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and to secure the payment of any thereof, and of the interest thereon, by the creation of security interests over of the property of PifCo, whether at the time owned or thereafter acquired and to sell, pledge or otherwise dispose of such bonds or other obligations of PifCo for its corporate purposes.

As a matter of Cayman Islands law, PifCo cannot trade in the Cayman Islands except in furtherance of the business carried on outside the Cayman Islands.



### *Directors*

Directors may vote on a proposal, arrangement or contract in which they are interested. However, interested directors must declare the nature of their interest at a directors' meeting. If the interested directors declare their interest, their votes are counted and they are counted in the quorum of such meeting.

The directors may, in PifCo's name, exercise their powers to borrow money, issue debt securities and to mortgage or charge any of the undertaking or property of PifCo and are generally responsible for its day-to-day management and administration.

Directors are not required to own shares.

### *Rights and Obligations of Shareholders*

#### *Dividends*

PifCo's shareholder may declare dividends in a general meeting but the dividends cannot exceed the amount recommended by the directors. The directors may pay the shareholder interim dividends and may, before recommending any dividend, set aside reserves out of profits. The directors can invest these reserves in their discretion or employ them in PifCo's business.

Dividends may be paid in cash or in kind but may only be paid out of profits or, subject to certain restrictions of Cayman Islands law, a share premium account.

#### *Voting Rights*

Votes may be cast at a general meeting by a show of hands or by a poll (if demanded by one or more members present in person or by proxy entitled to vote prior to or on the declaration of the result of the show of hands). On a vote by a show of hands, each shareholder or shareholder represented by proxy has one vote. On a vote by a poll, each shareholder or shareholder represented by proxy has one vote for each share owned.

Directors are elected by ordinary resolution by the shareholders at general meetings or by a board resolution of the directors. Shareholders are not entitled to vote at a general meeting unless calls or other amounts payable on their shares have been paid. In lieu of voting on a matter at a general meeting, the shareholders entitled to vote on that matter may adopt the matter by signing a written resolution.

#### *Redemption*

PifCo may issue shares, which are redeemable by PifCo or by its shareholder, on such terms and in such manner as the directors may determine before the issuance of such shares. PifCo

may repurchase its own shares on such terms and in such manner as the directors may determine and agree with the relevant shareholder.

*Shareholder Rights Upon Liquidation*

If PifCo is liquidated, the liquidator may (in accordance with an ordinary shareholder resolution):

- set a fair value on PifCo's assets, divide all or part of PifCo's assets among the shareholders and determine how the assets will be divided among shareholders or classes of shareholders; and
- vest all or part of PifCo's assets in trustees.

Shareholders will not be compelled to accept any securities on which there is a liability.

### *Calls on Shares*

Directors may make calls on the shareholders to the extent any amounts remain unpaid on their shares (subject to giving such shareholder at least fourteen days notice specifying the time or times of payment). Each shareholder shall pay to the company the amounts called on such shares.

### *Change to Rights of Shareholders*

Shareholders may change the rights of their class of shares by:

- getting the written consent of two-thirds of the shareholders of that class; or
- passing a special resolution at a meeting of the shareholders of that class.

There are no general limitations on the rights to own shares specified by the articles.

### *General Meetings*

A general meeting may be convened:

- by the directors at any time; or
- by any two shareholders holding not less than 10% of the paid-up voting share capital of PifCo, by written request.

Notice of a general meeting is given to all shareholders.

All business carried out at a general meeting is considered special business except:

- sanctioning a dividend;
- consideration of the accounts, balance sheets, and ordinary report of the directors and auditors;
- appointment and removal of directors; and
- fixing of remuneration of the auditors.

Unanimous shareholder consent is required to carry out special business at a meeting unless notice of the special business is given in the notice of the meeting. A quorum of shareholders is required to be present at any meeting in order to carry out business. One or more shareholders holding at least a majority of the shares of PifCo that are present in person or represented by proxy is a quorum.

There is no requirement under Cayman Islands law to convene an annual meeting or to convene any general meeting of the shareholders. The directors are permitted to designate any general meeting of shareholders as an annual general meeting.

*Liability of Shareholders*

In normal circumstances, the liability of any shareholder to PifCo is limited to the amount, which such shareholder has agreed to pay in respect of the subscription of his shares.

### *Changes in Capital*

PifCo may increase its authorized share capital by ordinary resolution. The new shares will be subject to all of the provisions to which the original shares are subject.

PifCo may also by ordinary resolution:

- consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- convert all or any part of its paid-up shares into stock and reconvert that stock into paid-up shares of any denomination;
- split existing shares into shares of a smaller amount, subject to the provisions of Section 13 of the Companies Law; and
- cancel any shares, which, at the date of the resolution, are not held or agreed to be held by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

PifCo may reduce its share capital and any capital redemption reserve by special resolution in accordance with relevant provision of Cayman Islands law.

### *Indemnity*

PifCo's directors and officers are indemnified out of its assets and funds against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities which they incur or sustain in or regarding the conduct of PifCo's business or affairs in the execution or discharge of their respective duties, powers, authorities or discretions. Under PifCo's Memorandum of Association, directors and officers are excused from all liability to PifCo, except for any losses, which arise as a result of such party's own dishonesty.

### *Accounts*

Accounts relating to PifCo's affairs are kept in such manner as may be determined from time to time by the directors and may be audited in such manner as may be determined from time to time by the directors. There is, however, no requirement as a matter of Cayman Islands law to have PifCo's accounts audited.

### *Amendment of the Articles*

PifCo may, by special resolution of the shareholders, amend its memorandum and articles of association.

### *Transfer out of Jurisdiction*

PifCo may, by special resolution of the shareholders, transfer out of the Cayman Islands into any jurisdiction permitting such transfer.

## Material Contracts

### *Petrobras*

#### *Assignment Agreement (Cessão Onerosa )*

On September 3, 2010, we entered into an agreement with the Brazilian federal government, under which the government assigned to us the right to conduct activities for the exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. The Assignment Agreement was entered into pursuant to specific provisions of Law No. 12,276. The draft of the Assignment Agreement was approved by our Board of Directors on September 1, 2010 and by the CNPE on September 1, 2010, following a negotiation between us and the Brazilian federal government based on independent experts reports obtained by us and the ANP according to a valuation procedure as required by Law No. 12,276.

#### *Basic Terms*

*Purpose.* Under the Assignment Agreement, we paid an initial contract price for the right to conduct activities of exploration and production of oil, natural gas and other fluid hydrocarbons in specified pre-salt areas, subject to a maximum production of five billion barrels of oil equivalent. Although the Assignment Agreement grants certain rights to us that are similar to those of a concession, the Assignment Agreement is a specific regime for exploration and production, not a concession under Brazilian law.

*Area Covered.* The Assignment Agreement covers six firm blocks plus one contingent block, located in the pre-salt areas and identified in the Assignment Agreement. These blocks are located in the Santos Basin and have expected geological characteristics similar to the discoveries made elsewhere in the pre-salt area.

*Supervision and Inspection.* The ANP has regulatory authority and inspection rights over our activities in the areas subject to the Assignment Agreement, as well as over our compliance with the Assignment Agreement.

*Costs and Risks.* All our exploration, development and production activities under the Assignment Agreement will be conducted at our expense and at our risk.

#### *Price*

The initial contract price for our rights under the Assignment Agreement was R\$74,807,616,407, which was equivalent to U.S.\$42,533,327,500 as of September 1, 2010. As provided by Law No. 12,276, the contract price was determined by negotiation between us and the Brazilian federal government, based on the reports of independent experts obtained by us and by the ANP, which took into consideration a number of factors, including market

conditions, current oil prices and industry costs.

We have used part of the proceeds of our sale of shares in the global offering for the payment of the initial contract price, including the use of LFTs we received from the Brazilian federal government in the global offering. The LFTs were valued at the same price at which they were valued for purposes of the global offering.



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The Assignment Agreement sets forth the initial prices and volumes for each block, as follows:

	<b>INITIAL EVALUATIONS</b>		
	<b>Volume</b> <b>(million of boe)</b>	<b>Price</b> <b>(U.S.\$/boe)</b>	<b>Value</b> <b>(U.S.\$)</b>
<b>Block 1</b>			
Florim	467	9.0094	4,207,389,800
<b>Block 2</b>			
Franco	3,058	9.0400	27,644,320,000
<b>Block 3</b>			
Guará South	319	7.9427	2,533,721,300
<b>Block 4</b>			
Surrounding Iara	600	5.8157	3,489,420,000
<b>Block 5</b>			
Tupi South	128	7.8531	1,005,196,800
<b>Block 6</b>			
Tupi Northeast	428	8.5357	3,653,279,600
<b>Block 7</b> (contingent block)			
Peroba	—	—	—
<b>Initial Contract Price of the Assignment Agreement</b>			<b>42,533,327,500</b>

*Duration*

The term of the Assignment Agreement is 40 years, which may be extended for an additional five years, upon our request, in cases of (i) force majeure, (ii) delay in obtaining applicable environmental licenses, provided that such delay is attributable only to the relevant environmental authority, (iii) suspension of the activities by determination of the ANP, or (iv) changes in the geological conditions forecast for each area. The extension will only apply to areas in which the ANP identifies the occurrence of one of the events specified above. The ANP will take into account the period of time of the delay occurred to determine the length of the extension, subject to the five-year limit indicated above. In addition, the duration of the Assignment Agreement is subject to the revision process.

*Contingent Area*

We may request that the Brazilian federal government grant us the right to perform the activities set forth in the mandatory exploration program in the contingent block within four years from the date of the Assignment Agreement, and provided that it is proved, based on oil and gas industry best practices, that the total volume recoverable in the other blocks is less than the maximum volume initially provided by the Assignment Agreement.

The activities set forth in the mandatory exploration program for the contingent block must be performed within the term of the exploration phase. At any time, in case we or the Brazilian federal government identify the possibility of producing the maximum volume initially provided for in the Assignment Agreement in the other blocks, we will be required to return the contingent block to the Brazilian federal government immediately.

### *Revision*

The Assignment Agreement is subject to a revision process. We will notify the Brazilian federal government and the ANP ten months before the date expected for the declaration of commerciality of each area covered by the agreement, in order to initiate the revision process, which will begin immediately after the declaration of commerciality of each field in each of the blocks. The revision process will be concluded when we issue our last declaration of commerciality, based on each area's revised prices and volumes, for all the areas subject to the Assignment Agreement. The contingent area will also be subject to the revision process.

The conclusion of the revision process may result in the renegotiation of the contract price, the maximum production volume of five billion barrels of oil equivalent, the duration, and the minimum levels of goods and services to be acquired from Brazilian providers.

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If the revised contract price is higher than the initial contract price, we may agree with the Brazilian federal government on one or more of the following payment options: (i) a payment to be made by us, in cash or LFTs, to the Brazilian federal government in an amount equal to the difference between the revised contract price (resulting from the revision process) and the initial contract price; or (ii) a reduction in the maximum production volume of five billion barrels of oil equivalent, where we may agree to return one or more of the areas covered by the Assignment Agreement. If the revised contract price is lower than the initial contract price, then the Brazilian federal government will pay us in cash, LFTs, securities issued by us or through other means agreed between us, the difference between the revised contract price and the initial contract price. In either case, the difference between the revised contract price and the initial contract price in U.S. dollars will be converted into Brazilian *reais*, based on the average PTAX exchange rate for the purchase of U.S. dollars published by the Central Bank of Brazil for the 30 days preceding the revision of each area and will be adjusted by the interest rate of the Brazilian Special Clearance and Custody System (*Sistema Especial de Liquidação e Custódia*), or the SELIC rate, until the payment date. Payments must be made within three years of the completion of the revision process.

The revision process will be based on reports of independent experts to be engaged by us and by the ANP. The following factors will be considered in the revision process: Reference Date: the date of the reports obtained by us and the ANP for purposes of negotiating the initial contract price;

- Discount Rate: a discount rate of 8.83% per year;
- Oil Reference Price: will be equal to the average trading price of the month preceding the revision date (Crude Light West Texas Intermediate — WTI), in U.S.\$/barrel, as published by the New York Mercantile Exchange, the NYMEX, under the code “CL,” for the futures contract of eighteenth maturity, minus the differential in relation to Brent crude oil. The Brent crude oil differential (the price of WTI minus the Brent price) shall be calculated using yearly averages of monthly projections as specified in the most recently published reports of the Pira Energy Group (available on their website for a fee) for the year following the revision, or, if not available, a comparable forecast published by an international entity renowned for its technical competence in the oil and natural gas industry. For each area under the Assignment Agreement, the calculation of the differential of the price of barrel of oil equivalent applicable to each area in relation to Brent crude oil shall be based on the most recent fluid characterization data available as of the revision date, and shall be conducted in accordance with the methodology specified in the ANP Ordinance No. 206/2000.
- Natural Gas Reference Price in U.S.\$/MMBtu: the natural gas reference price equals the price in the reference market (PMR) minus installments in connection with transportation fees (TTr), processing fees (TP), transfer fees (TT) and sales expenses (DC), according to the following formula:  $PRGN = PMR - (TTr + TP + TT + DC)$ , where:
  - The price in the reference market (PMR) in U.S.\$/MMBtu is the average sale price of domestic natural gas in the twelve months preceding the revision date, weighed per volume, consistent with our practices of firm commitments to the non-thermoelectric market in the states of Rio de Janeiro and São Paulo.

- Transportation fees (TTr) in U.S.\$/MMBtu are contractual fees of gas pipelines used to transport natural gas between our processing plants and the delivery points, as follows:  $TTr = \sum TTr(n)$ , where TTr (n) equals the transportation fees of gas pipeline n.
- The processing fees (TP) in U.S.\$/MMBtu are based on the cost of processing pre-salt natural gas, in our Cabiúnas terminal in Macaé, State of Rio de Janeiro, taking into account the revenues from the commercialization of liquid hydrocarbons which will result from the processing of natural gas.
- The transfer fees (TT) in U.S.\$/MMBtu are based on the cost of transferring natural gas from the pre-salt areas from our production units to the Cabiúnas terminal.

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- Sales Expenses (DC) in U.S./MMBtu correspond to the costs incurred in the commercialization of natural gas, which include, among others, the preparation and management of natural gas commercialization contracts, logistics costs of supplying natural gas and invoicing costs.
- Calculations of the processing and transfer fees will be based on audited information we have available for equivalent projects involving processing and transfer of pre-salt natural gas. Calculations of sales expenses will be based on audited information we have available regarding natural gas commercialization.
- Tax: Applicable taxes will be the Brazilian taxes applicable to fields under the Assignment Agreement, in force at the revision period;
- Cost:
  - For operations between the date of the execution of the Assignment Agreement and the revision date, the cost shall be the effective cost incurred by us, in U.S.\$, separately for each area under the Assignment Agreement, provided they have been audited and are consistent with common market practices.
  - Investments and operational costs, and additional future costs will be estimated according to best practices in the oil industry, taking into consideration the operational environment, and based on the market prices practiced for each good or service at the revision date.
  - Lease and rent: in case lease and rent are applicable, they will be considered according to best practices in the oil industry, for production assets including, but not limited to, production units and underwater equipment. Lease and rent payments will be estimated based on daily lease rates of recent lease or rental contracts of Stationary Production Units that have an equivalent market value (CAPEX). Any taxes due pursuant to the remittance of lease and rent payments will be added to the lease and rent payments.
  - Investment costs, operating costs and additional expenses will be calculated in U.S. dollars; and
- Exchange Rate: the exchange rate to be applied in the conversions from U.S. dollars to Brazilian *reais* will be the average PTAX exchange rate for the purchase of U.S. dollars (calculated by the Brazilian Central Bank) for the 30 days immediately preceding the payment.

### Phases

Our performance under the Assignment Agreement is divided into two phases:

- Exploration phase. This phase comprises the appraisal for purposes of determining the commerciality of any discoveries of oil, natural gas and other fluid hydrocarbons. The exploration phase began as of the date of the

execution of the Assignment Agreement and will end upon the declaration of commerciality of each respective reservoir discovered in each area covered by the Assignment Agreement. We will have four years, which may be extended for an additional two-year period, to comply with the mandatory working program and other ANP-approved activities as set forth in the Assignment Agreement. If we discover oil and decide to appraise such discovery, we must issue a notice of discovery to the ANP. Upon completion of the mandatory working program in each block, we may notify the ANP in writing that we are ending the exploration phase by issuing a declaration of commerciality of each reservoir discovered within a given block or that there have been no discoveries which would justify the development of a given block.

- **Production Phase.** The production phase begins as of the date of delivery of the declaration of commerciality by us to the ANP, and it lasts until the termination of the Assignment Agreement. It comprises a development period, during which we will carry out activities pursuant to a development plan approved by the ANP. Following the development period, we may start production pursuant to a notification to the ANP.

### *Mandatory Exploration Program*

During the exploration phase, we are required to perform a mandatory working program, as specified in an annex to the Assignment Agreement. We may perform other activities outside the scope of the mandatory working program, provided that such activities are approved by the ANP.

The ANP will impose fines on us for delays in the performance of the mandatory exploration program. If the delay is less than 24 months, the fine will correspond to the amount of such non-performed activities, proportional to the number of outstanding days. If the delay is greater than 24 months, then the fine will be equal to twice the amount of the activities of the mandatory exploration program for the relevant block.

### *Reallocation of Volumes*

The Brazilian federal government and we may negotiate the reallocation of the volume of oil and natural gas originally assigned for each block, observing the price per barrel of oil equivalent applicable to each area, in the following scenarios: (i) the relevant environmental authority does not grant a permanent license for the performance of oil and natural gas exploration and production activities in a certain block or field, or (ii) the production of the volume allotted for any block is not feasible under petroleum industry best practices due to the geological features of the reservoirs, observing the economic parameters established in the revision process (as discussed below).

Once reallocations are completed, the number of barrels of oil equivalent to be produced in the new block will equal the multiplication of (i) the number of barrels of oil equivalent that were reallocated from the original block to the new block and (ii) the value of the barrel of oil equivalent in the original block, to be divided by the value of the barrel of oil equivalent in the new block.

If it is not possible to reallocate all of the volumes of oil and natural gas not produced by us, the reallocation procedure will be performed in part, and the Brazilian federal government will pay us the amount resulting from the multiplication of the volume not subject to the reallocation by the value of the barrel in the block to which the reallocation has been made. This dollar amount will be converted to *reais* using the average PTAX exchange rate for the purchase of U.S. dollars for the 30 days preceding the date of the reallocation process of such block, and adjusted by the SELIC rate during the period between the date of the reallocation process of such block and the date of payment by the Brazilian federal government.

If it is determined that it is not possible to reallocate any volumes of oil, natural gas and other hydrocarbons fluids as described above, the Brazilian federal government will reimburse us for an amount equivalent to total volume of barrels of oil equivalent that was not produced multiplied by the dollar price of barrel of oil equivalent applicable to the relevant block, converted in *reais* using the average PTAX exchange rate for the purchase of U.S. dollars for

the 30 days preceding the date of the reallocation process, and adjusted by the SELIC rate from the date of the reallocation process of such block to the date of payment by the Brazilian federal government.

The manner and terms of payment of the reimbursement in either case will be negotiated by us and the Brazilian federal government. Payments will be made no later than three years after the conclusion of the reallocation process.



### *Unitization*

A reservoir covered by a block assigned to us in the Assignment Agreement may extend to adjacent areas outside such block. In such case, we must notify the ANP immediately after identifying the extension and we will be prevented from performing the exploration and production activities within such block, until we have negotiated an unitization agreement with the third-party concessionaire or contractor under a different exploration and production regime who has rights over such adjacent areas. The ANP will inform such third-party that we should negotiate an "Unitization Agreement." If the adjacent area is not licensed, the Brazilian federal government shall indicate a representative to negotiate with us.

If the parties are unable to reach an agreement within a deadline established by the ANP, the agency will determine the terms and obligations related to such unitization, on the basis of an expert report, and will also notify us and the third-party or the Brazilian federal government representative, as applicable, of such determination. Until the unitization agreement is approved by the ANP, operations for the development and production of such reservoir must remain suspended, unless otherwise authorized by the ANP. Our refusal to execute the unitization agreement will imply the return to the Brazilian federal government of the area subject to the unitization process.

### *Licenses, Authorizations and Permissions*

We are required to obtain all licenses, authorizations, permissions and rights required by applicable law, as determined by the relevant authorities or based on rights of third parties whether or not contemplated in the Assignment Agreement, that may be necessary to perform our operations under the Assignment Agreement.

### *Environmental*

We are required to preserve the environment and protect the ecosystem in the area subject to the Assignment Agreement, to avoid damages and losses to the fauna, flora and natural resources, and we will be liable for all damages arising from our operations, including for any recovery measures in the case of damage to the environment.

### *Brazilian Content*

The Assignment Agreement requires us to acquire a minimum level of goods and services from Brazilian providers and to provide equal conditions for such providers to compete with foreign companies for the sale of goods and services. The minimum Brazilian content requirement is listed in the Assignment Agreement and specifies certain equipment, goods and services, as well as different levels of content requirement in accordance with the different phases and periods of the Assignment Agreement. The Brazilian content threshold is 37% for the exploration phase. For the development period, it is (i) 55% for the development periods beginning production by 2016, (ii) 58% for the development periods beginning

production between 2017 and 2019, and (iii) 65% for the development periods beginning production as of 2020. Despite the minimum percentages set forth for each development period timeframes, the average global percentage of Brazilian content in the development period shall be at least 65%. If we fail to comply with the Brazilian content obligations, we may be subject to specific fines imposed by the ANP.

*Royalties and expenses with Research and Development*

Once we begin commercial production in each field, we will be required to pay monthly royalties in an amount equal to 10% of the oil and natural gas production. We are also required to invest 0.5% of our yearly gross revenues from oil, natural gas and other fluid hydrocarbons production under the Assignment Agreement in research and development activities related to energy and environmental issues being conducted in universities and national research and technical development institutions, public or private, previously registered with the ANP for this purpose.

### *Miscellaneous Provisions*

- We shall not assign our rights under the Assignment Agreement.
- Any breach of the Assignment Agreement or of any regulations of the ANP caused by us may lead to administrative sanctions and fines to be imposed by the ANP, in accordance with applicable legislation and the terms of this Assignment Agreement, and respecting the due process of law.
- If our breach of the Assignment Agreement is considered by the ANP not to be significant, intentional, or a result of negligence, imprudence or recklessness, or it is proved that we worked diligently to curing such breach, the ANP may, instead of terminating the Assignment Agreement, apply the sanctions mentioned above.
- The Assignment Agreement shall terminate upon (i) the production of the maximum volume of barrels of oil equivalent as specified in the Assignment Agreement, (ii) the expiration of the term, or (iii) upon the request of the ANP, if we fail to observe the cure period established by the ANP in connection with the breach of an obligation that proves relevant for the continuation of operations in each block. Such cure period may not be less than 90 days, except in cases of extreme emergency.
- The Brazilian federal government and we will only be excused from the performance of the activities set forth in the Assignment Agreement in cases of force majeure, which includes, among others, delays in the obtaining an environmental license, provided that such delay is attributable only to the relevant environmental authority.
- The Assignment Agreement is subject to Brazilian law.
- The Brazilian federal government and we will use our best efforts to settle any disputes amicably. If we are unable to do so, we may submit such dispute for arbitral review by the Brazilian Federal Attorney's Office (Advocacia-Geral da União Federal), which may rely on independent experts to address technical matters, or initiate a legal proceeding at the Federal Court located in Brasília, Brazil.

For information concerning our other material contracts, see Item 4. "Information on the Company" and Item 5. "Operating and Financial Review and Prospects."

### *PifCo*

For information concerning PifCo's material contracts, see Item 4. "Information on the Company" and Item 5. "Operating and Financial Review and Prospects."

Statements contained in this annual report regarding the contents of any contract or other document are not necessarily complete, and, where the contract or other document is an exhibit to the annual report, each of these statements is qualified in all aspects by the provisions of the actual contract or other documents.



## Petrobras Exchange Controls

There are no restrictions on ownership of the common or preferred shares by individuals or legal entities domiciled outside Brazil.

The right to convert dividend payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil may be subject to restrictions under foreign investment legislation, which generally requires, among other things, that the relevant investments be registered with the Central Bank of Brazil. If any restrictions are imposed on the remittance of foreign capital abroad, they could hinder or prevent *Companhia Brasileira de liquidação e Custódia*, or CBLC, as custodian for the common and preferred shares represented by the ADSs, or registered holders who have exchanged ADSs for common shares or preferred shares, from converting dividends, distributions or the proceeds from any sale of such common shares or preferred shares, as the case may be, into U.S. dollars and remitting the U.S. dollars abroad.

Foreign investors may register their investment under Law No. 4,131 of September 3, 1962 or Resolution No. 2,689. Registration under Resolution No. 2,689 affords favorable tax treatment to foreign investors who are not resident in a tax haven, as defined by Brazilian tax laws. See “—Taxation Relating to Our ADSs and Common and Preferred Shares—Brazilian Tax Considerations.”

Under Resolution No. 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Under Resolution No. 2,689, a foreign investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment;
- appoint an authorized custodian in Brazil for its investments;
- register as a foreign investor with the CVM; and
- register its foreign investment with the Central Bank of Brazil.

Securities and other financial assets held by a Resolution No. 2,689 investor must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank of Brazil or the CVM. In addition, any transfer of securities held under Resolution No. 2,689 must be carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization or occurring upon the death of an investor by operation of law or will.

Holders of ADSs who have not registered their investment with the Central Bank of Brazil could be adversely affected by delays in, or refusals to grant, any required government approval for conversions of payments made in *reais* and remittances abroad of these converted amounts.

Annex III Regulations provide for the issuance of depositary receipts in foreign markets with respect to shares of Brazilian issuers. The depositary of the ADSs has obtained from the Central Bank of Brazil an electronic certificate of registration with respect to our existing ADR program. Pursuant to the registration, the custodian and the depositary will be able to convert dividends and other distributions with respect to the relevant shares represented by ADSs into foreign currency and to remit the proceeds outside Brazil. Following the closing of an international offering, the electronic certificate of registration will be amended by the depositary with respect to the ADSs sold in the international offering and will be maintained by the Brazilian custodian for the relevant shares on behalf of the depositary.

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In the event that a holder of ADSs exchanges such ADSs for the underlying shares, the holder will be entitled to continue to rely on such electronic registration for five business days after the exchange. Thereafter, unless the relevant shares are held pursuant to Resolution No. 2,689 by a duly registered investor, or a holder of the relevant shares applies for and obtains a new certificate of registration from the Central Bank of Brazil, the holder may not be able to convert into foreign currency and to remit outside Brazil the proceeds from the disposition of, or distributions with respect to, the relevant shares, and the holder, if not registered under Resolution No. 2,689, will be subject to less favorable Brazilian tax treatment than a holder of ADSs. In addition, if the foreign investor resides in a “tax haven” jurisdiction, the investor will be also subject to less favorable tax treatment. See Item 3. “Key Information—Risk Factors—Risks Relating to Our Equity and Debt Securities” and “—Taxation Relating to Our ADSs and Common and Preferred Shares—Brazilian Tax Considerations.”

*PifCo*

There are:

- no governmental laws, decrees or regulations in Cayman Islands that restrict the export or import of capital, including dividend and other payments to holders of notes who are not residents of the Cayman Islands, provided that such holders are not resident in countries subject to certain sanctions by the United Nations or the European Union; and
- no limitations on the right of nonresident or foreign owners imposed by Cayman Island law or PifCo’s Memorandum of Association to hold or vote PifCo’s shares.

**Taxation Relating to Our ADSs and Common and Preferred Shares**

The following summary contains a description of material Brazilian and U.S. federal income tax considerations that may be relevant to the purchase, ownership and disposition of preferred or common shares or ADSs by a holder. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than Brazil and the United States.

This summary is based upon the tax laws of Brazil and the United States as in effect on the date of this annual report, which are subject to change (possibly with retroactive effect). This summary is also based upon the representations of the depository and on the assumption that the obligations in the deposit agreement and any related documents will be performed in accordance with their respective terms.

This description is not a comprehensive description of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules that are generally applicable to all taxpayers or to certain classes of investors or rules that investors are generally assumed to know. Prospective purchasers of common or preferred shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition,

ownership and disposition of common or preferred shares or ADSs.

There is no income tax treaty between the United States and Brazil. In recent years, the tax authorities of Brazil and the United States have held discussions that may culminate in such a treaty. We cannot predict, however, whether or when a treaty will enter into force or how it will affect the U.S. Holders of common or preferred shares or ADSs.



## *Brazilian Tax Considerations*

### *General*

The following discussion summarizes the material Brazilian tax consequences of the acquisition, ownership and disposition of preferred or common shares or ADSs, as the case may be, by a holder that is not deemed to be domiciled in Brazil for purposes of Brazilian taxation, also called a non-Brazilian holder.

Under Brazilian law, investors may invest in the preferred or common shares under Resolution No. 2,689 or under Law No. 4,131 of September 3, 1962. The rules of Resolution No. 2,689 allow foreign investors to invest in almost all instruments and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are met. In accordance with Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Pursuant to this rule, foreign investors must: (i) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (ii) complete the appropriate foreign investor registration form; (iii) register as a foreign investor with the CVM; and (iv) register the foreign investment with the Central Bank of Brazil.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank of Brazil or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or organized over-the-counter markets licensed by the CVM.

### *Taxation of Dividends*

Dividends paid by us, including stock dividends and other dividends paid in property to the depositary in respect of the ADSs, or to a non-Brazilian holder in respect of the preferred or common shares, are currently not subject to withholding income tax in Brazil, to the extent that such amounts are related to profits generated as of January 1, 1996. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, depending on the year the profits were generated.

We must pay to our shareholders (including non-Brazilian holders of common or preferred shares or ADSs) interest on the amount of dividends payable to them, at the SELIC rate, from the end of each fiscal year through the date of effective payment of those dividends. These interest payments are considered as fixed-yield income and are subject to withholding income tax at varying rates depending on the length of period of interest accrual. The tax rate varies from 15%, in case of interest accrued for a period greater than 720 days, 17.5% in case of interest accrued for a period between 361 and 720 days, 20% in case of interest accrued for a

period between 181 and 360 days, and to 22.5%, in case of interest accrued for a period up to 180 days. However, the withholding income tax is reduced to 15% in the case of a non-Brazilian holder of ADSs or common or preferred shares investing under Resolution No. 2,689 who is not resident or domiciled in a country or other jurisdiction that does not impose income tax or imposes it at a maximum income tax rate lower than 20% (a Low or Nil Tax Jurisdiction) or, based on the position of the Brazilian tax authorities, a country or other jurisdiction where the local legislation does not allow access to information related to the shareholding composition of legal entities, to their ownership or to the identity of the effective beneficiary of the income attributed to shareholders (the Non-Transparency Rule). See “—Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction.”

### *Taxation on Interest on Shareholders' Equity*

Any payment of interest on shareholders' equity to holders of ADSs or preferred or common shares, whether or not they are Brazilian residents, is subject to Brazilian withholding income tax at the rate of 15% at the time we record such liability, whether or not the effective payment is made at that time. See “— Memorandum and Articles of Incorporation of Petrobras — Payment of Dividends and Interest on Shareholders' Equity.” In the case of non-Brazilian residents that are resident in a Low or Nil Tax Jurisdiction (including in the view of Brazilian authorities the jurisdictions to which the Non-Transparency Rule applies), the applicable withholding income tax rate is 25%. See “—Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction.” The payment of interest at the SELIC rate that is applicable to payments of dividends applies equally to payments of interest on shareholders' equity. The determination of whether or not we will make distributions in the form of interest on shareholders' equity or in the form of dividends is made by our board of directors at the time distributions are to be made. We cannot determine how our board of directors will make these determinations in connection with future distributions.

### *Taxation of Gains*

For purposes of Brazilian taxation on capital gains, two types of non-Brazilian holders have to be considered: (i) non-Brazilian holders of ADSs, preferred shares or common shares that are not resident or domiciled in a Low or Nil Tax Jurisdiction, and that, in the case of preferred or common shares have registered before the Central Bank of Brazil and the CVM in accordance with Resolution No. 2,689; and (ii) any other non-Brazilian holder, including non-Brazilian holders who invest in Brazil not in accordance with Resolution No. 2,689 (including registration under Law No. 4,131 of 1962) and who are resident or domiciled in a Low or Nil Tax Jurisdiction. See “—Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction.”

According to Law No. 10,833, dated December 29, 2003, capital gains realized on the disposition of assets located in Brazil by non-Brazilian holders, whether or not to other non-residents and whether made outside or within Brazil, may be subject to taxation in Brazil. With respect to the disposition of common or preferred shares, as they are assets located in Brazil, the non-Brazilian holder may be subject to income tax on any gains realized, following the rules described below, regardless of whether the transactions are conducted in Brazil or with a Brazilian resident. We understand the ADSs do not fall within the definition of assets located in Brazil for the purposes of this law, but there is still neither pronouncement from tax authorities nor judicial court rulings in this respect. Therefore, we are unable to predict whether such understanding will prevail in the courts of Brazil.

Although there are grounds to sustain otherwise, the deposit of preferred or common shares in exchange for ADSs may be subject to Brazilian taxation on capital gains if the acquisition cost of the preferred or common shares is lower than: (i) the average price per preferred or common share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit; or (ii) if no preferred or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred or common shares were sold in the 15 trading sessions immediately preceding such deposit. In such a case, the difference between the amount previously registered and the average price of the preferred or common shares calculated as above, will be considered a capital gain.

The difference between the acquisition cost and the average price of the preferred or common shares calculated as described above will be considered to be a capital gain realized that is subject to taxation as described below. There are grounds to sustain that such taxation is not applicable with respect to non-Brazilian holders registered under the rules of Resolution No. 2,689 and not resident or domiciled in a Low or Nil Tax Jurisdiction.

The withdrawal of ADSs in exchange for preferred or common shares should not be considered as giving rise to a capital gain subject to Brazilian income tax, provided that on receipt of the underlying preferred or common shares, the non-Brazilian holder complies with the registration procedure with the Central Bank of Brazil as described below in “Registered

Capital.”

Capital gains realized by a non-Brazilian holder on a sale or disposition of preferred or common shares carried out on a Brazilian stock exchange (which includes transactions carried out on the organized over-the-counter market) are:

- exempt from income tax when the non-Brazilian holder (i) has registered its investment in accordance with Resolution No. 2,689 and (ii) is not resident or domiciled in a Low or Nil Tax Jurisdiction; or
- in all other cases, including a case of capital gains realized by a non-Brazilian holder that is not registered in accordance with Resolution No. 2,689 and/or is resident or domiciled in a Low or Nil Tax Jurisdiction, subject to income tax at a 15% rate. In these cases, a withholding income tax at a rate of 0.005% of the sale value is levied on the transaction which can be offset against the eventual income tax due on the capital gain.

Any capital gains realized on a disposition of preferred or common shares that is carried out outside the Brazilian stock exchange are subject to income tax at the rate of 15%, or 25% in case of gains realized by a non-Brazilian holder that is domiciled or resident in a Low or Nil Tax Jurisdiction or a jurisdiction to which the Non-Transparency Rule applies. In this last case, for the capital gains related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% will also apply and can be offset against the eventual income tax due on the capital gain.

In the case of a redemption of preferred or common shares or ADSs or a capital reduction made by us, the positive difference between the amount received by the non-Brazilian holder and the acquisition cost of the preferred or common shares or ADSs redeemed or reduced is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore generally subject to income tax at the rate of 15% or 25%, as the case may be. See “—Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction.”

Any exercise of preemptive rights relating to the preferred or common shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of preferred or common shares.

No assurance can be made that the current preferential treatment of non-Brazilian holders of the ADSs and some non-Brazilian holders of the preferred or common shares under Resolution No. 2,689 will continue to apply in the future.

#### *Clarifications on Non-Brazilian Holders Resident or Domiciled in a Low or Nil Tax Jurisdiction*

Law No. 9,779 of January 1, 1999 states that, except for limited prescribed circumstances, income derived from transactions by a person resident or domiciled in a Low or Nil Tax Jurisdiction will be subject to withholding income tax at the rate of 25%. A Low or Nil Tax Jurisdiction is generally considered to be a country or other jurisdiction which does not impose any income tax or which imposes such tax at a maximum rate lower than 20%. Under certain

circumstances, the Non-Transparency Rule is also taken into account for determining whether a country or other jurisdiction is a Low or Nil Tax Jurisdiction. In addition, Law No. 11,727 of June 23, 2008 introduced the concept of a “privileged tax regime”, which is defined as a tax regime which (i) does not tax income or taxes it at a maximum rate lower than 20%; (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out a substantial economic activity in the country or other jurisdiction or (b) contingent on the non-exercise of a substantial economic activity in the country or other jurisdiction; or (iii) does not tax or that taxes foreign source income at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out. We believe that the best interpretation of Law No. 11,727/08 is that the new concept of a “privileged tax regime” will apply solely for purposes of the transfer pricing rules in export and import transactions and the thin capitalization rules and, would therefore generally not have an impact on the taxation of a non-Brazilian holder of preferred or common shares or ADSs, as discussed herein. However, we are unable to ascertain whether the privileged tax regime concept will also apply in the context of the rules applicable to Low or Nil Tax Jurisdictions, although the Brazilian tax authorities appear to agree with our position, in view of the provisions of the recently introduced Normative Ruling No. 1,037 of June 4, 2010.

### *Taxation of Foreign Exchange Transactions (IOF/Exchange)*

Brazilian law imposes the IOF/Exchange on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Currently, for most foreign currency exchange transactions, the rate of IOF/Exchange is 0.38%. However, transactions in respect of investments carried out in the Brazilian financial and capital markets, including those made by a non-Brazilian holder in accordance with Resolution No. 2,689, are currently subject to the IOF/Exchange at a rate of (a) 2% for the inflow of funds (including with respect to simultaneous foreign exchange transactions upon the cancellation of depositary receipts on or after January 1, 2011 and destined for investments in equity securities traded on a stock exchange) and (b) 0% for the outflow of resources from Brazil related to these type of investments, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market. In any case, the Brazilian Executive Branch may increase such rates at any time, up to 25%, but not with retroactive effect.

### *Taxation on Bonds and Securities Transactions (IOF/Bonds)*

Brazilian law imposes IOF/Bonds on transactions involving equity securities, bonds and other securities, including those carried out on a Brazilian stock exchange. The rate of IOF/Bonds applicable to transactions involving preferred or common shares is currently zero. However, the Brazilian government may increase such rate at any time up to 1.5% of the transaction amount per day, but the tax cannot be applied retroactively. The deposit of preferred or common shares for issuance of ADSs is subject to IOF/Bonds at a rate of 1.5%.

### *Other Brazilian Taxes*

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred or common shares or ADSs by a non-Brazilian holder, except for gift and inheritance taxes which are levied by certain states of Brazil on gifts made or inheritances bestowed by a non-Brazilian holder to individuals or entities resident or domiciled within such states in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred or common shares or ADSs.

### *Registered Capital*

The amount of an investment in preferred or common shares held by a non-Brazilian holder who obtains registration under Resolution No. 2,689, or by the depositary representing such holder, is eligible for registration with the Central Bank of Brazil; such registration (the amount so registered being called registered capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized with respect to dispositions of, such preferred or common shares. The registered capital for each preferred or common share purchased as part of the international offering or purchased in Brazil after the date hereof, and deposited with the depositary will be equal to its purchase price (in U.S. dollars). The registered capital

for a preferred or common share that is withdrawn upon surrender of an ADS will be the U.S. dollar equivalent of:

- (a) the average price of a preferred or common share on the Brazilian stock exchange on which the greatest number of such shares were sold on the day of withdrawal; or
- (b) if no preferred or common shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred or common shares were sold in the 15 trading sessions immediately preceding such withdrawal.

The U.S. dollar value of the average price of preferred or common shares is determined on the basis of the average of the U.S. dollar/*real* commercial market rates quoted by the Central Bank of Brazil information system on that date (or, if the average price of preferred or common shares is determined under the second option above, the average of such average quoted rates on the same 15 dates used to determine the average price of preferred or common shares).



A non-Brazilian holder of preferred or common shares may experience delays in effecting such registration, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder. See Item 3. “Key Information—Risk Factors—Risks Relating to Our Equity and Debt Securities.”

### **U.S. Federal Income Tax Considerations**

This summary describes the principal U.S. federal income tax consequences of the ownership and disposition of common or preferred shares or ADSs, based on the U.S. Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings by the U.S. Internal Revenue Service (IRS), and court decisions, all as in effect as of the date hereof, and all of which are subject to change or differing interpretations, possibly with retroactive effect. This summary does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision to hold or dispose of common or preferred shares or ADSs. This summary applies only to purchasers of common or preferred shares or ADSs who hold the common or preferred shares or ADSs as “capital assets” (generally, property held for investment), and does not apply to special classes of holders such as dealers or traders in securities or currencies, holders whose functional currency is not the U.S. dollar, holders of 10% or more of our shares (taking into account shares held directly or through depository arrangements), tax-exempt organizations, partnerships or partners therein, financial institutions, holders liable for the alternative minimum tax, securities traders who elect to account for their investment in common or preferred shares or ADSs on a mark-to-market basis, persons that enter into a constructive sale transaction with respect to common or preferred shares or ADSs, and persons holding common or preferred shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction.

**EACH HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR CONCERNING THE OVERALL TAX CONSEQUENCES IN ITS PARTICULAR CIRCUMSTANCES, INCLUDING THE CONSEQUENCES UNDER LAWS OTHER THAN U.S. FEDERAL INCOME TAX LAWS, OF AN INVESTMENT IN COMMON OR PREFERRED SHARES OR ADSs.**

Shares of our preferred stock will be treated as equity for U.S. federal income tax purposes. In general, a holder of an ADS will be treated as the holder of the shares of common or preferred stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange ADSs for the shares of common or preferred stock represented by that ADS.

In this discussion, references to ADSs refer to ADSs with respect to both common and preferred shares, and references to a “U.S. Holder” are to a holder of an ADS that is:

- an individual who is a citizen or resident of the United States;
- a corporation organized under the laws of the United States, any state thereof, or the District of Columbia; or

- otherwise subject to U.S. federal income taxation on a net basis with respect to the shares or the ADS.

### *Taxation of Distributions*

A U.S. Holder will recognize ordinary dividend income for U.S. federal income tax purposes in an amount equal to the amount of any cash and the value of any property we distribute as a dividend to the extent that such distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, when such distribution is received by the custodian, or by the U.S. Holder in the case of a holder of common or preferred shares. The amount of any distribution will include distributions characterized as interest on shareholders' equity and the amount of Brazilian tax withheld on the amount distributed, and the amount of a distribution paid in *reais* will be measured by reference to the exchange rate for converting *reais* into U.S. dollars in effect on the date the distribution is received by the custodian, or by a U.S. Holder in the case of a holder of common or preferred shares. If the custodian, or U.S. Holder in the case of a holder of common or preferred shares, does not convert such *reais* into U.S. dollars on the date it receives them, it is possible that the U.S. Holder will recognize foreign currency loss or gain, which would be U.S. source ordinary loss or gain, when the *reais* are converted into U.S. dollars. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations under the Code.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by a non-corporate U.S. Holder prior to January 1, 2013, with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a "passive foreign investment company" as defined for U.S. federal income tax purposes (a PFIC). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on the Company's audited financial statements and relevant market and shareholder data, the Company believes that it should not be treated as a PFIC for U.S. federal income tax purposes with respect to its 2010 taxable year. In addition, based on the Company's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, the Company does not anticipate becoming a PFIC for its 2011 taxable year. Based on existing guidance, it is not clear whether dividends received with respect to the shares will be treated as qualified dividends, because the shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to treat dividends as qualified for tax reporting purposes. Because such procedures have not yet been issued, it is not clear whether the Company would be able to comply with these procedures. U.S. Holders of our ADSs should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their particular circumstances.

Distributions out of earnings and profits with respect to the shares or ADSs generally will be treated as dividend income from sources outside of the United States and generally will be treated as “passive category income” for U.S. foreign tax credit purposes. Subject to certain limitations, Brazilian income tax withheld in connection with any distribution with respect to the shares or ADSs may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, or, at the U.S. Holder’s election, such Brazilian withholding tax may be taken as a deduction against taxable income. A U.S. foreign tax credit may not be allowed for Brazilian withholding tax imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. Holder’s expected economic profit is insubstantial. U.S. Holders should consult their own tax advisors regarding the availability of the U.S. foreign tax credit, including the translation of *reais* into U.S. dollar for these purposes, in light of their particular circumstances.

Holders of ADSs that are foreign corporations or nonresident alien individuals (non-U.S. Holders) generally will not be subject to U.S. federal income tax, including withholding tax, on distributions with respect to shares or ADSs that are treated as dividend income for U.S. federal income tax purposes unless such dividends are effectively connected with the conduct by the holder of a trade or business in the United States.

Holders of shares and ADSs should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of the considerations discussed above and their own particular circumstances.

### *Taxation of Capital Gains*

Upon the sale or other disposition of a share or an ADS, a U.S. Holder will generally recognize U.S. source capital gain or loss for U.S. federal income tax purposes, equal to the difference between the amount realized on the disposition and the U.S. Holder's tax basis in such share or ADS. Any gain or loss will be long-term capital gain or loss if the shares or ADSs have been held for more than one year. Non-corporate U.S. Holders of shares or ADSs may be eligible for a preferential rate of U.S. federal income tax in respect of long-term capital gains. Capital losses may be deducted from taxable income, subject to certain limitations. For U.S. federal income tax purposes, such disposition would not result in foreign source-income to a U.S. Holder. As a result, a U.S. Holder may not be able to use the foreign tax credit associated with any Brazilian income taxes imposed on such gains, unless such holder can use the credit against U.S. tax due on other foreign-source income. U.S. Holders should consult their own tax advisors regarding the availability of the U.S. foreign tax credit, including the translation of *reais* into U.S. dollar for purposes of their investment in our shares or ADSs.

A non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax on gain realized on the sale or other disposition of a share or an ADS, unless:

- such gain is effectively connected with the conduct by the holder of a trade or business in the United States; or
- such holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

### *Information Reporting and Backup Withholding*

The payment of dividends on, and proceeds from the sale or other disposition of, the ADSs or common or preferred shares to a U.S. Holder within the United States (or through certain U.S. related financial intermediaries) will generally be subject to information reporting unless the U.S. Holder is a corporation or other exempt recipient. Such dividends and proceeds may be subject to backup withholding unless the U.S. Holder (i) is an exempt recipient, or (ii) timely provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Backup withholding is not an additional tax. The amount of any backup withholding collected from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, so long as the required information is properly furnished to the IRS.

U.S. Holders should consult their own tax advisors about any additional reporting requirements that may arise as a result of their purchasing, holding or disposing of our ADSs, or common or preferred shares.

A non-U.S. Holder generally will be exempt from these information reporting requirements and backup withholding tax, but may be required to comply with certain certification and identification procedures in order to establish its eligibility for such exemption.

## **Taxation Relating to PifCo's Notes**

The following summary contains a description of material Cayman Islands, Brazilian and U.S. federal income tax considerations that may be relevant to the purchase, ownership, and disposition of PifCo's debt securities. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the Cayman Islands, Brazil and the United States.

This summary is based on the tax laws of the Cayman Islands, Brazil and the United States as in effect on the date of this annual report, which are subject to change (possibly with retroactive effect). This description is not a comprehensive description of all tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules generally applicable to all taxpayers or to certain classes of investors or that investors are generally assumed to know. Prospective purchasers of notes should consult their own tax advisors regarding the tax consequences of the acquisition, ownership and disposition of the notes.

There is no tax treaty to avoid double taxation between the Cayman Islands and the United States, the Cayman Islands and Brazil or Brazil and the United States. In recent years, the tax authorities of Brazil and the United States have held discussions that may culminate in such a treaty. We cannot predict, however, whether or when a treaty will enter into force or how it will affect the U.S. Holders of notes.

### *Cayman Islands Taxation*

Under current law, PifCo is not subject to income, capital, transfer, sales or other taxes in the Cayman Islands.

PifCo was incorporated as an exempted company under the laws of the Cayman Islands on September 24, 1997. PifCo has received an Undertaking as to Tax Concessions pursuant to Section 6 of the Tax Concessions Law (1999 Revision) which provides that, for a period of twenty years from the date thereof no law hereafter enacted in the Cayman Islands imposing any tax or duty to be levied on income or on capital assets, gains or appreciation will apply to any of PifCo's income or property and which is deemed to provide that no tax is to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable or in respect of shares, debentures or other of PifCo's obligations, or by way of withholding of any part of a payment of principal due under a debenture or other of PifCo's obligations.

No Cayman Islands withholding tax applies to distributions by PifCo in respect of the notes. Noteholders are not subject to any income, capital, transfer, sales or other taxes in the Cayman Islands in respect of their purchase, holding or disposition of the notes.

Noteholders whose notes are brought into or issued in the Cayman Islands will be liable to pay stamp duty of up to C.I.\$250 on each note, unless stamp duty of C.I.\$500 has been paid in respect of the entire issue of notes (in which case no further stamp duty in respect of such notes is payable).

### *Brazilian Taxation*

The following discussion is a summary of the Brazilian tax considerations relating to an investment in the notes by a non-resident of Brazil. The discussion is based on the tax laws of Brazil as in effect on the date hereof and is subject to any change in Brazilian law that may come into effect after such date. The information set forth below is intended to be a general discussion only and does not address all possible consequences relating to an investment in the notes.

**INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES OR COUPONS.**

Generally, an individual, entity, trust or organization domiciled for tax purposes outside Brazil, or a “Non-resident,” is taxed in Brazil only when income is derived from Brazilian sources or when the transaction giving rise to such earnings involves assets in Brazil. Therefore, any gains or interest (including original issue discount), fees, commissions, expenses and any other income paid by PifCo in respect of the notes issued by it in favor of Non-resident holders are not subject to Brazilian taxes.

Interest, fees, commissions, expenses and any other income payable by Petrobras as guarantor resident in Brazil to a Non-resident are generally subject to income tax withheld at source. The rate of withholding income tax in respect of interest payments is generally 15%, unless (i) the holder of the notes is resident or domiciled in a “tax haven jurisdiction” (that is deemed to be a country or jurisdiction which does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20% or where the local legislation imposes restrictions on disclosing the identities of shareholders, the ownership of investments, or the ultimate beneficiary of earnings distributed to the Non-resident— “tax haven jurisdiction”), in which case the applicable rate is 25% or (ii) such other lower rate as provided for in an applicable tax treaty between Brazil and another country where the beneficiary is domiciled. In case the guarantor is required to assume the obligation to pay the principal amount of the notes, Brazilian tax authorities could attempt to impose withholding income tax at the rate of up to 25% as described above. Although Brazilian legislation does not provide a specific tax rule for such cases and there is no official position from tax authorities or precedents from the Brazilian court regarding the matter, we believe that the remittance of funds by Petrobras as a guarantor for the payment of the principal amount of the notes will not be subject to income tax in Brazil, because the mere fact that the guarantor is making the payment does not convert the nature of the principal due under the notes into income of the beneficiary.



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If the payments with respect to the notes are made by Petrobras, as provided for in the guaranties, the Non-resident holders will be indemnified so that, after payment of all applicable Brazilian taxes collectable by withholding, deduction or otherwise, with respect to principal, interest and additional amounts payable with respect to the notes (plus any interest and penalties thereon), a Non-resident holder will receive an amount equal to the amount that such Non-resident holder would have received as if no such Brazilian taxes (plus interest and penalties thereon) were withheld. The Brazilian obligor will, subject to certain exceptions, pay additional amounts in respect of such withholding or deduction so that the Non-resident holder receives the net amount due.

Gains on the sale or other disposition of the notes made outside of Brazil by a Non-resident, other than a branch or a subsidiary of Brazilian resident, to another Non-resident are not subject to Brazilian income tax.

In addition, payments made from Brazil are subject to the tax on foreign exchange transactions (*IOF/Câmbio*), which is levied on the conversion of Brazilian currency into foreign currency and on the conversion of foreign currency into Brazilian currency at a general rate of 0.38%. Other IOF/Câmbio rates may apply to specific transactions. In any case, the Brazilian federal government may increase, at any time, such rate up to 25% but only with respect to future transactions.

Generally, there are no inheritance, gift, succession, stamp, or other similar taxes in Brazil with respect to the ownership, transfer, assignment or any other disposition of the notes by a Non-resident, except for gift and inheritance taxes imposed by some Brazilian states on gifts or bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states.

### *U.S. Federal Income Taxation*

The following summary sets forth certain United States federal income tax considerations that may be relevant to a holder of a note that is, for U.S. federal income purposes, a citizen or resident of the United States or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of the notes (a "U.S. Holder"). This summary is based upon the Code, its legislative history, existing and proposed U.S. Treasury regulations promulgated thereunder, published rulings by the IRS, and court decisions, all as in effect as of the date hereof, all of which are subject to change or differing interpretations, possibly with retroactive effect. This summary does not purport to discuss all aspects of the United States federal income taxation which may be relevant to special classes of investors, such as financial institutions, insurance companies, dealers or traders in securities or currencies, securities traders who elect to account for their investment in notes on a mark-to-market basis, regulated investment companies, tax-exempt organizations, partnerships or partners therein, holders that are subject to the alternative minimum tax, certain short-term holders of notes, persons that hedge their exposure in the notes or hold notes as part of a position in a "straddle" or as part of a hedging transaction or "conversion

transaction” for U.S. federal tax purposes, persons that enter into a “constructive sale” transaction with respect to the notes or U.S. Holder whose functional currency is not the U.S. dollar. U.S. Holders should be aware that the U.S. federal income tax consequences of holding the notes may be materially different for investors described in the prior sentence.

In addition, this summary does not discuss any foreign, state or local tax considerations. This summary only applies to original purchasers of notes who have purchased notes at the original issue price and hold the notes as “capital assets” (generally, property held for investment).

**EACH HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR CONCERNING THE OVERALL TAX CONSEQUENCES IN ITS PARTICULAR CIRCUMSTANCES, INCLUDING THE CONSEQUENCES UNDER LAWS OTHER THAN U.S. FEDERAL INCOME TAX LAWS, OF AN INVESTMENT IN THE NOTES.**

### *Payments of Interest*

Payment of “qualified stated interest,” as defined below, on a note (including additional amounts, if any) generally will be taxable to a U.S. holder as ordinary interest income when such interest is accrued or received, in accordance with the U.S. holder’s applicable method of accounting for U.S. federal tax purposes. In general, if the “issue price” of a note is less than the “stated redemption price at maturity” by more than a de minimis amount, such note will be considered to have “original issue discount,” or OID. The “issue price” of a note is the first price at which a substantial amount of such notes are sold to investors. The stated redemption price at maturity of a note generally includes all payments other than payments of qualified stated interest.

In general, each U.S. Holder of a note, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in gross income as ordinary interest income the sum of the “daily portions” of OID on the note, if any, for all days during the taxable year that the U.S. Holder owns the note. The daily portions of OID on a note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. In general, in the case of an initial holder, the amount of OID on a note allocable to each accrual period is determined by (i) multiplying the “adjusted issue price,” as defined below, of the note at the beginning of the accrual period by the yield to maturity of the note, and (ii) subtracting from that product the amount of qualified stated interest allocable to that accrual period. U.S. Holders should be aware that they generally must include OID in gross income as ordinary interest income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income. The “adjusted issue price” of a note at the beginning of any accrual period will generally be the sum of its issue price (generally including accrued interest, if any) and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such note in all prior accrual periods. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of a note at a single fixed rate of interest, or subject to certain conditions, based on one or more interest indices.

Interest income, including OID, in respect of the notes will constitute foreign source income for U.S. federal income tax purposes and, with certain exceptions, will be treated separately, together with other items of “passive category income,” for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. The calculation of foreign tax credits, involves the application of complex rules that depend on a U.S. Holder’s particular circumstances. U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits and the treatment of additional amounts.

### *Sale or Disposition of Notes*

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange, retirement or other disposition of a note in an amount equal to the difference between the amount realized upon such sale, exchange, retirement or other disposition (other than amounts attributable to accrued qualified stated interest, which will be taxed as such) and such U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in the note generally will equal the U.S. Holder's cost for the note increased by any amounts included in gross income by such U.S. Holder as OID, if any, and reduced by any payments other than payments of qualified stated interest on that note. Gain or loss realized by a U.S. Holder on the sale, exchange, retirement or other disposition of a note generally will be U.S. source gain or loss for U.S. federal income tax purposes unless it is attributable to an office or other fixed place of business outside the United States and certain other conditions are met. The gain or loss realized by a U.S. Holder will be capital gain or loss, and will be long-term capital gain or loss if the notes were held for more than one year. The net amount of long-term capital gain recognized by an individual holder before January 1, 2013 generally is subject to taxation at a maximum rate of 15%. Capital losses may be deducted from taxable income, subject to certain limitations.

### *Backup Withholding and Information Reporting*

A U.S. Holder may, under certain circumstances, be subject to “backup withholding” with respect to certain payments to that U.S. Holder, unless the holder (i) is an exempt recipient, and demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules generally will be creditable against the U.S. Holder’s U.S. federal income tax liability. While non-U.S. Holders generally are except from backup withholding, a non-U.S. Holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove entitlement to this exemption.

U.S. Holders should consult their own tax advisors about any additional reporting requirements that may arise as a result of their purchasing, holding or disposing of the notes.

### *Non-U.S. Holder*

A holder or beneficial owner of a note that is not a U.S. Holder (a “non-U.S. Holder”) generally will not be subject to U.S. federal income or withholding tax on interest received on the notes. In addition, a non-U.S. Holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale of notes unless such gain is effectively connected with the conduct by such holder of a trade or business in the United States or, in the case of gain realized by an individual non-U.S. Holder, the non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

### **Documents on Display**

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and accordingly file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can obtain further information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect Petrobras’ reports and other information at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, on which Petrobras’ ADSs are listed. Our SEC filings are also available to the public from the SEC’s Web site at <http://www.sec.gov>. For further information on obtaining copies of Petrobras’ public filings at the New York Stock Exchange, you should call (212) 656-5060.

We also file financial statements and other periodic reports with the CVM.

## **Item 11. Qualitative and Quantitative Disclosures about Market Risk**

### **Petrobras**

#### *Risk Management*

We are exposed to a number of market and credit risks arising from our normal business activities. Market risk is the possibility that changes in interest rates, currency exchange rates or commodity prices will adversely affect the value of our financial assets, liabilities or expected future cash flows. Credit risk is the failure of a counterparty to perform a payment obligation under a commercial contract or a derivative contract.

We use derivative instruments to address market risks related to commodity prices, interest rates and currency exchange rates. Such derivative instruments are used to offset market exposures. Our executive officers manage market risk. We address credit risk by following rigid rules, overseen by a Credit Committee, to evaluate counterparties and define proper guaranties.

In March 2010, as a result of our adoption of a new corporate governance model, the board of executive officers conferred the mandate of the Risk Management Committee to the newly-created Financial Committee. The Financial Committee, comprised of executive managers from our different business areas, evaluates our risk exposures and establishes guidelines that we use to measure, monitor and manage risk related to our activities and operations.

#### *Commodity Price Risk*

Our sales of crude oil and oil products are related to international prices, which exposes us to price fluctuations in international markets.

We enter into derivative transactions, primarily energy futures contracts, forwards, swaps, and options, in order to mitigate some of the impact of such fluctuations. Our derivatives contracts provide economic hedges for anticipated crude oil and byproducts purchases and sales in the international markets, generally forecast to occur within a 30- to 360-day period. Our exposure on these contracts is limited to the difference between contract value and market value on the volumes hedged. See Note 19 to our audited consolidated financial statements for more information about our commodity derivative transactions.

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The following table sets forth a sensitivity analysis demonstrating the net change in fair value of a 10% adverse change in the price of the underlying commodity as of December 31, 2010, which is a 10% increase in the price of the underlying commodity for options, futures and swaps.

Outstanding as of December 2010	Petrobras		PifCo		Eliminations		Total		+10% Sensit (U.S. milli
	Quantity (m bbl)	Fair Value(1) (U.S.\$ million)	Quantity (m bbl)	Fair Value(1) (U.S.\$ million)	Quantity (m bbl)	Fair Value (1) (U.S.\$ million)	Quantity (m bbl)	Fair Value(1) (U.S.\$ million)	
<b>Options:</b>									
Buy contracts	2,140		130				2,270		
Sell contracts	(2,140)		(260)				(2,400)		
		0		0					0
<b>Futures:</b>									
Buy contracts	1,464		12,843				14,307		
Sell contracts	(1,380)		(15,766)				(17,146)		
				(27)					(27)
<b>Swaps:</b>									
Receive variable/ pay fixed	0		979				979		
Receive fixed/ pay variable	0		(913)		288		(625)		
		0		0		(1)			(1)

(1) Fair value represents an estimate of gain or loss that would be realized if contracts were settled at the balance sheet date.

### *Interest Rate and Exchange Rate Risk*

The interest rate risk to which we are exposed is a function of our long-term debt and, to a lesser extent, our short-term debt. Our long-term debt consists principally of notes and borrowings incurred primarily in connection with capital expenditures and investments in exploration and development projects and loans to affiliated companies. Our short-term debt consists principally of U.S. dollar denominated import and export financing and working capital borrowings from commercial banks. In general, our foreign currency floating rate debt is principally subject to fluctuations in LIBOR. Our floating rate debt denominated in *reais* is principally subject to fluctuations in the *Certificado de Depósito Interbancário* (Interbank Deposit Certificate, or CDI) and in the *Taxa de Juros de Longo Prazo* (Brazilian long-term

interest rate, or TJLP), as fixed by the CMN.

We do not currently utilize derivative instruments to manage our exposure to interest rate fluctuation. We have been considering various forms of derivatives to reduce our exposure to interest rate fluctuations and may utilize these financial instruments in the future.

The exchange rate risk to which we are exposed is limited to the balance sheet and derives principally from the incidence of non-*real* denominated obligations in our debt portfolio. See Item 5. "Operating and Financial Review and Prospects—Inflation and Exchange Rate Variation."



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The table below provides summary information regarding our exposure to interest rate and exchange rate risk in our total debt portfolio for 2010 and 2009. Total debt portfolio includes long-term debt, capital leases, project financings, and current portions thereof, and short-term debt.

	<b>Total Debt Portfolio</b>	
	<b>2010</b>	<b>2009</b>
	(%)	
<b>Real-denominated:</b>		
Fixed rate	0.3	0.0
Floating rate	25.0	21.9
Sub-total	25.3	21.9
<b>U.S.dollar-denominated:(1)</b>		
Fixed rate	39.0	48.5
Floating rate (includes short-term debt)	33.5	27.4
Sub-total	72.5	75.9
<b>Other currencies (primarily Yen):</b>		
Fixed rate	0.4	0.5
Floating rate	1.8	1.7
Sub-total	2.2	2.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Floating rate debt:</b>		
<i>Real</i> -denominated	25.0	21.9
Foreign currency-denominated	35.3	29.1
<b>Fixed rate debt:</b>		
<i>Real</i> -denominated	0.3	0.0
Foreign currency denominated	39.4	49.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
U.S. dollars(1)	72.50	75.87
Euro	0.06	0.09
Japanese Yen	2.17	2.15
Brazilian <i>reais</i>	25.27	21.89
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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(1) Includes PifCo's 2.15% Japanese Yen Bonds due 2016, where payment of principal and interest has been fixed in U.S. dollars under the cross currency swap described below.



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The table below provides information about our total debt obligations as of December 31, 2010, which are sensitive to changes in interest rates and exchange rates. This table presents, by expected maturity dates and currency, the principal cash flows and related average interest rates of these obligations. Variable interest rates are based on the applicable reference rate, LIBOR, TJLP, IGP-M or CDI as of December 31, 2010.

	2011	2012	2013	2014	2015	2016-2040	Total	Fair Value as of December 31, 2010
<b>(U.S.\$ million, except for percentages)</b>								
<b>Debt in Euro:</b>								
Fixed rate debt	–	–	–	–	–	–	–	–
Average interest rate	–	–	–	–	–	–	–	–
Variable rate debt	9	9	9	10	10	–	47	46
Average interest rate	1.3%	1.9%	2.3%	2.9%	3.3%	–	–	–
<b>Debt in Japanese Yen:</b>								
Fixed rate debt	220	36	37	–	–	–	293	297
Average interest rate	3.6%	1.7%	1.7%	–	–	–	–	–
Variable rate debt	12	133	145	281	158	461	1,190	1,174
Average interest rate	4.1%	1.0%	1.0%	1.2%	1.1%	1.7%	–	–
<b>Debt in U.S. dollars:(1)</b>								
Fixed rate debt	728	223	785	584	147	24,350	26,816	31,960
Average interest rate	5.0%	7.8%	8.9%	8.1%	8.7%	6.9%	–	–
Variable rate debt	6,326	2,040	625	927	4,268	8,870	23,056	24,058
Average interest rate	1.9%	2.8%	2.9%	3.3%	4.5%	6.3%	–	–
<b>Debt in Brazilian reais:</b>								
Fixed rate debt	–	16	27	27	26	116	212	156
Average interest rate	–	4.5%	4.5%	4.5%	4.5%	4.5%	–	–
Variable rate debt	901	1,709	888	1,702	716	11,254	17,169	16,919
Average interest rate	8.8%	9.8%	8.7%	9.7%	7.2%	9.8%	–	–
<b>Total debt obligations</b>	<b>8,196</b>	<b>4,167</b>	<b>2,516</b>	<b>3,530</b>	<b>5,324</b>	<b>45,051</b>	<b>68,783</b>	<b>74,610</b>

(1) Includes PifCo's 2.15% Japanese Yen Bonds due 2016, where payment of principal and interest has been fixed in U.S. dollars under the cross currency swap described below.

Our foreign currency risk management strategy includes the use of derivative instruments to protect against foreign exchange rate volatility, which may impact the value of certain of our obligations.

## **PifCo**

PifCo faces market risks in the normal course of business, including interest rate risk, risk related to changes in oil and oil products prices, and risk related to changes in foreign exchange rates. PifCo makes limited use of derivatives to manage its exposure to these market risks. PifCo does not hold derivative instruments for trading purposes.

### *Commodity Price Risk*

PifCo enters into derivative transactions in order to mitigate the impact of fluctuations in the price of crude oil and byproducts. PifCo uses futures contracts, swaps and options to protect its margins in anticipation of purchases and sales in the international markets, as shown in the sensitivity analysis above.

Table of Contents*Interest Rate and Exchange Rate Risk*

PifCo is not subject to material foreign exchange rate risk because 100% of its debt is U.S. dollar denominated. PifCo does not enter into derivative contracts or make other arrangements to hedge against interest rate risk.

The table below sets forth the amounts and related weighted average annual interest rates by expected maturity dates for PifCo's long-term debt obligations at December 31, 2010:

<b>Debt Obligations</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017-2041</b>	<b>Total</b>	<b>Fair Value as of December 31, 2010</b>
<b>(U.S.\$ million, except for percentages)</b>								
<b>Debt in U.S. Dollars:(1)</b>								
Fixed rate debt	70	432	442	22	1,331	9,077	11,374	13,099
Average interest rate	5.5%	8.7%	7.6%	6.4%	4.8%	6.8%	–	–
Variable rate debt	692	104	112	50	30	70	1,058	1,084
Average interest rate	3.4%	2.6%	3.2%	4.3%	3.6	5.8%	–	–
<b>Total debt obligations</b>	<b>762</b>	<b>536</b>	<b>554</b>	<b>72</b>	<b>1,361</b>	<b>9,147</b>	<b>12,432</b>	<b>14,183</b>

(1) Includes PifCo's 2.15% Japanese Yen Bonds due 2016, where payment of principal and interest has been fixed in U.S. dollars under the cross currency swap described below.

<b>Total Debt Portfolio</b>	<b>December 31, 2010</b>	<b>December 31, 2009(1)</b>
<b>Debt in U.S. Dollars:</b>		
Fixed rate debt	78.8%	76.5%
Floating rate debt	21.2%	23.5%
<b>Debt in Japanese Yen:</b>		
Fixed rate debt	0%	0%